ING Bank Annual Report 2016

Accelerate

ING

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Composition of the Management Board and Supervisory Board

Management Board Banking

Composition on 31 December 2016

- R.A.J.G. (Ralph) Hamers (50)
  CEO, chairman of Management Board Banking
- P.G. (Patrick) Flynn (56)
  CFO
- W.F. (Wilfred) Nagel (60)
  CRO Management Board Banking
- J.V. (Koos) Timmermans (56)
  Vice-chairman
- M.I. (Isabel) Fernandez Niemann (48)
  Head of Wholesale Banking
- R.M.M. (Roel) Louwhoff (51)
  COO Management Board Banking
- (Aris) Bogdaneris (53)
  Head of Challengers & Growth Markets

Supervisory Board

Composition on 31 December 2016

J. (Jeroen) van der Veer (69)
Chairman
H.J.M (Hermann-Josef) Lamberti (60)
Vice-chairman
E.F.C.B. (Eric) Boyer de la Giroday (64)
H. W. (Henk) Breukink (66)
I. (Isabel) Martín Castellá (69)
M. (Mariana) Gheorghe (60)
A.C. (Ann) Sherry (62)
R.W.P. (Robert) Reibestein (60)

Committees of the Supervisory Board

Composition on 31 December 2016

Audit Committee

H.J.M (Hermann-Josef) Lamberti
Chairman
E.F.C.B. (Eric) Boyer de la Giroday
I. (Isabel) Martín Castellá
R.W.P. (Robert) Reibestein

Risk Committee

R.W.P. (Robert) Reibestein
Chairman
E.F.C.B. (Eric) Boyer de la Giroday
M. (Mariana) Gheorghe
H.J.M (Hermann-Josef) Lamberti
J. (Jeroen) van der Veer

Renumeration Committee

H. (Henk) Breukink
Chairman
R.W.P. (Robert) Reibestein
J. (Jeroen) van der Veer

Nomination Committee

J. (Jeroen) van der Veer
Chairman
H. (Henk) Breukink
I. (Isabel) Martín Castellá

About ING

Our strategy and progress

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

The approach to the customer experience we offer is based on our Customer Promise. This is our pledge to customers to be Clear and Easy, available Anytime and Anywhere, to Empower and to Keep Getting Better. We do that by striving to be leaders in the digital customer experience based on easy access, simplified products and services, and tools to help customers make smart financial decisions.

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

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

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

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

Accelerating Think Forward

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

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

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

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

Strategy

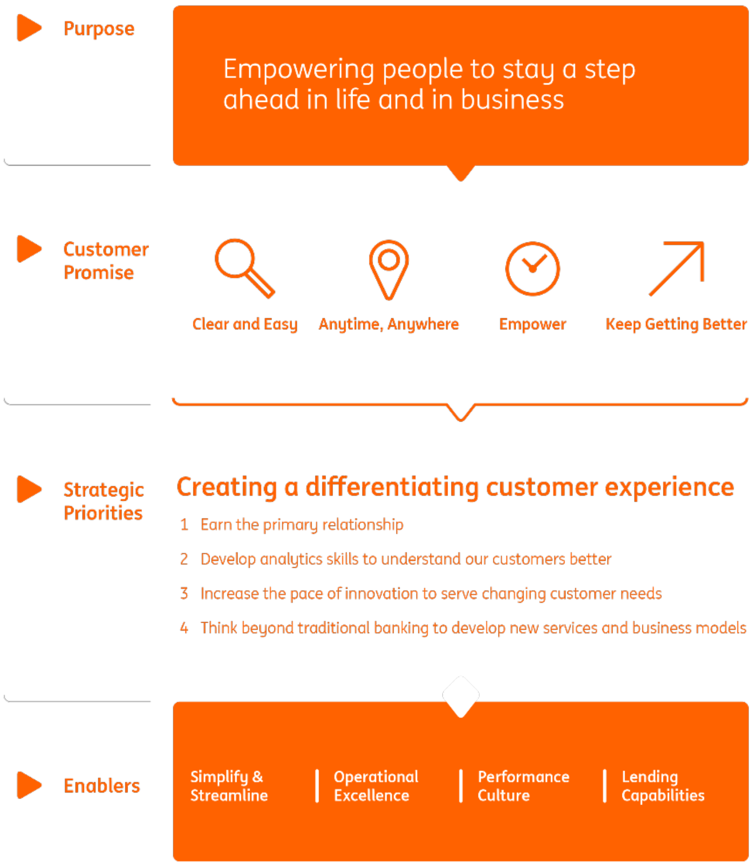
Our Think Forward strategy was launched in March 2014 and guides everything we do. In this section we give you an overview of the strategy.

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

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

Our strategy on a page

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



Our Performance

The good progress we made in 2016 implementing the Think Forward strategy and providing a differentiating banking experience for customers resulted in strong commercial and financial performance. ING Bank net result of EUR 4.2 billion and underlying net result of just under EUR 5 billion were driven by robust commercial growth at resilient margins and declining risk costs and achieved despite increasing regulatory costs.

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

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

Financial developments ING Bank

ING Bank posted a strong performance in 2016, resulting in a net profit of EUR 4,227 million. This is including EUR –799 million of special items after tax, of which EUR –787 million related to the intended digital transformation programmes as announced on ING's Investor Day on 3 October 2016 and EUR –13 million to the earlier announced restructuring programmes in Retail Netherlands. In 2015, net profit of ING Bank was EUR 4,659 million. In that year, net profit was supported by a EUR 309 million positive contribution from divestments and special items, consisting of a EUR 367 million net gain resulting from the merger between ING Vysya Bank and Kotak Mahindra Bank and EUR –58 million of special items after tax related to the restructuring programmes in Retail Netherlands.

The underlying net result of ING Bank increased 15.5 percent to EUR 5,026 million, from EUR 4,350 million in 2015. Underlying net result is derived from total net result by excluding the impact from divestments and special items.

The underlying result before tax rose 15.8 percent to EUR 7,095 million in 2016 from EUR 6,125 million in 2015, driven by higher net interest results reflecting the continuously positive business momentum and lower risk costs. This was achieved despite an increase in regulatory costs during 2016. Commercial performance was robust in 2016: ING Bank grew net core lending (excluding Bank Treasury and the run-off portfolios, and adjusted for currency impacts and changes in the cash pooling positions) by EUR 34.8 billion, or 6.5 percent, and attracted EUR 28.5 billion of net customer deposits (excluding Bank Treasury and adjusted for currency impacts and changes in the cash pooling positions).

Total underlying income rose 4.9 percent to EUR 17,514 million in 2016, from EUR 16,703 million in 2015, in spite of a EUR 301 million negative swing in credit and debt valuation adjustments (CVA/DVA) in Wholesale Banking and Corporate Line. The underlying interest result increased 4.5 percent to EUR 13,317 million, driven by an increase of the net interest margin to 1.53 percent from 1.47 percent in 2015 combined with a slightly higher average balance sheet total. The increase of the average balance sheet was limited as strong growth in net core lending and customer deposits was largely offset by declines in among others financial assets at fair value through profit or loss and debt securities in issue. The interest result on customer lending activities increased driven by higher volumes at stable margins. The interest result on customer deposits was flat, as the impact of volume growth was offset by margin pressure on both savings and current accounts due to lower reinvestment yields and despite a further lowering of client savings rates in several countries. The growth of the interest result was furthermore supported by improved interest results in the Corporate Line, with part of the increase being structural due to a gradual redemption of the isolated legacy funding costs. Commission income rose 4.9 percent to EUR 2,434 million, particularly in the Challengers & Growth Markets. Investment and other income rose to EUR 1,763 million from EUR 1,639 million in 2015. Excluding the negative swing in CVA/DVA adjustments in Wholesale Banking and the Corporate Line (which were EUR –77 million in 2016, compared with EUR 224 million in 2015), investment and other income increased by EUR 426 million, mainly due to a EUR 200 million gain on Visa shares and positive hedge ineffectiveness results, whereas 2015 included non-recurring charges related to the mortgage portfolios in Italy and Belgium due to higher-than-expected repayments and renegotiations.

Underlying operating expenses increased 2.3 percent to EUR 9,445 million, compared with EUR 9,231 million in 2015. In 2016, expenses included EUR 845 million of regulatory expenses (including contributions to the new Dutch deposit guarantee scheme and a new bank tax in Poland) compared with EUR 620 million in 2015. Excluding regulatory costs, expenses were marginally lower than a year ago. Expenses increased mainly due to IT investments and selective business growth in the Retail Challengers & Growth Markets and Wholesale Banking's Industry Lending, as well as additional provisioning for Dutch SME clients with interest rate derivatives that were sold in the Netherlands. These increases were fully offset by the benefits from the running cost-saving programmes and some incidental items, including an one-off expense adjustment in Belgium and an adjustment in the capitalization and amortization of software. The underlying cost/income ratio improved to 53.9 percent from 55.3 percent in 2015.

The net addition to the provision for loan losses declined 27.7 percent to EUR 974 million from EUR 1,347 million in 2015. Risk costs were 31 basis points of average risk-weighted assets, which is below ING Bank's through-the-cycle guidance range for risk costs of 40-45 basis points.

The underlying return on IFRS-EU equity was 11.7 percent in 2016, up from 11.1 percent in 2015.

Retail 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 leading market positions in Retail Banking and Wholesale Banking.

Challengers markets are 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.

Financial 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 seven out of 13 Retail units holding number one NPS positions.

ING also excelled 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- anywhere experience for customers. It also made progress in earning an increased number of primary relationships.

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

Wholesale Banking

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.

Financial 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% 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 basis points of average risk-weighted assets, from EUR 478 million, or 33 basis points 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.

Regulatory Context

Regulatory costs and uncertainty

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

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

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

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

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

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

Competitive landscape

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

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

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

Corporate Governance

Financial reporting process

As ING Bank N.V. is a consolidated subsidiary of ING Groep N.V. (ING Group) its policies and procedures for establishing and maintaining adequate internal control over financial reporting are the same as those applied by ING Group for its consolidated financial statements with respect to ING Bank N.V. and the entities included in the latter's own consolidated financial statements.

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 the 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.

As ING Group is subject to the US Sarbanes-Oxley Act, its Executive Board assessed the effectiveness of its internal control over financial reporting as of 31 December 2016 which was audited by ING Group's external auditor. For more information, please refer to the 2016 Annual Report of ING Group which is available on its website (www.ing.com).

Board composition

ING Bank aims to have an adequate and balanced composition of its Management Board. Thereto, annually, the Supervisory Board assesses the composition of the Management Board. In the context of such assessment, ING Bank aims to have a gender balance by having at least 30% men and at least 30% women amongst its Management Board members. However, because of the fact that ING Bank needs to balance several other relevant selection criteria when composing its Management Board, the composition of the Management Board did not meet the abovementioned gender balance in 2016 (14% women). ING Bank will continue to strive for an adequate and balanced composition of its Management Board in future appointments, by taking into account all relevant selection criteria including but not limited to gender balance, executive experience, experience in corporate governance of large stock-listed companies and experience in the political and social environment.

Information on members of the Management Board

R.A.J.G. (Ralph) Hamers member and Chairman Management Board

(Born 1966, Dutch nationality, male; appointed in 2013)

Ralph Hamers was appointed a member of the Executive Board of ING Group on 13 May 2013. On 1 October 2013, he was appointed CEO and Chairman of this Board and of the Management Board Banking. Ralph Hamers joined ING in 1991. Before his appointment to the Executive Board, he was CEO of ING Belgium and Luxembourg.

Relevant positions pursuant to CRD IV:[1]
CEO and Chairman of the Management Board of ING Bank N.V. and the Executive Board of ING Groep N.V.

Other relevant ancillary positions:
Member of the Management Board of the Nederlandse Vereniging van Banken (NVB), Member of the Board of the Institute of International Finance, Inc. and Member of the Supervisory Board of Foundation Royal Concertgebouw Orchestra Amsterdam.

J.V. (Koos) Timmermans, member and Vice-Chairman Management Board

(Born 1960, Dutch nationality, male; appointed in 2011)

Koos Timmermans was appointed Vice-Chairman of the Management Board Banking as of 1 October 2011. From 1 October 2014, Koos Timmermans has, in addition to his current tasks which include aligning ING Bank's activities and the balance sheet with new and upcoming regulation, also assumed responsibilities for the Bank's operations in the Benelux and ING's sustainability department.

Relevant positions pursuant to CRD IV:
Member 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 ING Belgium N.V./S.A.

Other relevant ancillary positions:
Member of Management Board of VNO-NCW, Member of the Management Board of the Nederlandse Vereniging van Banken (NVB) and Member of the Supervisory Board Stadsherstel Amsterdam N.V.

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

P.G. (Patrick) Flynn, member and CFO Management Board

(Born 1960, Irish nationality, male; appointed in 2009)

Patrick Flynn was appointed a member and CFO of the Executive Board of ING Group and a member and CFO of the Management Board Banking on 27 April 2009. He is responsible for ING's financial strategy, including internal and external reporting, budgeting, procurement, forecasting, capital management, investments/acquisitions and divestments, tax management, investor relations and business performance reporting and analysis, including measuring adherence to financial targets. Before joining ING he was Chief Financial Officer Insurance, HSBC Insurance Holdings Ltd.

Relevant positions pursuant to CRD IV:
Member and CFO of the Management Board of ING Bank N.V. and Member and CFO of the Executive Board of ING Groep N.V.

W.F. (Wilfred) Nagel, member and CRO Management Board

(Born 1956, Singaporean nationality, male; appointed in 2012)

Wilfred Nagel became a member and CRO of the Management Board Banking on 5 October 2011. Wilfred Nagel was appointed a member of the Executive Board of ING Group on 14 May 2012. He is responsible for ING's risk appetite, risk related policies, methodologies and guidance, risk management and control activities performed by the business.

Relevant positions pursuant to CRD IV:
Member and CRO of the Management Board of ING Bank N.V., Member and CRO of the Executive Board of ING Groep N.V. and Non-Executive Board Member of Nidera Capital B.V.

A. (Aris) Bogdaneris, member and head of Challengers & Growth Markets

(Born 1963, Canadian nationality, male; appointed in 2015)

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

Prior to this appointment, Aris Bogdaneris was a member of the Management Board responsible for Retail Banking at Raiffeisen Bank International as well as Chief Operating Officer overseeing Information Technology and Operations/Shared Service Centers.

Relevant positions pursuant to CRD IV:
Member of the Management Board of ING Bank N.V., Member of Management Board of ING Bank (Australia) Ltd and Member of the Supervisory Board of ING DiBa.

M.I. (Isabel) Fernandez Niemann, member and head of Wholesale Banking

(Born 1968, Spanish Dutch nationality, female; appointed in 2016)

Isabel Fernandez Niemann was appointed a member of the Management Board Banking as from 1 September 2016. She is also head of Wholesale Banking as from 1 November 2016. Prior to her appointment Isabel Fernandez Niemann was Global Commercial Leader and Head of Sales for General Electric.

Relevant position pursuant to CRD IV:
Member of the Management Board of ING Bank N.V.

R.M.M. (Roel) Louwhoff, member and COO Management Board

(Born 1965, Dutch nationality, male; appointed in 2014)

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

Relevant position pursuant to CRD IV:
Member and COO of the Management Board of ING Bank N.V.

Supervisory Board

ING Bank needs to balance several relevant selection criteria when composing its Supervisory Board but strives for an adequate and balanced composition thereof, by taking into account all relevant selection criteria including, but not limited to experience in retail and wholesale banking, gender balance, executive experience, experience in corporate governance and experience in the political and social environment.

The Nomination Committee assesses the composition of the Supervisory Board, annually. In the context of such assessment, ING Group aims to have a gender balance by having at least 30% men and at least 30% women amongst its Supervisory Board members. After the appointment of Ann Sherry at the Annual General Meeting in April 2016, the composition of the Supervisory Board met the above-mentioned gender balance (more than 33% women).

Ancillary positions

Member of the Supervisory Board may hold various other directorships, paid positions and ancillary positions and are required to provide details on these. 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 Bank N.V. It is the responsibility of the individual member of the Supervisory Board to ensure that the directorship duties are reported and performed properly and are not affected by any other positions that the individual may hold outside ING Bank N.V.

Information on members of the Supervisory Board

J. (Jeroen) Van der Veer (Chairman)

(Born 1947, Dutch nationality, male; appointed in 2009, term expires in 2017)
Former Chief Executive Officer of Royal Dutch Shell plc.

Relevant positions pursuant to CRD IV:
Chairman of the Supervisory Board of ING Groep N.V./ING Bank N.V., Chairman of the Supervisory Board of Koninklijke Philips Electronics N.V., Member of the Supervisory Board of Koninklijke Boskalis Westminster N.V. and Member of the Supervisory Board of Statoil ASA.

Other relevant ancillary positions:
Member of the Supervisory Board of Het Concertgebouw N.V. and Chairman of the Supervisory Council of the Technical University of Delft.

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

(Born 1956, German nationality, male; appointed in 2013, term expires in 2017)
Former Chief Operating Officer of Deutsche Bank AG.

Relevant positions pursuant to CRD IV:
Vice-chairman of the Supervisory Board of ING Groep N.V./ING Bank N.V., Non-Executive Member of the Board of Directors of Airbus Group N.V., (formerly European Aeronautic Defense and Space Company N.V.), Chairman of the Supervisory Board of Addiko Bank (Austria), Member of the Supervisory Board of Lefdal Mine Data Centre SA, and Member of the Supervisory Board of Stonebranch.
The number of positions held by Hermann-Josef Lamberti currently exceeds the maximum allowed under CRD IV. Steps are being taken to reduce the number of positions, as required by CRD IV, in the near future.

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

(Born 1952, Belgian nationality, male; appointed in 2014, term expires in 2018)
Former Vice-Chairman Management Board Banking ING Groep N.V. and ING Bank N.V.

Relevant positions pursuant to CRD IV:
Member of the Supervisory Board of ING Groep N.V./ING Bank N.V. and Chairman of the Board of Directors of ING Belgium S.A./N.V.

Other relevant ancillary position:
Non-Executive Director of Instituts Internationaux de Physique et de Chimie fondé par Ernest Solvay, asbl.

H.W. (Henk) Breukink

(Born 1950, Dutch nationality, male; appointed in 2007, term expires in 2019)
Former managing director of F&C and country head for F&C Netherlands (asset management firm).

Relevant positions pursuant to CRD IV:
Member of the Supervisory Board of ING Groep N.V./ING Bank N.V., Chairman of the Supervisory Board of NSI N.V. (real estate fund) and Non-Executive Director of Brink Groep B.V.

Other relevant ancillary position:
Chairman of the Supervisory Board of Stichting Hoger Onderwijs Nederland.

I. (Isabel) Martín Castellá

(Born 1947, Spanish nationality, female; appointed in 2013, term expires in 2017)
Former Vice-President and Member of the Management Committee of the European Investment Bank.

Relevant positions pursuant to CRD IV:
Member of the Supervisory Board of ING Groep N.V./ING Bank N.V. and Member of the Supervisory Board of SACYR S.A.

Other relevant ancillary positions:
Member of the Advisory Board of NEINVER S.A. and Member of the Advisory Committee of GED Capital.

M. (Mariana) Gheorghe

(Born 1956, Romanian nationality, female; appointed in 2015, term expires in 2019)
Current Chief Executive Officer OMV Petrom S.A.

Relevant positions pursuant to CRD IV:
Member of the Supervisory Board of ING Groep N.V./ING Bank N.V., Chief Executive Officer of OMV Petrom S.A., Chairwoman of the Supervisory Board of OMV Petrom Marketing SRL, Chairwoman of the Supervisory Board of OMV Petrom Gas SRL and Member of the Supervisory Board of OMV Petrom Global Solutions SRL.

A.C. (Ann) Sherry

(Born 1954, Australian nationality, female; appointed in 2016, term expires in 2020)
Former Chief Executive Officer Carnival Australia

Relevant positions pursuant to CRD IV:

Member of the Supervisory Board of ING Groep N.V./ING Bank N.V., Member of the Supervisory Board ING Direct (Australia), Member of the Supervisory Board Sydney Airport Corporation and Member of the Supervisory Board The Palladium Group.

Other relevant ancillary position:
Chairwoman of Carnival Australia (advisory role).

R.W.P. (Robert) Reibestein

(Born 1956, Dutch nationality, male; appointed in 2012 as an observer, full member as of 2013, term expires in 2017)
Former senior partner of McKinsey & Company.

Relevant positions pursuant to CRD IV:
Member of the Supervisory Board of ING Groep N.V./ING Bank N.V. and Member of the Supervisory Board of IMC B.V.

Other relevant ancillary position:
Member of the Supervisory Board of Stichting World Wildlife Fund.

Dutch Banking Code

The Dutch Banking Code, a revised version of which was adopted by the Dutch Banking Association in 2014, is applicable to ING Bank N.V. and not to ING Group. The Banking Code can be downloaded from the website of the Dutch Banking Association (www.nvb.nl). Its application to ING Bank is described in “Application of the Dutch Banking Code by ING Bank N.V.”, available on the ING Group website (www.ing.com). This is to be read in conjunction with and deemed to be incorporated in the Annual Report of ING Bank N.V.

Conformity statement

The Management Board Banking is required to prepare the Annual Accounts and the Annual Report of ING Bank 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 Management Board Banking is responsible for maintaining proper accounting records, for safeguarding assets and for taking reasonable steps to prevent and detect fraud and other irregularities. It is responsible for selecting suitable accounting policies and applying them on a consistent basis, making judgements and estimates that are prudent and reasonable. It is also responsible for establishing and maintaining internal procedures which ensure that all major financial information is known to the Management 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 Bank N.V. 2016 Annual Accounts give a true and fair view of the assets, liabilities, financial position and profit or loss of ING Bank N.V. and the enterprises included in the consolidation taken as a whole; and
- the ING Bank N.V. 2016 Annual Report gives a true and fair view of the position at the balance sheet date, the development and performance of the business during the financial year 2016 of ING Bank N.V. and the enterprises included in the consolidation taken as a whole, together with a description of the principal risks ING Bank N.V. is being confronted with.

Amsterdam, 13 March 2017
the Management Board Banking

R.A.J.G. (Ralph) Hamers
CEO, chairman of Management Board Banking

J.V. (Koos) Timmermans
Vice-chairman and head of Market Leaders

P.G. (Patrick) Flynn
CFO

W.F. (Wilfred) Nagel
CRO

A. (Aris) Bogdaneris
Head of Challengers & Growth Markets

M.I. (Isabel) Fernandez Niemann
Head of Wholesale Banking

R.M.M. (Roel) Louwhoff
COO

Report of the Supervisory Board

Important topics on the agenda of the Supervisory Board of ING Bank N.V. (in this chapter hereinafter referred to as '**Supervisory Board**') in 2016 were the acceleration of the bank's Think Forward strategy, capital requirements, sustainability, the enhancement of ING's internal controls and associated risk mitigation, and developments in the regulatory and external supervision landscape. The committees of the Supervisory Board discussed a range of subjects, the main ones being the interests of ING's clients and other stakeholders, the quarterly results, corporate governance, risk management, human resources (including culture & behaviours throughout ING) and regulatory costs.

Supervisory Board meetings

The Supervisory Board met 11 times in 2016. On average, 98 percent of the Supervisory Board members were present at the meetings. This attendance rate illustrates that the members of the Supervisory Board are engaged with ING and are able to devote sufficient time and attention to ING's affairs. The Management Board Banking were present during each Supervisory Board meeting. For part of the meetings only the chief executive officer was present; this was dependent on the nature of the topics addressed. Each Supervisory Board meeting was preceded by a session with only the Supervisory Board members present. The members of the Supervisory Board also interacted with senior management outside the regular Supervisory Board meetings for discussion and information sharing purposes. This includes speed meet sessions which contribute to better mutual understanding and alignment on what matters most to ING and the Supervisory Board. The Supervisory Board finds it important to strike a balance between the interests of all the stakeholders and to maintain an open dialogue. ING seeks to take the interests of all stakeholders into account to ensure ING's shareholders benefit, with the interest of the client remaining key.

The Management Board Banking has prepared the annual accounts and discussed these with the Supervisory Board

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

Permanent education

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

In September 2016, the Supervisory Board visited Hong Kong and Beijing for four days, allowing it to get a better understanding of the Asian business activities and how these relate and contribute to ING's strategy.
Presentations included Asian economics, trends and challenges, ING's business and footprint in Asia, including ING's relationship with the Bank of Beijing, and insights into Asian financial industry fintechs and disruptors such as Alibaba, WeChat and WeLab. The Supervisory Board members also met with various clients and government officials.

A number of other educational sessions on specific topics were organised for the Supervisory Board throughout the year, including ones addressing various developments in the regulatory and external supervision landscape, financial reporting including IFRS 9, compliance, sustainability and risk and capital management.

Corporate strategy

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

A global transformation programme was developed to realise the acceleration of the Think Forward strategy. The basic starting point of the programme was ING's value proposition, captured in multiple work streams. In August 2016, the Supervisory Board discussed this. This strategy includes a number of initiatives to further improve the customer experience, further grow primary customers and lending, and increase efficiency. Around the end of September 2016 further aspects of the programme were discussed and approved. Important drivers of the programme were addressed such as the future of banking, the journey of convergence, maintaining commercial momentum, how to fund and drive the transformation, as well as risk management. The importance was acknowledged of taking into account the duty of care towards the Bank's stakeholders that may be impacted by the transition. Accelerating Think Forward was announced on 3 October 2016, during the ING Investor Day. ING also appointed a Chief Transformation Officer, an additional responsibility of the COO.

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

Financial and risk reporting

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

ING Bank's Annual Report, was reviewed and the annual accounts were approved. The 2016 quarterly results were reviewed and discussed in May, August and November 2016 with the external auditor being able to issue an unqualified review opinion on the half year financial results. During 2016 ING Bank paid EUR 1,345 million dividend to ING Groep N.V.

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

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

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

Internal Supervisory Board meetings

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

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

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

The Supervisory Board also met in closed sessions, with Supervisory Board members only, in advance of the regular Supervisory Board meetings.

The purpose of these pre-meetings is to have a 'check-in' and to provide the possibility for airing early concerns in advance of the regular meetings.

Audit Committee meetings

In 2016, the Audit Committee met five times. On average, 95 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 that also addressed user access management, the internal controls over financial reporting, the external auditor reports and management letters, and capital management related matters. The Audit Committee also reviewed the quarterly press releases related to the results.

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

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

Risk Committee meetings

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

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

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

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

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

Nomination Committee meetings

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

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

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

Remuneration Committee meetings

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

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

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

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

The ING Bank remunerations framework was updated to align with the renewed EBA guidelines that took effect per 1 January 2017.

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

The framework itself was also reviewed with regard to the boards' approval and notification requirements.

Corporate Governance Committee meetings

The Corporate Governance Committee met four times with no absentees.

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

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

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

Composition of the Management Board

As per 1 September 2016, as first female member of the Management Board Banking, Isabel Fernandez joined ING. She succeeded William Connelly as head of Wholesale Banking as per 1 November 2016.

Composition of the Supervisory Board

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

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

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

Appreciation for the Management Board and ING employees

The Supervisory Board would like to thank the members of the Management Board Banking for their hard work in 2016. The delivery on ING's ambitions and purpose through the Think Forward strategy is something to be proud of as well as the delivery of a programme to further accelerate this strategy to create a scalable banking platform to cater for continued commercial growth, an improved customer experience and a quicker delivery of products. The Supervisory Board would like to thank all ING employees for their contribution in realising this and for continuing to serve the interests of customers, shareholders and other stakeholders of ING.

Amsterdam, 13 March 2017

The Supervisory Board

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Consolidated statement of financial position

as at 31 December

in EUR million	2016	2015	2014
Assets			
Cash and balances with central banks 2	18,144	21,458	12,222
Loans and advances to banks 3	28,872	29,966	37,122
Financial assets at fair value through profit or loss 4			
– trading assets	114,512	131,485	136,964
– non-trading derivatives	2,309	3,216	4,303
– designated as at fair value through profit or loss	5,099	3,234	2,756
Investments 5			
– available-for-sale	82,912	87,000	95,401
– held-to-maturity	8,751	7,826	2,239
Loans and advances to customers[1] 6	562,873	700,007	703,920
Investments in associates and joint ventures 7	1,003	842	861
Property and equipment 8	2,002	2,027	2,100
Intangible assets 9	1,484	1,567	1,655
Current tax assets	252	279	289
Deferred tax assets 32	1,000	813	1,126
Other assets 10	14,706	12,272	12,716
Assets held for sale			729
Total assets	**843,919**	**1,001,992**	**1,014,403**
Liabilities			
Deposits from banks 11	31,964	33,808	30,003
Customer deposits[1] 12	531,096	672,204	675,082
Financial liabilities at fair value through profit or loss 13			
– trading liabilities	83,167	88,807	97,091
– non-trading derivatives	3,585	4,364	6,357
– designated as at fair value through profit or loss	12,266	12,616	13,551
Current tax liabilities	546	590	442
Deferred tax liabilities 32	919	645	872
Provisions 14	2,028	964	1,017
Other liabilities 15	16,793	13,023	13,744
Debt securities in issue 16	101,305	117,556	120,959
Subordinated loans 17	16,104	15,920	16,599
Total liabilities	**799,773**	**960,497**	**975,717**
Equity 18			
Share capital and share premium	17,067	17,067	17,067
Other reserves	5,835	5,784	5,479
Retained earnings	20,638	18,006	15,518
Shareholders' equity (parent)	**43,540**	**40,857**	**38,064**
Non-controlling interests	606	638	622
Total equity	**44,146**	**41,495**	**38,686**
Total liabilities and equity	**843,919**	**1,001,992**	**1,014,403**

1 Loans and advances to customers and Customer deposits, as at 31 December 2015 and 2014, are adjusted as a result of a change in accounting policies. Reference is made to Note 1 'Accounting policies' – Changes in accounting policies in 2016.

References relate to the accompanying notes. These form an integral part of the Consolidated annual accounts.
Reference is made to Note 1 'Accounting policies' for information on Changes in presentation of the Consolidated annual accounts and related notes.

Consolidated statement of profit or loss

for the years ended 31 December

in EUR million	2016	2016	2015	2015	2014	2014
Interest income	44,221		46,397		48,376	
Interest expense	–30,904		–33,653		–35,770	
Net interest income 19		13,317		12,744		12,606
Commission income	3,581		3,420		3,314	
Commission expense	–1,148		–1,100		–1,023	
Net commission income 20		2,433		2,320		2,291
Valuation results and net trading income 21		1,093		1,333		191
Investment income 22		421		127		213
Share of result from associates and joint ventures 7		77		493		76
Result on disposal of group companies 23		1		2		195
Other income 24		172		51		102
Total income		**17,514**		**17,070**		**15,674**
Addition to loan loss provisions 6		974		1,347		1,594
Staff expenses 25		5,036		4,962		5,783
Other operating expenses 26		5,567		4,346		4,442
Total expenses		**11,577**		**10,655**		**11,819**
Result before tax		**5,937**		**6,415**		**3,855**
Taxation 32		1,635		1,684		1,032
Net result (before non-controlling interests)		**4,302**		**4,731**		**2,823**
Net result attributable to Non-controlling interests		75		72		79
Net result attributable to shareholder of the parent		**4,227**		**4,659**		**2,744**
Dividend per ordinary share (in euros)		2.89		4.73		2.63
Total amount of dividend paid (in millions of euros)		1,345		2,200		1,225

References relate to the accompanying notes. These form an integral part of the Consolidated annual accounts.

Reference is made to Note 1 'Accounting policies' for information on Changes in presentation of the Consolidated annual accounts and related notes.

Consolidated statement of comprehensive income

for the years ended 31 December

in EUR million	2016	2015	2014
Net result (before non-controlling interests)	4,302	4,731	2,823
Other comprehensive income			
Items that will not be reclassified to the statement of profit or loss:			
Unrealised revaluations property in own use	2	35	–29
Remeasurement of the net defined benefit asset/liability 31	–65	64	–88
Items that may subsequently be reclassified to the statement of profit or loss:			
Unrealised revaluations available-for-sale investments and other revaluations	189	288	1,878
Realised gains/losses transferred to the statement of profit or loss	–272	–17	–121
Changes in cash flow hedge reserve	68	–218	1,714
Exchange rate differences	–273	95	369
Share of other comprehensive income of associates and joint ventures and other income	5	–9	35
Total comprehensive income	**3,956**	**4,969**	**6,581**
Comprehensive income attributable to:			
Non-controlling interests		46	152
Shareholders of the parent	3,956	4,923	6,429
	3,956	**4,969**	**6,581**

References relate to the accompanying notes. These form an integral part of the Consolidated annual accounts.

Reference is made to Note 32 ‘Taxation’ for the disclosure on the income tax effects on each component of the other comprehensive income.

Consolidated statement of changes in equity

in EUR million	Share capital and share premium	Other reserves	Retained earnings	Share-holders' equity (parent)	Non-controlling interests	Total equity
Balance as at 1 January 2016	17,067	5,784	18,006	40,857	638	41,495
Unrealised revaluations available-for-sale investments and other revaluations		208		208	–19	189
Realised gains/losses transferred to the statement of profit or loss		–272		–272		–272
Changes in cash flow hedge reserve		102		102	–34	68
Unrealised revaluations property in own use		2		2		2
Remeasurement of the net defined benefit asset/liability 31		–65		–65		–65
Exchange rate differences		–251		–251	–22	–273
Share of other comprehensive income of associates and joint ventures and other income		203	–198	5		5
Total amount recognised directly in other comprehensive income		**–73**	**–198**	**–271**	**–75**	**–346**
Net result		124	4,103	4,227	75	4,302
Total comprehensive income		**51**	**3,905**	**3,956**	**–**	**3,956**
Dividends			–1,345	–1,345	–32	–1,377
Employee stock option and share plans			72	72		72
Balance as at 31 December 2016	**17,067**	**5,835**	**20,638**	**43,540**	**606**	**44,146**

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 Bank - 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	17,067	5,479	15,518	38,064	622	38,686
Unrealised revaluations available-for-sale investments and other revaluations		298		298	–10	288
Realised gains/losses transferred to the statement of profit or loss		–17		–17		–17
Changes in cash flow hedge reserve		–200		–200	–18	–218
Unrealised revaluations property in own use		35		35		35
Remeasurement of the net defined benefit asset/liability 31		64		64		64
Exchange rate differences and other		95		95	2	97
Share of other comprehensive income of associates and joint ventures		–11		–11		–11
Total amount recognised directly in other comprehensive income		**264**		**264**	**–26**	**238**
Net result		131	4,528	4,659	72	4,731
Total comprehensive income		**395**	**4,528**	**4,923**	**46**	**4,969**
Dividends			–2,200	–2,200	–31	–2,231
Employee stock option and share plans			70	70		70
Changes in the composition of the group and other changes		–90	90		1	1
Balance as at 31 December 2015	**17,067**	**5,784**	**18,006**	**40,857**	**638**	**41,495**

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 Bank - 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 2014	17,067	–678	16,416	32,805	955	33,760
Unrealised revaluations available-for-sale investments and other revaluations		1,866		1,866	12	1,878
Realised gains/losses transferred to the statement of profit or loss		–121		–121		–121
Changes in cash flow hedge reserve		1,651		1,651	63	1,714
Unrealised revaluations property in own use		–29		–29		–29
Remeasurement of the net defined benefit asset/liability 31		–88		–88		–88
Exchange rate differences and other		371		371	–2	369
Share of other comprehensive income of associates and joint ventures		35		35		35
Total amount recognised in other comprehensive income		**3,685**		**3,685**	**73**	**3,758**
Net result		83	2,661	2,744	79	2,823
Total comprehensive income		**3,768**	**2,661**	**6,429**	**152**	**6,581**
Dividends			–1,225	–1,225	–34	–1,259
Employee stock option and share plans			55	55		55
Changes in the composition of the group and other changes		2,389	–2,389		–451	–451
Balance as at 31 December 2014	**17,067**	**5,479**	**15,518**	**38,064**	**622**	**38,686**

References relate to the accompanying notes. These form an integral part of the Consolidated annual accounts.

Changes in individual components are presented in Note 18 'Equity'.

Consolidated statement of cash flows

for the years ended 31 December

in EUR million		2016	2015	2014
Cash flows from operating activities				
Result before tax		5,937	6,415	3,855
Adjusted for:	– depreciation	536	614	594
	– addition to loan loss provisions	974	1,347	1,594
	– other[2]	1,580	–227	1,947
Taxation paid		–1,555	–1,306	–887
Changes in:	– loans and advances to banks, not available on demand	–1,168	6,760	3,361
	– trading assets	16,976	5,485	–23,802
	– non-trading derivatives	1,725	–742	–2,260
	– other financial assets at fair value through profit or loss	–3,400	–282	–614
	– loans and advances to customers[1]	–29,668	–21,143	–12,935
	– other assets	–1,280	1,106	–366
	– deposits from banks, not payable on demand	–346	5,175	3,353
	– customer deposits[1]	23,682	19,600	17,803
	– trading liabilities	–5,634	–8,276	23,855
	– other financial liabilities at fair value through profit or loss	–432	–1,254	–524
	– provisions and other liabilities[2]	1,030	1,689	1,639
Net cash flow from/(used in) operating activities		**8,957**	**14,961**	**16,613**
Cash flows from investing activities				
Investments and advances:	– associates and joint ventures	–49	–24	–31
	– available-for-sale investments	–27,003	–43,092	–73,348
	– held-to-maturity investments	–1,731	–3,457	–315
	– property and equipment	–351	–326	–355
	– assets subject to operating leases	–64	–37	–34
	– other investments	–288	–256	–257
Disposals and redemptions:	– group companies (including cash in company disposed)			–398
	– associates and joint ventures	54	119	187
	– available-for-sale investments	31,165	48,232	60,098
	– held-to-maturity investments	630	1,219	1,172
	– property and equipment	63	73	54
	– assets subject to operating leases	12	17	3
	– loans	1,295	3,590	2,382
	– other investments	9	3	2
Net cash flow from/(used in) investing activities 27		**3,742**	**6,061**	**–10,840**

Consolidated statement of cash flows of ING Bank - continued

in EUR million	2016	2015	2014
Net cash flow from/(used in) operating activities	**8,957**	**14,961**	**16,613**
Net cash flow from/(used in) investing activities 27	**3,742**	**6,061**	**–10,840**
Cash flows from financing activities			
Proceeds from debt securities	106,174	133,290	135,318
Repayments of debt securities	–121,998	–140,120	–142,996
Proceeds from issuance of subordinated loans	1,085	2,085	3,266
Repayments of subordinated loans	–961	–4,244	–2,788
Dividends paid	–1,345	–2,200	–1,225
Net cash flow from/(used in) financing activities	**–17,045**	**–11,189**	**–8,425**
Net cash flow	**–4,346**	**9,833**	**–2,652**
Cash and cash equivalents at beginning of year	20,354	10,863	13,509
Effect of exchange rate changes on cash and cash equivalents	155	–342	6
Cash and cash equivalents at end of year 28	**16,163**	**20,354**	**10,863**

1 Changes in cash flows of Loans and advances to customers and Customer deposits are not impacted by the change in accounting policies, as described in Note 1 'Accounting policies' – Changes in accounting policies in 2016, on the basis that the change in policy does not comprise a change in actual cash flows for the respective periods.
2 The defined contribution payment for pension plans was previously presented in 'Adjusted for: other' and is now presented in 'provisions and other liabilities'. Comparatives have been adjusted accordingly.

As at 31 December 2016, Cash and cash equivalents includes cash and balances with central banks of EUR 18,144 million (2015: EUR 21,458 million; 2014: EUR 12,222 million). The decrease in cash and balances with central banks is as a result of the lowering of excess liquidity and negative interest rates. Reference is made to Note 28 'Cash and cash equivalents'.

References relate to the accompanying notes. These form an integral part of the Consolidated annual accounts.

Interest and dividend received and paid

	2016	2015	2014
Interest received	44,536	47,029	49,537
Interest paid	–31,537	–33,092	–37,174
	12,999	**13,937**	**12,363**
Dividend received	120	113	70
Dividend paid	–1,345	–2,200	–1,225

Interest received, interest paid and dividends received are included in operating activities in the cash flow statement. Dividend paid is included in financing activities in the cash flow statement.

Notes to the Consolidated annual accounts

amounts in millions of euros, unless stated otherwise

Notes to the accounting policies

Authorisation of the Consolidated annual accounts

The consolidated annual accounts of ING Bank N.V. (ING Bank), for the year ended 31 December 2016, were authorised for issue in accordance with a resolution of the Management Board on 13 March 2017. The Management 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. ING Bank is domiciled in Amsterdam, the Netherlands. The principal activities of ING Bank are described in 'About ING'.

Basis of preparation of the Consolidated annual accounts

The ING Bank Consolidated annual accounts have been prepared in accordance with International Financial Reporting Standards (IFRS) and interpretations issued by the IFRS Interpretations Committee (IFRS IC) as adopted by the European Union (EU) and the relevant articles of Part 9 of Book 2 of the Dutch Civil Code.

ING Bank applies International Financial Reporting Standards (IFRS) as adopted by the European Union (EU), which are IFRS Standards and IFRS IC Interpretations as issued by the International Accounting Standards Board (IASB) with some limited modifications such as the temporary 'carve out' from IAS 39 'Financial Instruments: Recognition and Measurement' (herein, referred to as IFRS).

Under the EU carve out, ING Bank applies fair value hedge accounting to portfolio hedges of interest rate risk (macro hedging). For further information, reference is made to Note 1 'Accounting policies', f) Principles of valuation and determination of results and Note 34 'Derivatives and hedge accounting'.

1 Accounting policies

a) Changes in accounting policies in 2016

ING Bank has consistently applied its accounting policies to all periods presented in these Consolidated annual accounts. Other than the change in accounting policy related to 'Offsetting of financial assets and liabilities', as described below, there were no changes in accounting policies, effective from 1 January 2016, that materially impact ING Bank.

Offsetting of financial assets and financial liabilities

IAS 32 'Financial Instruments: Presentation' prescribes that a financial asset and a financial liability shall be offset when there is a legally enforceable right to set off and in addition an 'intention to settle on a net basis' simultaneously (IAS 32.42). ING has both the legally enforceable right (by contract) to set off the amounts under notional cash pooling arrangement as well as the intention to settle on a net basis. IFRS is principle based and does not prescribe how the intention to settle on a net basis is evidenced.

In April 2016, an Agenda Rejection Notice (ARN) was published by the IFRS Interpretations Committee (IFRIC) on balance sheet offsetting of notional Cash Pooling products. The issue in the ARN relates to the question whether certain cash pooling arrangements would meet the requirements for offsetting under IAS 32. The IFRIC provided further clarification that the transfer of balances into a netting account should occur at the period end to demonstrate an intention to settle on a net basis.

As a result of the ARN, which is applicable from 6 April 2016, ING has changed its accounting policy and practice, and therefore as a result performs physical transfers of cash balances of certain clients subject to cash pooling arrangements into a single netting account on a period end basis to evidence the intention to settle net. This change in accounting policy is accounted for retrospectively. Comparative amounts are adjusted accordingly with further information as set out below.

Summary of impact of changes in accounting policies

The change in the accounting policy, as described above, has no impact on the Consolidated statements of profit or loss, statements of comprehensive income, statements of cash flows and the statements of changes in equity.

Comparative amounts in the Consolidated statements of financial position are impacted in the line items Loans and advances to customers, Total assets, Customer deposits and Total liabilities. These line items increase by EUR 163,464 million and EUR 185,801 million as at 31 December 2015 and 31 December 2014 respectively

Reference is made to the Consolidated statement of financial position, Note 6 'Loans and advances to customers', Note 13 'Customer deposits', Note 30 'Information on geographical areas', Note 33 'Fair value of assets and liabilities', Note 35 'Assets by contractual maturities', Note 36 'Liabilities by maturity' and Note 39 'Offsetting financial assets and liabilities'.

b) Changes in presentation of the Consolidated annual accounts and related notes

In 2016, ING Bank revised its presentation of the Consolidated annual accounts and relevant notes. Where relevant, comparative amounts are adjusted accordingly. The main changes in the presentation of the Consolidated annual accounts and related notes are as follows:

- The primary statements and other terms used in these statements are renamed as follows:

- The 'Consolidated balance sheet' is renamed to 'Consolidated statement of financial position';
- The line item 'Amounts due from banks' is renamed to 'Loans and advances to banks':
- The line item 'Amounts due to banks' is renamed to 'Deposits from banks';
- The line item 'Customer deposits and other funds on deposit' is renamed to 'Customer deposits';
- The line item 'Minority interest' is renamed to 'Non-controlling interest';
- The 'Consolidated profit and loss account' is renamed to 'Consolidated statement of profit or loss'; and
- The naming of income and expense line items, specifically related to Interest and Commission, were simplified for further clarification.

- The Consolidated statement of financial position is changed as follows:
  - The order of line items presented is changed to present assets, liabilities and equity in order of liquidity;
  - The line item 'Real estate investments' is now included in the line item 'Other assets' and renamed to 'Investment properties';
  - 'Current and deferred tax assets and liabilities' are now separately presented (previously included in the line items 'Other assets and liabilities');
  - 'Provisions', as previously included in the line item 'Other liabilities', are now separately presented;
  - The line item 'Subordinated loans' includes the line item 'Other borrowed funds' (previously separately presented);
  - The presentation of equity is changed to more granularly present the components of 'Shareholder's equity (parent)'; and
  - The asset line items Loans and advances to banks, Loans and advances to customers, and the liability line items Deposits from banks, Customer deposits, previously included amounts for Items to be settled. The Items to be settled amounts are now included in Other assets and Other liabilities respectively. On the basis of materiality, comparative amounts as at 31 December 2015 and 2014 have not been adjusted.
- The Consolidated statement of profit or loss is changed as follows:
  - The order of line items presented is changed to present the components of 'Total income' more in line with the core business of ING;
  - Valuation results on non-trading derivatives and Net trading income have been combined into one line;
  - Interest income on trading portfolio has been split into two lines: 'Interest income on trading derivatives' and 'Interest income on other trading portfolio'; and
  - Interest expense on trading liabilities has been split into two lines: 'Interest expense on trading derivatives' and 'Interest expense on other trading portfolio'.
- The Consolidated Statement of Cash Flows
  - The defined contribution payment for pension plans was previously presented in 'Adjusted for: other' and is now presented in 'provisions and other liabilities'. Comparatives have been adjusted accordingly.

c) Changes in IFRS effective in 2016

ING Bank has applied a number of interpretations and amendments to standards for the first time for the annual periods beginning on or after 1 January 2016. Apart from the accounting policy change described above, the implementation of these changes had an insignificant impact on the consolidated financial position, net result, other comprehensive income and related disclosures of ING Bank. ING Bank has not early adopted any other standard, interpretation or amendment which has been issued, but is not yet effective.

d) Upcoming changes in IFRS after 2016

Changes to IFRS effective in 2017onwards

The following published amendments are not mandatory for 2016 and have not been early adopted by the bank. These amendments are effective for 2017 annual periods (and 2018 for part of the annual improvements cycle) but have not yet been endorsed by the EU. The implementation of these amendments will have no significant impact on ING Bank's results or financial position.

The list of upcoming changes to IFRS, which are applicable for ING Bank:

- Amendments to IAS 12 'Income Taxes': Recognition of Deferred Tax Assets for Unrealised losses;
- Amendments to IAS 7 'Statement of Cash Flows: Disclosure Initiative'; and
- Annual improvement cycle 2014 – 2016

IFRS 9 'Financial Instruments'

IFRS 9 'Financial Instruments' was issued by the IASB in July 2014 and endorsed by the EU in November 2016. IFRS 9 will replace IAS 39 'Financial Instruments: Recognition and Measurement' and includes requirements for classification and measurement of financial assets and liabilities, impairment of financial assets, and hedge accounting. The new requirements become effective as of 1 January 2018. ING Bank has decided to apply the classification, measurement, and impairment requirements retrospectively by adjusting the opening balance sheet and opening equity at 1 January 2018, with no restatement of comparative periods. ING has also chosen not to early adopt changes introduced by IFRS 9 for financial liabilities where movements in own credit for financial liabilities designated at fair value through profit or loss will be presented in other comprehensive income.

IFRS 9 Program governance and status
The structure of the IFRS 9 Program has been set-up based on the three pillars of the IFRS 9 standard: Classification and Measurement, Impairment, and Hedge Accounting. These central work streams consist of experts from Finance, Risk, Bank Treasury, Operations and the business. The IFRS 9 Technical Board consists of the heads of various Finance and Risk functions supporting the IFRS 9 Steering Committee by reviewing the interpretations of IFRS 9, the central guidance, and instructions as prepared by the central work streams. The IFRS 9 Steering Committee is the key decision making body and consists of senior managers from Group Finance, Finance Operations, Retail Banking, Credit & Trading Risk, Risk Operations, Bank Treasury, Balance Sheet Risk Management, and Wholesale Banking Lending Services. In addition, an international IFRS 9 network has been created within ING to connect all countries with the central team to ensure consistency in implementation. The Management Banking Board and the Audit Committee are periodically updated about IFRS 9 and will be actively involved in future decisions.

In order to increase transparency and comparability across banks, the Enhanced Disclosure Task Force (EDTF) published a report in November 2015 on recommended disclosures on IFRS 9 that can help the market understand the upcoming changes as a result of using the Expected Credit Loss (ECL) approach. Given that IFRS 9 is effective on 1 January 2018, the EDTF recommended disclosures for the periods prior to the 2018 financial statements aimed at promoting consistency and comparability across internationally active banks.

The IFRS 9 Program is being implemented across functions, businesses, and countries. The Bank Accounting policies are also being updated to align IFRS 9. In 2017, parallel runs will be performed to ensure IFRS 9 readiness on 1 January 2018.

Classification and Measurement
IFRS 9 is built on a single classification and measurement approach for financial assets that reflects the business model in which they are managed and their cash flow characteristics. Financial assets are therefore classified in their entirety rather than being subject to complex bifurcation requirements.

Two criteria are used to determine how financial assets should be classified and measured at Amortised Cost, Fair Value through Other Comprehensive Income (FVOCI) or Fair Value through Profit and Loss (FVPL):
1. The Business Model assessment is performed to determine how a portfolio of financial instruments as a whole is managed in order to classify it as Hold to Collect, Hold to Collect & Sell, or Other Business Model; and
2. Contractual cash flow characteristics test is performed to determine whether the financial instruments give rise to cash flows that are Solely Payments of Principal and Interest (SPPI).

In 2016, the central team finalised a Business Model Blueprint based on the structure of the organisation and all the entities across the Bank through discussions with various parties from the business, finance, and risk functions. The central team created and communicated the Business Model templates that were later tailored by local project teams to fit the local organisation as well as local business structure and product offering.

The central team also finalised an approach for performing the SPPI test and is in the process of performing a detailed analysis of the cash flow characteristics of our financial assets to detect whether they meet SPPI criteria. The SPPI test is performed on groups of assets that have a set of similar characteristics resulting in a homogenous population. Where testing is being performed at a local level, these local teams are trained and supported by the central team to ensure IFRS 9 is understood and implemented consistently across the Bank.

The focus in 2017 will be finalising SPPI testing and formalising the governance to embed the changes brought by IFRS 9 into everyday business and financial reporting cycles to ensure ongoing compliance.

Impact
ING is currently assessing the impact of IFRS 9 on the classification and measurement of its financial assets. The classification and measurement of financial liabilities remains essentially the same as under IAS 39.

Impairment
The expected credit loss (ECL) model more is more forward-looking, than the incurred loss model under IAS 39. The ECL estimates are required to be unbiased, probability-weighted, and should include supportable information about past events, current conditions, and forecasts of future economic conditions. The ECL should reflect multiple macro-economic scenarios and include the time value of money. The ECL model applies to all on-balance financial assets accounted for at amortised cost and FVOCI such as loans and debt securities, as well as off-balance items such as certain loan commitments, financial guarantees, and undrawn revolving credit facilities.

Three stage approach
ING Bank will apply the IFRS 9 three stage approach to measure expected credit losses:

- Stage 1: 12 month ECL - performing
- Financial instruments that have not had a significant increase in credit risk since initial recognition require, at initial recognition a provision for ECL associated with the probability of default events occurring within the next 12 months (12 month ECL).
- Stage 2: Lifetime ECL – under-performing
- In the event of a significant increase in credit risk since initial recognition, a provision is required for ECL resulting from all possible default events over the expected life of the financial instrument (Lifetime ECL).
- Stage 3: Lifetime ECL – non-performing
- Financial instruments that move into Stage three once credit impaired and purchases of credit impaired assets will require a Lifetime ECL provision.

Key concepts
ING Bank aims to align the definition of credit impaired under IFRS 9 with the definition of default for prudential purposes. ING Bank considers a financial asset credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. ING Bank's definition of modification that does not result in a derecognition event refers to any non-significant changes to contractual terms that impact the (timing of) contractual cash flows of that financial asset. In case the modification results in a significant change to the contractual terms, the asset is derecognised.

ING Bank established a framework for whether an asset has a significant increase in credit risk. Each asset will be assessed at the reporting date on the triggers for significant deterioration. ING Bank intends to assess significant increase in credit risk using a delta in the lifetime default probability, forbearance status, watch list status, arrears and the more than 30 days past due backstop for stage 1 to stage 2 transfers. The stage allocation will be implemented in the central credit risk systems. In 2017 analyses on the movements between stages in both directions will be performed.

Measurement
The calculation of ECL will be based on ING Bank's expected loss models (PD, LGD, EAD) currently used for regulatory capital, economic capital, and collective provisions in the current IAS 39 framework. The IFRS 9 ECL model builds on existing IRB models, removes embedded prudential conservatism (such as PD floors), and includes forward-looking point in time information based on macroeconomic indicators, such as unemployment rates and GDP growth. The expected loss parameters will be determined by using historical statistical relationships and macroeconomic predictions. For the small portfolios outside the IRB approach, existing framework for loan loss provisions will be applied to set the parameters to measure credit risk. The lifetime risk assessment will be based on historical observations enriched with forward-looking information. The data series will be shorter compared to the assets under the IRB approach.

To measure ECL, ING Bank applies a PD x EAD x LGD approach. For stage 1 assets a forward looking approach on a 12 month horizon will be applied. For stage 2 assets a lifetime view on the underlying parameters is taken. The Lifetime Expected Loss (LEL) is the discounted sum of the portions of lifetime losses related to default events within each time window of 12 months. For stage three the PD equals 100% and the LGD and EAD represent a lifetime view of the characteristics of facilities that are in default.

In 2016, enhanced data was collected from all source systems within ING and significant progress has been made in the implementation of IFRS 9 concepts in the central credit risk system. Furthermore, ING Bank's asset portfolios are split into a number of sub-portfolios based on asset class and jurisdiction (e.g. mortgages in the Netherlands) in order to accurately measure ECL.

Impact
Based on the IFRS 9 ECL model a more volatile impairment charge may be expected on the back of macroeconomic predictions. Financial assets with high risk and long maturity profiles are expected to be subject to the biggest impact. A 12-month ECL will be recognized for all financial assets that have not had a significant increase in credit risk. IFRS 9 requires to calculate lifetime ECL for those assets with a significant increase in credit risk since initial recognition but are not credit impaired at the reporting date (i.e. Stage 2). This category did not exist under IAS 39. These factors combined with off-balance sheet items also in scope of the ECL model could result in an increase in the total level of impairment allowances.

ING expects that any negative effect on equity may be partly offset by the release of expected loss elements currently included in the calculation of regulatory capital (i.e. the regulatory shortfall). As the impact cannot be quantified reliably as of 31 December 2016, ING intends to quantify the potential impact of IFRS 9 no later than in the Annual Report 2017.

Hedge Accounting
The IFRS 9 hedge accounting requirements aim to simplify general hedge accounting requirements. Furthermore, IFRS 9 aims to align hedge accounting more closely with risk management. All micro hedge accounting strategies as well as the macro cash flow hedge accounting are in scope of IFRS 9. Macro fair value hedging is not in scope of IFRS 9.

ING Bank performed an assessment of the impact of the new hedge accounting requirements. Based on the outcome of this assessment, ING Bank has made a decision to continue applying IAS 39 for hedge accounting including the application of the EU carve out as explicitly permitted by IFRS 9. ING Bank will implement the revised hedge accounting disclosures as required by IFRS 7 'Financial Instruments: Disclosures' as per 1 January 2018.

IFRS 15 'Revenue from Contracts with Customers'

IFRS 15 'Revenue from Contracts with Customers' is effective for annual periods beginning on or after 1 January 2018 and has been endorsed by the EU in September 2016. IFRS 15 introduces a five-step approach for recognising revenue as and when the agreed performance obligations are satisfied. Agreed performance obligations are individual promises made to the customer that delivers benefit from the customers perspective. Revenue should either be recognised at a point-in-time or over-time depending on the service being delivered to the customer. The standard may be applied retrospectively, although transitional relief is available. Fees related to the effective yield of the loan which is presented in Interest income and bank guarantee fees are not in the scope of IFRS 15. ING is currently assessing the revenue stream for commission income.

IFRS 16 'Leases'

In January 2016, the IASB issued IFRS 16 'Leases' the new accounting standard for leases. The new standard is effective for annual periods beginning on or after 1 January 2019 and will replace IAS 17 'Leases' and IFRIC 4 'Determining whether an Arrangement contains a Lease'. IFRS 16 is not yet endorsed by the EU. The new standard removes for lessee accounting, the distinction between operating or finance leases, resulting in all leases being treated as finance leases. All leases will be recognised on the statement of financial position with the optional exceptions for short-term leases with a lease term of less than 12 months and leases of low-value assets (for example mobile phones or laptops). A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. The main reason for this change is that this approach will result in a more comparable representation of a lessee's assets and liabilities in relation to other companies and, together with enhanced disclosures, will provide greater transparency of a lessee's financial leverage and capital employed. The standard permits a lessee to choose either a full retrospective or a modified retrospective transition approach. Furthermore the standard provides some practical options and exemptions to ease the costs of transition. Lessor accounting remains substantially unchanged. ING will adopt the standard at its effective date and is currently assessing the impact of this standard.

e) Critical accounting policies

ING Bank has identified the accounting policies that are most critical to its business operations and to the understanding of its results. These critical accounting policies are those which involve the most complex or subjective decisions or assessments, and relate to loan loss provisions, goodwill impairments, provisions, and the determination of the fair values of financial assets and liabilities. In each case, the determination of these items is fundamental to the financial condition and results of operations, and requires management to make complex judgements based on information and financial data that may change in future periods. As a result, determinations regarding these items involve the use of assumptions and subjective judgements as to future events and are subject to change, as the use of different assumptions or data could produce significantly different results. For a further discussion of the application of these accounting policies, reference is made to the applicable notes to the consolidated financial statements and the information in section f) 'Principles of valuation and determination of results'.

Loan loss provisions

Loan loss provisions are recognised based on an incurred loss model. Considerable judgement is exercised in determining the extent of the loan loss provision (impairment) and is based on management's evaluation of the risk in the portfolio, current economic conditions, loss experience in recent years and credit, industry, geographical, and concentration trends. Changes in such judgements and analyses may lead to changes in the loan loss provisions over time.

The identification of impairment and the determination of the recoverable amount are inherently uncertain processes involving various assumptions and factors including the financial condition of the counterparty, expected future cash flows, observable market prices, and expected net selling prices.

Future cash flows in a portfolio of financial assets that are collectively evaluated for impairment, are estimated on the basis of the contractual cash flows of the assets in the portfolio and historical loss experience for assets with credit risk characteristics similar to those in the portfolio. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Current observable data may include changes in unemployment rates, property prices, and commodity prices. The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Goodwill impairment

ING assesses at each reporting period, whether there is an indication that an intangible asset may be impaired. Irrespective of whether there is an indication of impairment, intangible assets with an indefinite useful life, goodwill acquired in a business combination, and intangible assets not yet available for use, are tested annually for impairment. Goodwill is allocated to groups of CGUs (that is, the group of cash generating units or CGUs) for the purpose of impairment testing. These groups of CGUs represent the lowest level at which goodwill is monitored for internal management purposes. Goodwill is tested for impairment by comparing the carrying value of the group of CGUs to the best estimate of the recoverable amount of that group of CGUs. The carrying value is determined as the IFRS net asset value including goodwill. The recoverable amount is estimated as the higher of fair value less costs of disposal and value in use. Several methodologies are applied to arrive at the best estimate of the recoverable amount. Impairment of goodwill, if applicable, is included in the statement of profit or loss in Other operating expenses.

The identification and measurement of impairment is an inherently uncertain process involving various assumptions and factors, including financial condition of the counterparty, expected future cash flows, statistical loss data, discount rates, observable market prices, etc. Estimates and assumptions are based on management's judgement and other information available prior to the issuance of the financial statements. Significantly different results can occur as circumstances change and additional information becomes known.

Provisions

A provision involves a present obligation arising from past events, the settlement of which is expected to result in an outflow of resources embodying economic benefits, however the timing or the amount is uncertain. Provisions are discounted when the effect of the time value of money is significant using a pre-tax discount rate. The recognition and measurement of provisions is an inherently uncertain process involving determining when a present obligation exists and estimates regarding amounts and timing of cash flows. Even in consultation with legal experts, the amount provisioned can remain sensitive to the assumptions used which may have a range of outcomes that is difficult to quantify.

Reorganisation provisions include employee termination benefits when the Bank is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal, or providing termination benefits as a result of an offer made to encourage voluntary redundancy.

A liability is recognised for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the liability is recognised only upon reaching the specified minimum threshold.

Fair values of financial assets and liabilities

All the financial assets and liabilities are recognised initially at fair value, whereas financial assets and liabilities classified as held-for-trading or designated at fair value through profit or loss and financial assets classified as available-for-sale are subsequently measured at fair value in financial statements.

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It uses the assumptions that market participants would use and takes into account the characteristics of the asset or liability that market participants would take into account when pricing the asset or liability. Fair values of financial assets and liabilities are based on unadjusted quoted market prices where available. Such quoted market prices are primarily obtained from exchange prices for listed financial instruments. Where an exchange price is not available, quoted prices in an active market may be obtained from independent market vendors, brokers, or market makers. In general, positions are valued at the bid price for a long position and at the offer price for a short position or are valued at the price within the bid-offer spread that is most representative of fair value in the circumstances. In some cases where positions are marked at mid-market prices, a fair value adjustment is calculated. When markets are less liquid there may be a range of prices for the same security from different price sources, selecting the most appropriate price requires judgement and could result in different estimates of fair value.

For certain financial assets and liabilities quoted market prices are not available. For these financial assets and liabilities, fair value is determined using valuation techniques. These valuation techniques range from discounting of cash flows to various valuation models, where relevant pricing factors including the market price of underlying reference instruments, market parameters (volatilities, correlations and credit ratings), and customer behaviour are taken into account. ING maximises the use of market observable inputs and minimises the use of unobservable input in determining the fair value. It can be subjective dependent on the significance of the unobservable input to the overall valuation. All valuation techniques used are subject to internal review and approval. Most data used in these valuation techniques are validated on a daily basis.

When a group of financial assets and financial liabilities are managed on the basis of their net risk exposures, it measures the fair value of a group of financial assets and liabilities on net portfolio basis.

To include credit risk in the fair value, ING applies both credit and debit valuation adjustments (CVA, DVA). Own issued debt and structured notes that are measured at fair value are adjusted for credit risk by means of a DVA. Additionally, derivatives valued at fair value are adjusted for credit risk by a CVA. The CVA is of a bilateral nature as both the credit risk on the counterparty as well as the credit risk on ING are included in the adjustment. All input data that is used in the determination of the CVA is based on market implied data. Additionally, wrong-way risk (when exposure to a counterparty is increasing and the credit quality of that counterparty deteriorates) and right-way risk (when exposure to a counterparty is increasing and the credit quality of that counterparty improves) are taken into account in the measurement of the valuation adjustment. ING applies an additional 'funding valuation adjustment' (FVA) based on the market price of funding liquidity and is applied to the uncollateralised derivatives.

Valuation techniques are subjective in nature and significant judgement is involved in establishing fair values for certain financial assets and liabilities. Valuation techniques involve various assumptions regarding pricing factors. The use of different valuation techniques and assumptions could produce significantly different estimates of fair value.

Price testing is performed to assess whether the process of valuation has led to an appropriate fair value of the position and to an appropriate reflection of these valuations in the statement of profit or loss. Price testing is performed to minimise the potential risks for economic losses due to incorrect or misused models.

Reference is made to Note 33 'Fair value of assets and liabilities' and the section 'Risk management – Market risk', paragraph 'Fair values of financial assets and liabilities' for the basis of the determination of the fair value of financial instruments and related sensitivities.

f) Principles of valuation and determination of results

Consolidation

ING Bank (the Bank) comprises ING Bank N.V. (the Parent Company), and all other subsidiaries. The consolidated financial statements of ING Bank comprise the accounts of ING Bank N.V. and all entities in which it either owns, directly or indirectly, more than half of the voting power or over which it has control of their operating and financial policies through situations including, but not limited to:

- Ability to appoint or remove the majority of the board of directors;
- Power to govern such policies under statute or agreement; and
- Power over more than half of the voting rights through an agreement with other investors.

Control exists if ING Bank is exposed to variable returns and having the ability to affect those returns through power over the investee.

A list of principal subsidiaries is included in Note 43 'Principal subsidiaries'.

A list containing the information referred to in Section 379 (1), Book 2 of the Dutch Civil Code has been filed with the office of the Commercial Register of Amsterdam, in accordance with Section 379 (5), Book 2 of the Dutch Civil Code.

The existence and effect of potential voting rights that are currently exercisable or convertible are considered in assessing whether the Bank controls another entity.

For interests in investment vehicles, the existence of control is determined taking into account both ING Bank's financial interests for own risk and its role as investment manager.

The results of the operations and the net assets of subsidiaries are included in the statement of profit or loss and the statement of financial position from the date control is obtained until the date control is lost. On disposal, the difference between the sales proceeds, net of directly attributable transaction costs, and the net assets is included in net result.

A subsidiary which ING Bank has agreed to sell but is still legally owned by ING Bank may still be controlled by ING Bank at the balance sheet date and therefore, still be included in the consolidation. Such a subsidiary may be presented as a held for sale disposal group if certain conditions are met.
All intercompany transactions, balances and unrealised surpluses and deficits on transactions between group companies are eliminated to the extent there is no impairment. Where necessary, the accounting policies used by subsidiaries are changed to ensure consistency with group policies. In general, the reporting dates of subsidiaries are the same as the reporting date of ING Bank N.V.

ING Bank 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 Bank companies are subject to restrictions on the amount of funds they may transfer in the form of dividends, or otherwise, to the parent company.

Furthermore, in addition to the restrictions in respect of minimum capital requirements that are imposed by industry regulators in the countries in which the subsidiaries operate, other limitations exist in certain countries.

Use of estimates and assumptions

The preparation of the consolidated financial statements necessitates the use of estimates and assumptions. These estimates and assumptions affect the reported amounts of the assets and liabilities and the amounts of the contingent liabilities at the balance sheet date, as well as reported income and expenses for the year. The actual outcome may differ from these estimates.

The process of setting assumptions is subject to internal control procedures and approvals, and takes into account internal and external studies, industry statistics, environmental factors, and trends and regulatory requirements.

Segment reporting

A segment is a distinguishable component of the Bank, 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 Bank engaged in providing products or services within a particular economic environment that is subject to risks and returns that are different from those of segments operating in other economic environments. The geographical analyses are based on the location of the office from which the transactions are originated.

Foreign currency translation

Functional and presentation currency

Items included in the financial statements of each of the Bank's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The consolidated financial statements are presented in euros, which is ING Bank's presentation currency.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rate prevailing at the date of the transactions. Exchange rate differences resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of profit or loss, except when deferred in equity as part of qualifying cash flow hedges or qualifying net investment hedges.

Exchange rate differences on non-monetary items, measured at fair value through profit or loss, are reported as part of the fair value gain or loss. Non-monetary items are retranslated at the date fair value is determined. Exchange rate differences on non-monetary items measured at fair value through the revaluation reserve are included in the revaluation reserve in equity.

Exchange rate differences in the statement of profit or loss are generally included in 'Valuation results and net trading income'. Reference is made to Note 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 Bank 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.

Bank companies

The results and financial positions of all Bank 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 Bank commits to purchase or sell the asset. Loans and receivables are recognised at settlement date, which is the date on which the Bank 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 Bank has transferred substantially all risks and rewards of ownership. If the Bank neither transfers nor retains substantially all the risks and rewards of ownership of a financial asset, it derecognises the financial asset if it no longer has control over the asset.

Realised gains and losses on financial assets

For financial assets at amortised cost, realised gains and losses on investments are determined as the difference between the sale proceeds and (amortised) cost. For available-for-sale financial assets, the accumulated fair value adjustments in other comprehensive income are included in the statement of profit or loss when the asset is disposed. For equity securities, the cost is determined using a weighted average per portfolio. For debt securities, the cost is determined by specific identification.

Recognition of financial liabilities

Financial liabilities are recognised on the date that the entity becomes a party to the contractual provisions of the instrument. Such contracts generally are not recognised unless one of the parties has performed or the contract is a derivative contract not exempted from the scope of IAS 39.

Derecognition of financial liabilities

Financial liabilities removed from the balance sheet when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished and the consideration paid is recognised in profit or loss.

Classification of financial instruments

Financial assets and liabilities at fair value through profit or loss

Financial assets at fair value through profit or loss include equity securities, debt securities, derivatives, loans and receivables, and other, and comprise the following sub-categories: trading assets, non-trading derivatives, and financial assets designated at fair value through profit or loss by management. Financial liabilities at fair value through profit or loss comprise the following sub-categories: trading liabilities, non-trading derivatives, and other financial liabilities designated at fair value through profit or loss by management. Trading liabilities include equity securities, debt securities, funds on deposit, and derivatives.

A financial asset or financial liability is classified at fair value through profit or loss if acquired principally for the purpose of selling in the short term or if designated by management as such. Management will make this designation only if this eliminates a measurement inconsistency or if the related assets and liabilities are managed on a fair value basis.

Transaction costs on initial recognition are expensed as incurred. Interest income and expense from financial instruments is classified at fair value through profit or loss is recognised in Interest income and Valuation results and net trading income in the statement of profit or loss, using the effective interest method.

Dividend income from equity instruments classified at fair value through profit or loss is generally recognised in Investment income in the statement of profit or loss when the dividend has been declared. For derivatives reference is made to the 'Derivatives and hedge accounting' section.

Investments

Investments (including loans quoted in active markets) are classified either as held-to-maturity or available-for-sale and are initially recognised at fair value plus transaction costs. Investment debt securities and loans quoted in active markets with fixed maturity where management has both the intent and the ability to hold to maturity are classified as held-to-maturity. Investment securities and actively traded loans intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices, are classified as available-for-sale financial assets.

Available-for-sale financial assets
Available-for-sale financial assets include available-for-sale debt securities and available-for-sale equity securities. Available-for-sale financial assets are initially recognised at fair value plus transaction costs. For available-for-sale debt securities, the difference between cost and redemption value is amortised. Interest income is recognised using the effective interest method. Available-for-sale financial assets are subsequently measured at fair value. Interest income from debt securities classified as available-for-sale is recognised in Interest income in the statement of profit or loss. Dividend income from equity instruments classified as available-for-sale is recognised in Investment income in the statement of profit or loss when the dividend has been declared. Unrealised gains and losses arising from changes in the fair value are recognised in equity and are recycled to the statement of profit or loss as Investment income when the asset is disposed. Investments in prepayment sensitive securities such as Interest-Only and Principal-Only strips are generally classified as available-for-sale.

Held-to-maturity investments
Non-derivative financial assets with fixed or determinable payments and fixed maturity for which the Bank has the positive intent and ability to hold to maturity and which are designated by management as held-to-maturity assets are initially recognised at fair value plus transaction costs. Subsequently, they are carried at amortised cost using the effective interest method less any impairment losses. Interest income from debt securities classified as held-to-maturity is recognised in Interest income in the statement of profit or loss using the effective interest method. Held-to-maturity investments include only debt securities.

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are initially recognised at fair value plus transaction costs. Subsequently, they are carried at amortised cost using the effective interest method less any impairment losses. Loans and receivables include Cash and balances with central banks, Loans and advances to banks, Loans and advances to customers, and Other assets and are reflected in these line items in the statement of financial position. Interest income from loans and receivables is recognised in Interest income in the statement of profit or loss using the effective interest method.

Credit risk management classification
Credit risk management disclosures are provided in the section 'Risk management – Credit risk' paragraph 'Credit risk categories'. The relationship between credit risk classifications in that section and the consolidated statement of financial position classifications above is explained below:
- Pre-settlement risk arises when a counterparty defaults on a transaction before settlement and ING Bank has to replace the contract by a trade with another counterparty at the then prevailing (possibly unfavourable) market price. The pre-settlement risk classification mainly relates to the statement of financial position classification Financial assets at fair value through profit or loss (trading assets and non-trading derivatives) and to securities financing;
- Money market risk arises when ING Bank places short term deposits with a counterparty in order to manage excess liquidity and among others relates to the statement of financial position classifications Loans and advances to banks and Loans and advances to customers;
- Lending risk arises when ING Bank grants a loan to a customer, or issues guarantees on behalf of a customer and mainly relates to the statement of financial position classification Loans and advances to customers and off-balance sheet items e.g. obligations under financial guarantees and letters of credit;
- Investment risk comprises the credit default and migration risk that is associated with ING Bank's investment portfolio and mainly relates to the statement of financial position classification Investments (available-for-sale and held-to-maturity); and
- Settlement risk arises when there is an exchange of value (funds, instruments or commodities) for the same or different value dates and receipt is not verified or expected until ING Bank has paid or delivered its side of the trade. Settlement risk mainly relates to the risk arising on disposal of financial instruments that are classified in the statement of financial position as Financial assets at fair value through profit or loss (trading assets and non-trading derivatives) and Investments (available-for-sale and held-to-maturity).

Maximum credit risk exposure
The maximum credit risk exposure for items in the statement of financial position is generally the carrying value for the relevant financial assets. For the off-balance sheet items the maximum credit exposure is the maximum amount that could be required to be paid. Reference is made to Note 44 'Contingent liabilities and commitments' for these off-balance sheet items. Collateral received is not taken into account when determining the maximum credit risk exposure.

The manner in which ING Bank manages credit risk and determines credit risk exposures for that purpose is explained in the section 'Risk management – Credit risk' paragraph 'Credit Risk Appetite and Concentration Risk Framework'.

Financial liabilities at amortised cost
Financial liabilities at amortised cost include the following sub-categories: preference shares classified as debt, debt securities in issue, subordinated loans, and deposits from banks and customer deposits.

Borrowings are recognised initially at their issue proceeds (fair value of consideration received) net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between proceeds, net of transaction costs, and the redemption value is recognised in the statement of profit or loss over the period of the borrowings using the effective interest method.

If the Bank purchases its own debt, it is removed from the statement of financial position, and the difference between the carrying amount of the liability and the consideration paid is included in the statement of profit or loss.

Financial guarantee contracts

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are initially recognised at fair value and subsequently measured at the higher of the discounted best estimate of the obligation under the guarantee and the amount initially recognised less cumulative amortisation to reflect revenue recognition principles.

Derivatives and hedge accounting

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently measured at fair value. Fair values are obtained from quoted market prices in active markets, including recent market transactions and valuation techniques (such as discounted cash flow models and option pricing models), as appropriate. All derivatives are carried as assets when their fair value is positive and as liabilities when their fair values are negative.

Certain derivatives embedded in other contracts are measured as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract, the host contract is not carried at fair value through profit or loss, and if a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative. These embedded derivatives are measured at fair value with changes in fair value recognised in the statement of profit or loss. An assessment is carried out when the Bank 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 Bank 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 Bank documents the relationship between hedging instruments and hedged items, its risk management objective, together with the methods selected to assess hedge effectiveness. The Bank 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 Bank 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 Bank 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 Bank as part of its risk management strategies, but which do not qualify for hedge accounting under ING Bank'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 Bank has a current legally enforceable right to set off the recognised amounts and intends to either settle on a net basis or to realise the asset and settle the liability simultaneously. Offsetting is applied to certain interest rate swaps for which the services of a central clearing house are used. Offsetting is also applied to certain clients subject to cash pooling arrangements where the intention to settle net is demonstrated via a physical transfer of cash balances into a single netting account on a period end basis.

Repurchase transactions and reverse repurchase transactions
Securities sold subject to repurchase agreements (repos) are retained in the consolidated financial statements. The counterparty liability is included in Deposits from banks, Subordinated loans, Customer deposits, or Trading, as appropriate.

Securities purchased under agreements to resell (reverse repos) are recognised as Loans and advances to customers, Loans and advances to banks, or Financial assets at fair value through profit or loss - Trading assets, as appropriate. The difference between the sale and repurchase price is treated as interest and amortised over the life of the agreement using the effective interest method.

Impairments of financial assets at amortised cost
ING Bank 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 Bank 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 Bank's credit risk systems.

In certain circumstances ING grants borrowers postponement and/or reduction of loan principal and/or interest payments for a temporary period of time to maximise collection opportunities, and if possible, avoid default, foreclosure, or repossession. When such postponement and/or reduction of loan principal and/or interest payments is executed based on credit concerns it is also referred to as forbearance. In general, forbearance represents an impairment trigger under IFRS. In such cases, the net present value of the postponement and/or reduction of loan and/or interest payments is taken into account in the determination of the appropriate level of Loan loss provisioning as described below. If the forbearance results in a substantial modification of the terms of the loan, the original loan is derecognised and a new loan is recognised at its fair value at the modification date. The Bank determines whether there has been a substantial modification using both quantitative and qualitative factors.

The Bank does not consider events that may be expected to occur in the future as objective evidence, and consequently they are not used as a basis for concluding that a financial asset or group of assets is impaired.

In determining the impairment, expected future cash flows are estimated on the basis of the contractual cash flows of the assets in the portfolio and historical loss experience for assets with credit risk characteristics similar to those in the portfolio. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist. Losses expected as a result of future events, no matter how likely, are not recognised.

The Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and then individually or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on an asset carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account (Loan loss provision) and the amount of the loss is recognised in the statement of profit or loss under Addition to loan loss provision. If the asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated. The collective evaluation of impairment includes the application of a loss emergence period to default probabilities (also referred to as loss identification period). The loss emergence period is a concept which recognises that there is a period of time between the emergence of impairment triggers and the point in time at which those events are captured by the Bank'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 Bank's loan loss provision. Although the loss emergence periods are inherently uncertain, the Bank 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 Bank's account managers. Generally, the frequency increases in relation to the size of the borrower. Loss emergence periods are based on historical experience and are validated, and revised where necessary, through regular back-testing to ensure that they reflect recent experience and current events.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the provision. The amount of the reversal is recognised in the statement of profit or loss.

When a loan is uncollectable, it is written off against the related loan loss provision. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are recognised in the statement of profit or loss.

In most Retail portfolios, ING Bank has a write-off policy that requires 100% provision for all retail exposure after two years (three years for mortgages) following the last default date.

Impairments on other debt instruments (Loans and held-to-maturity investments) are part of the loan loss provision as described above.

Impairment of available for sale financial assets

At each balance sheet date, the Bank 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 Bank has significant influence but not control. Significant influence generally results from a shareholding of between 20% and 50% of the voting rights, but also is the ability to participate in the financial and operating policies through situations including, but not limited to one or more of the following:
- Representation on the board of directors;
- Participation in the policymaking process; and
- Interchange of managerial personnel.

Joint ventures are entities over which the Bank 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 Bank's investment in associates and joint ventures (net of any accumulated impairment loss) includes goodwill identified on acquisition. The Bank'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 Bank's share of losses in an associate or joint venture equals or exceeds its interest in the associate or joint venture, including any other unsecured receivables, the Bank 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 Bank and its associates and joint ventures are eliminated to the extent of the Bank'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 Bank. The reporting dates of all significant associates and joint ventures are consistent with the reporting date of the Bank.

Property and equipment

Property in own use

Land and buildings held for own use are stated at fair value at the balance sheet date. Increases in the carrying amount arising on revaluation of land and buildings held for own use are credited to the revaluation reserve in shareholders' equity. Decreases in the carrying amount that offset previous increases of the same asset are charged against the revaluation reserve directly in equity; all other decreases are charged to the statement of profit or loss. Increases that reverse a revaluation decrease on the same asset previously recognised in net result are recognised in the statement of profit or loss. Depreciation is recognised based on the fair value and the estimated useful life (in general 20–50 years). Depreciation is calculated on a straight-line basis. On disposal, the related revaluation reserve is transferred to retained earnings.

The fair values of land and buildings are based on regular appraisals by independent qualified valuers or internally, similar to appraisals of real estate investments. Subsequent expenditure is included in the asset's carrying amount when it is probable that future economic benefits associated with the item will flow to the Bank 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 Bank as the lessee
The leases entered into by ING Bank 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 Bank 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 Bank 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 Bank'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 Bank's interest in the fair value of the acquired assets, liabilities and contingent liabilities as at the date of acquisition, is capitalised as an intangible asset. Goodwill is only capitalised on acquisitions. The results of the operations of the acquired companies are included in the statement of profit or loss from the date control is obtained.

Where applicable, the consideration for the acquisition includes any asset or liability resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value. Contingent consideration arrangements classified as an asset or a liability, are subsequently measured at fair value. Changes in the fair value of the contingent consideration classified as equity, are not recognised.

Where a business combination is achieved in stages, ING Bank'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 Bank obtains control) and the resulting gain or loss, if any, is recognised in the statement of profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to the statement of profit or loss, where such treatment would be appropriate if that interest were disposed of. Acquisition related costs are recognised in the statement of profit or loss as incurred and presented in the statement of profit or loss as Other operating expenses.

Until 2009, before IFRS 3 'Business Combinations' was revised, the accounting of previously held interests in the assets and liabilities of the acquired entity were not remeasured at the acquisition date and the acquisition related costs were considered to be part of the total consideration.

The initial accounting for the fair value of the net assets of the companies acquired during the year may be determined only provisionally as the determination of the fair value can be complex and the time between the acquisition and the preparation of the Annual Accounts can be limited. The initial accounting shall be completed within a year after acquisition. Adjustments to the fair value as at the date of acquisition of acquired assets and liabilities, that are identified within one year after acquisition are recognised as an adjustment to goodwill; any subsequent adjustment is recognised as income or expense. On disposal of bank companies, the difference between the sale proceeds and carrying value (including goodwill) and the unrealised results (including the currency translation reserve in equity) is included in the statement of profit or loss.

Computer software
Computer software that has been purchased or generated internally for own use is stated at cost less amortisation and any impairment losses. Amortisation is calculated on a straight-line basis over its useful life. This period will generally not exceed five years. Amortisation is included in Other operating expenses.

Other intangible assets
Other intangible assets are capitalised and amortised over their expected economic life, which is generally between three and ten years. Intangible assets with an indefinite life are not amortised.

Taxation
Income tax on the result for the year comprises current and deferred tax. Income tax is recognised in the statement of profit or loss but it is recognised directly in equity if the tax relates to items that are recognised directly in equity.

Deferred income tax
Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax basis of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled. Deferred tax assets and liabilities are not discounted.

Deferred tax assets are recognised where it is probable that future taxable profit will be available against which the temporary differences can be utilised. Deferred income tax is provided on temporary differences arising from investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Bank and it is probable that the difference will not reverse in the foreseeable future. The tax effects of income tax losses available for carry forward are recognised as an asset where it is probable that future taxable profits will be available against which these losses can be utilised.

Deferred tax related to fair value remeasurement of available-for-sale investments and cash flow hedges, which are recognised directly in equity, is also recognised directly in equity and is subsequently recognised in the statement of profit or loss together with the deferred gain or loss.

Uncertain tax positions are assessed continually by ING Bank 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 Bank 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 Bank 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 Bank'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 Bank 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 Bank has the intention to recognise the property under development after completion as real estate investments.

Disposal groups held for sale and discontinued operations

Disposal groups (and groups of non-current assets) are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This is only the case when the sale is highly probable and the disposal group (or group of assets) is available for immediate sale in its present condition; management must be committed to the sale, which is expected to occur within one year from the date of classification as held for sale.

Upon classification as held for sale, the carrying amount of the disposal group (or group of assets) is compared to its fair value less cost to sell. If the fair value less cost to sell is lower than the carrying value, this expected loss is recognised through a reduction of the carrying value of any goodwill related to the disposal group and the carrying value of certain other non-current non-financial assets. Any excess of the expected loss over the reduction of the carrying amount of these relevant assets is not recognised upon classification as held for sale, but is recognised as part of the result on disposal if and when a divestment transaction occurs.

When a group of assets that is classified as held for sale represents a major line of business or geographical area the disposal group classifies as discontinued operations. Upon classification of a business as held for sale and discontinued operations the individual income and expenses are classified to Total net result from discontinued operations instead of being presented in the usual line items in the Consolidated statement of profit or loss. All comparative years in the Consolidated statement of profit or loss are restated and presented as discontinued operations for all periods presented. Furthermore, the individual assets and liabilities are presented in the Consolidated statement of financial position as Assets and liabilities held for sale and are no longer included in the usual line items in the Consolidated statement of financial position. Changes in assets and liabilities as a result of classification as held for sale are included in the notes in the line Changes in composition of the group and other changes.

Other liabilities

Defined benefit plans

The net defined benefit asset or liability recognised in the statement of financial position in respect of defined benefit pension plans is the fair value of the plan assets less the present value of the defined benefit obligation at the balance sheet date.

Plan assets are measured at fair value at the balance sheet date. For determining the pension expense, the return on plan assets is determined using a high quality corporate bond rate identical to the discount rate used in determining the defined benefit obligation.

Changes in plan assets that effect Shareholders' equity and/or Net result, include mainly:

- return on plan assets using a high quality corporate bond rate at the start of the reporting period which are recognised as staff costs in the statement of profit or loss; and
- remeasurements which are recognised in Other comprehensive income (equity).

The defined benefit obligation is calculated by internal and external actuaries through actuarial models and calculations using the projected unit credit method. This method considers expected future payments required to settle the obligation resulting from employee service in the current and prior periods, discounted using a high quality corporate bond rate. Inherent in these actuarial models are assumptions including discount rates, rates of increase in future salary and benefit levels, mortality rates, trend rates in health care costs, consumer price index and the expected level of indexation. The assumptions are based on available market data as well as management expectations and are updated regularly. The actuarial assumptions may differ significantly from the actual results due to changes in market conditions, economic and mortality trends, and other assumptions. Any changes in these assumptions could have a significant impact on the defined benefit plan obligation and future pension costs.

Changes in the defined benefit obligation that effects Shareholders' equity and/or Net result, include mainly:

- service cost which are recognised as staff costs in the statement of profit or loss;
- interest expenses using a high quality corporate bond rate at the start of the period which are recognised as staff costs in the statement of profit or loss; and
- remeasurements which are recognised in Other comprehensive income (equity).

Remeasurements recognised in other comprehensive income are not recycled to profit or loss. Any past service cost relating to a plan amendment is recognised in profit or loss in the period of the plan amendment. Gains and losses on curtailments and settlements are recognised in the statement of profit or loss when the curtailment or settlement occurs.

The recognition of a net defined benefit asset in the consolidated statement of financial position is limited to the present value of any economic benefits available in the form of refunds from the plans or reductions in future contributions to the plans.

Defined contribution plans

For defined contribution plans, the Bank pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Bank 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 Bank 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 Bank 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 Bank is the lessor are divided into an interest component (recognised as interest income) and a repayment component.

Expense recognition

Expenses are recognised in the statement of profit or loss as incurred or when a decrease in future economic benefits related to a decrease in an asset or an increase in a liability has arisen that can be measured reliably.

Share-based payments

Share-based payment expenses are recognised as a staff expense over the vesting period. A corresponding increase in equity is recognised for equity-settled share-based payment transactions. A liability is recognised for cash-settled share-based payment transactions. The fair value of equity-settled share-based payment transactions are measured at the grant date, and the fair value of cash-settled share-based payment transactions are measured at each balance sheet date. Rights granted will remain valid until the expiry date, even if the share based payment scheme is discontinued. The rights are subject to certain conditions, including a pre-determined continuous period of service.

Government grants
Government grants are recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, the grant is recognised over the period necessary to match the grant on a systematic basis to the expense that it is intended to compensate. In such case, the grant is deducted from the related expense in the statement of profit or loss.

Earnings per ordinary share
Earnings per ordinary share is calculated on the basis of the weighted average number of ordinary shares outstanding. In calculating the weighted average number of ordinary shares outstanding:
- Own shares held by bank 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 Bank uses the assumed proceeds thus received to buy its own shares against the average market price in the financial year. The net increase in the number of shares resulting from the exercise is added to the average number of shares used to calculate diluted earnings per share.

Share options with fixed or determinable terms are treated as options in the calculation of diluted earnings per share, even though they may be contingent on vesting. They are treated as outstanding on the grant date. Performance-based employee share options are treated as contingently issuable shares because their issue is contingent upon satisfying specified conditions in addition to the passage of time.

Statement of cash flows
The statement of cash flows is prepared in accordance with the indirect method, classifying cash flows as cash flows from operating, investing and financing activities. In the net cash flow from operating activities, the result before tax is adjusted for those items in the statement of profit or loss and changes in items per the statement of financial position, which do not result in actual cash flows during the year.

For the purposes of the statement of cash flows, Cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition, including cash and balances with central banks, treasury bills and other eligible bills, amounts due from other banks, and deposits from banks. Investments qualify as a cash equivalent if they are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Cash flows arising from foreign currency transactions are translated into the functional currency using the exchange rates at the date of the cash flows.

The net cash flow shown in respect of Loans and advances to customers relates only to transactions involving actual payments or receipts. The Addition to loan loss provision which is deducted from the item Loans and advances to customers in the statement of financial position has been adjusted accordingly from the result before tax and is shown separately in the statement of cash flows.

The difference between the net cash flow in accordance with the statement of cash flows and the change in Cash and cash equivalents in the statement of financial position is due to exchange rate differences and is accounted for separately as part of the reconciliation of the net cash flow and the change in Cash and cash equivalents in the statement of financial position .

g) Parent company accounts
The parent company accounts of ING Bank N.V. are prepared in accordance with the financial reporting requirements included in Part 9 of Book 2 of the Dutch Civil Code. In accordance with subsection 8 of section 362, Book 2 of the Dutch Civil Code, the recognition and measurement principles applied in the Parent company accounts are the same as those applied in the Consolidated annual accounts.

Notes to the Consolidated statement of financial position

Assets

2 Cash and balances with central banks

Cash and balances with central banks	2016	2015
Amounts held at central banks	16,408	19,753
Cash and bank balances	1,736	1,705
	18,144	**21,458**

In 2016, the decrease in Cash and balances with central banks is mainly as a result of the lowering of excess liquidity.

Amounts held at central banks reflect on demand balances.

Reference is made to Note 37 'Assets not freely disposable' for restrictions on Cash balances with central banks.

3 Loans and advances to banks

Loans and advances to banks	Netherlands		International		Total	
	2016	2015	2016	2015	2016	2015
Loans	10,380	11,542	18,483	17,472	28,863	29,014
Cash advances, overdrafts and other balances	18	541	2	425	20	966
	10,398	**12,083**	**18,485**	**17,897**	**28,883**	**29,980**
Loan loss provisions			–11	–14	–11	–14
	10,398	**12,083**	**18,474**	**17, 883**	**28,872**	**29,966**

Loans include balances (mainly short-term deposits) with central banks amounting to EUR 2,880 million (2015: EUR 1,104 million).

As at 31 December 2016, Loans include receivables related to securities in reverse repurchase transactions amounting to EUR 2,992 million (2015: EUR 1,092 million) and receivables related to finance lease contracts amounting to EUR 88 million (2015: EUR 114 million). Reference is made to Note 38 'Transfer of financial assets' for information on securities lending as well as sale and repurchase transactions. Reference is made to Note 6 'Loans and advances to customers' for information on finance lease receivables.

As at 31 December 2016, the non-subordinated receivables amount to EUR 28,804 million (2015: EUR 29,902 million) and the subordinated receivables amount to EUR 68 million (2015: EUR 64 million).

Reference is made to Note 37 '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 ING Bank. For details on significant concentrations, refer to the section 'Risk management – Credit risk' paragraph 'Credit Risk Appetite and Concentration Risk Framework'.

4 Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss	2016	2015
Trading assets	114,512	131,485
Non-trading derivatives	2,309	3,216
Designated as at fair value through profit or loss	5,099	3,234
	121,920	**137,935**

Reference is made to Note 38 'Transfer of financial assets' for information on securities lending as well as sale and repurchase transactions.

Trading assets

Trading assets by type

	2016	2015
Equity securities	9,521	14,817
Debt securities	9,863	14,316
Derivatives	38,230	39,012
Loans and receivables	56,898	63,340
	114,512	**131,485**

In 2016, the decrease is mainly caused by lower market activities.

As at 31 December 2016, Trading assets include receivables of EUR 56,020 million (2015: EUR 62,221 million) with regard to reverse repurchase transactions.

Trading assets and trading liabilities include assets and liabilities that are classified under IFRS as Trading but are closely related to servicing the needs of the clients of ING Bank. ING offers institutional and corporate clients and governments products that are traded on the financial markets. A significant part of the derivatives in the trading portfolio are related to servicing corporate clients in their risk management to hedge for example currency or interest rate exposures. In addition, ING provides its customers access to equity and debt markets for issuing their own equity or debt securities (securities underwriting). Although these are presented as Trading under IFRS, these are directly related to services to ING's customers. Loans and receivables in the trading portfolio mainly relate to (reverse) repurchase agreements, which are comparable to collateralised lending. These products are used by ING as part of its own regular treasury activities, but also relate to the role that ING plays as intermediary between different professional customers. Trading assets and liabilities held for ING's own risk are very limited. From a risk perspective, the gross amount of trading assets must be considered together with the gross amount of trading liabilities, which are presented separately on the statement of financial position. However, IFRS does not allow netting of these positions in the statement of financial position. Reference is made to Note 13 'Financial liabilities at fair value through profit or loss' for information on trading liabilities.

Non-trading derivatives

Non-trading derivatives by type

	2016	2015
Derivatives used in		
– fair value hedges	1,012	1,010
– cash flow hedges	438	917
– hedges of net investments in foreign operations	73	72
Other non-trading derivatives	786	1,217
	2,309	**3,216**

Other non-trading derivatives mainly includes interest rate swaps and foreign currency exchange swaps for which no hedge accounting is applied.

Designated as at fair value through profit or loss

Designated as at fair value through profit or loss by type

	2016	2015
Equity securities	3	7
Debt securities	1,669	1,080
Loans and receivables	3,427	2,147
	5,099	**3,234**

Included in the Financial assets designated at fair value through profit or loss is a portfolio of loans and receivables which is economically hedged by credit derivatives. The hedges do not meet the criteria for hedge accounting and the loans are recorded at fair value to avoid an accounting mismatch. The maximum credit exposure of the loans and receivables included in Financial assets designated at fair value through profit or loss approximates its carrying value. The cumulative change in fair value of the loans attributable to changes in credit risk is not significant.

The notional value of the related credit derivatives is EUR 260 million (2015: EUR 215 million). The change in fair value of the credit derivatives attributable to changes in credit risk since the loans were first designated, amounts to EUR –8 million (2015: EUR –9 million) and the change for the current year amounts to EUR 1 million (2015: nil).

The changes in fair value of the (designated) loans attributable to changes in credit risk have been calculated by determining the changes in credit spread implicit in the fair value of bonds issued by entities with similar credit characteristics.

As at 31 December 2016, Loans and receivables designated at fair value through profit or loss includes EUR 3,001 million (2015: EUR 1,766 million) with regard to reverse repurchase transactions.

5 Investments

Investments by type

	2016	2015
Available-for-sale		
– equity securities - shares in third party managed structured entities	170	169
– equity securities - other	3,854	4,265
	4,024	**4,434**
– debt securities	78,888	82,566
	82,912	**87,000**
Held-to-maturity		
– debt securities	8,751	7,826
	8,751	**7,826**
	91,663	**94,826**

Investments held-to-maturity increased by EUR 0.9 billion. The increase is attributable to a new investment in USD government bonds and bonds issued by financial institutions, offset by a decrease in covered bonds.

In June 2016, the VISA transaction closed. As a result of this transaction, the Available-for-sale equity securities amounting to EUR 163 million, comprising ordinary shares held in VISA Europe Limited, were derecognised. As part of the upfront consideration, ING received EUR 30 million preferred shares convertible into VISA Inc. class A ordinary shares. These preferred shares are classified as Available-for-sale equity securities. Reference is made to Note 47 'Other events'.

In the fourth quarter of 2016, the merger between Equens SE (Equens) and Worldline was completed. The legal entity Equens ceased to exist and was renamed equensWorldline SE. ING Bank previously held 15.42% in Equens at EUR 34.7 million. As a result of the merger, ING Bank now holds a shareholding of 5.9% in the combined company at EUR 64.9 million. Reference is made to Note 23 'Investment income' for further information on the results from the merger included in the statement of profit or loss.

In October 2016 ING sold 2.5% of Kotak Mahindra Bank shares representing a carrying value of USD 509 million (EUR 456 million).

Exposure to debt securities

ING Bank's exposure to debt securities is included in the following lines in the statement of financial position:

Debt securities

	2016	2015
Available-for-sale investments	78,888	82,566
Held-to-maturity investments	8,751	7,826
Loans and advances to customers	7,471	9,625
Loans and advances to banks	952	1,857
Available-for-sale investments and Assets at amortised cost	**96,062**	**101,874**
Trading assets	9,863	14,316
Designated as at fair value through profit or loss	1,669	1,080
Financial assets at fair value through profit or loss	**11,532**	**15,396**
	107,594	**117,270**

ING Bank's total exposure to debt securities included in available-for-sale investments and assets at amortised cost of EUR 96,062 million (2015: EUR 101,874 million) is specified as follows by type of exposure:

Debt securities by type and line items per the statement of financial position - Available-for-sale investments and Assets at amortised cost

	Available-for-sale investments		Held-to-maturity investments		Loans and advances to customers		Loans and advances to banks		Total	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
Government bonds	41,985	46,104	6,688	5,500	858	874			49,531	52,478
Sub-sovereign, Supranationals and Agencies	20,484	20,337	1,613	1,619	267	297			22,364	22,253
Covered bonds	11,297	11,949	100	350	1,820	2,119	882	1,787	14,099	16,205
Corporate bonds	1,345	1,177			791	1,036			2,136	2,213
Financial institutions' bonds	2,020	1,865			351	363	70	64	2,441	2,292
ABS portfolio	1,757	1,134	350	357	3,384	4,936		6	5,491	6,433
Bond portfolio	**78,888**	**82,566**	**8,751**	**7,826**	**7,471**	**9,625**	**952**	**1,857**	**96,062**	**101,874**

Sub-sovereign Supranationals and Agencies (SSA) comprise amongst others, multilateral development banks, regional governments, local authorities, and US agencies. Under certain conditions, SSA bonds may qualify as Level 1 High Quality Liquid Assets for the Liquidity Coverage Ratio (LCR).

Approximately 97% (2015: 91%) of the exposure in the ABS portfolio is externally rated AAA up to and including A-.

Borrowed debt securities are not recognised in the statement of financial position and amount to nil (2015: nil).

Reference is made to Note 38 'Transfer of financial assets' for information on securities lending as well as sale and repurchase transactions.

Changes in available-for-sale and held-to-maturity investments

Changes in available-for-sale and held-to-maturity investments

	Available-for-sale equity securities		Available-for-sale debt securities		Held-to-maturity		Total	
	2016	2015	2016	2015	2016	2015	2016	2015
Opening balance	4,434	2,718	82,566	92,683	7,826	2,239	94,826	97,640
Additions	80	1,279	27,073	42,976	1,731	3,457	28,884	47,712
Amortisation			–144	–106	–87	–67	–231	–173
Transfers and reclassifications	–92			–3,499		3,499	–92	
Changes in unrealised revaluations	363	743	–102	–1,595	–70	–72	191	–924
Impairments	–13	–117		–17			–13	–134
Disposals and redemptions	–682	–216	–30,483	–48,331	–630	–1,219	–31,795	–49,766
Exchange rate differences	–72	27	–16	469	–19	–11	–107	485
Changes in the composition of the group and other changes	6		–6	–14				–14
Closing balance	**4,024**	**4,434**	**78,888**	**82,566**	**8,751**	**7,826**	**91,663**	**94,826**

Reference is made to Note 22 'Investment income' for details on Impairments.

In 2016 'Changes in the composition of the group and other changes' includes the modification of an Available-for-sale debt security into newly issued shares.

Transfers and reclassifications of available-for-sale and held-to-maturity investments

Transfers and reclassifications of available-for-sale and held-to-maturity investments

	Available-for-sale equity securities		Available-for-sale debt securities		Held-to-maturity		Total	
	2016	2015	2016	2015	2016	2015	2016	2015
To/from held-to-maturity				–3,499				–3,499
To/from available-for-sale						3,499		3,499
To/from investment in associates and joint ventures	–82						–82	
To/from other assets/other liabilities	–10						–10	
	–92	**–**	**–**	**–3,499**	**–**	**3,499**	**–92**	**–**

In 2015, EUR 3.5 billion of mainly Government bonds previously classified as Available-for-sale debt securities were classified as Held-to-maturity due to ING's intent and ability to hold these bonds until maturity.

Available-for-sale equity securities - Listed and Unlisted

	2016	2015
Listed	3,539	3,804
Unlisted	485	630
	4,024	**4,434**

6 Loans and advances to customers

Loans and advances to customers by type

	Netherlands[1,2]		International[2]		Total	
	2016	2015	2016	2015	2016	2015
Loans to, or guaranteed by, public authorities[1]	27,746	30,912	18,634	18,214	46,380	49,126
Loans secured by mortgages[2]	126,885	128,685	191,745	179,938	318,630	308,623
Loans guaranteed by credit institutions[1]	236	4,817	944	191	1,180	5,008
Personal lending[1]	4,376	5,636	18,722	17,041	23,098	22,677
Asset backed securities			3,380	4,936	3,380	4,936
Corporate loans[1,2]	37,708	196,247	137,675	119,162	175,383	315,409
	196,951	**366,297**	**371,100**	**339,482**	**568,051**	**705,779**
Loan loss provisions	–2,349	–2,900	–2,829	–2,872	–5,178	–5,772
	194,602	**363,397**	**368,271**	**336,610**	**562,873**	**700,007**

1 The comparative amounts, as at 31 December 2015, are adjusted. Total Loans and advances to customers, as at 31 December 2015, increased by EUR 163.5 billion from EUR 536.5 billion to EUR 700.0 billion mostly as a result of an increase in Corporate loans by EUR 146.1 billion from EUR 169.3 billion to EUR 315.4 billion. Reference is made to Note 1 'Accounting policies' – Change in accounting policies and Changes in presentation in 2016.
2 Loans and advances to customers by type as at 31 December 2015 are adjusted. Certain Corporate Loans have been reclassified to Loans secured by mortgages

The decrease in Loans and advances to customers compared to 2015 is primarily due to a change in accounting policies implemented in 2016. Reference is made to Note 1 'Accounting policies' – Changes in accounting policies in 2016.

As at 31 December 2016, Loans and advances to customers includes receivables with regard to securities which have been acquired in reverse repurchase transactions amounting to EUR 47 million (2015: EUR 418 million).

Reference is made to Note 38 'Transfer of financial assets' for information on securities lending as well as sale and repurchase transactions.

Loans and advances to customers by subordination

	2016	2015
Non-subordinated[1]	562,399	699,533
Subordinated	474	474
	562,873	**700,007**

1 The comparative amounts, as at 31 December 2015, are adjusted as a result of a change in accounting policies a reclassification for Items to be settled.. Total Loans and advances to customers, as at 31 December 2015, increased by EUR 163.5 billion from EUR 536.5 billion to EUR 700.0 billion. Reference is made to Note 1 'Accounting policies' – Change in accounting policies and Changes in presentation in 2016.

No individual loan or advance has terms and conditions that significantly affect the amount, timing or certainty of the consolidated cash flows of ING Bank. For details on significant concentrations, refer to the section 'Risk management – Credit risk' paragraph Credit Risk Appetite and Concentration Risk Framework'.

Loans and advances to customers and Loans and advances to banks include finance lease receivables and are detailed as follows:

Finance lease receivables

	2016	2015
Maturities of gross investment in finance lease receivables		
– within 1 year	2,492	2,690
– more than 1 year but less than 5 years	6,282	6,004
– more than 5 years	3,114	3,672
	11,888	**12,366**
Unearned future finance income on finance leases	–1,254	–1,507
Net investment in finance leases	**10,634**	**10,859**
Maturities of net investment in finance lease receivables		
– within 1 year	2,210	2,368
– more than 1 year but less than 5 years	5,635	5,246
– more than 5 years	2,789	3,245
	10,634	**10,859**
Included in Loans and advances to banks	88	114
Included in Loans and advances to customers	10,546	10,745
	10,634	**10,859**

The allowance for uncollectable finance lease receivables includes in the loan loss provisions an amount of EUR 282 million as at 31 December 2016 (2015: EUR 271 million).

No individual finance lease receivable has terms and conditions that significantly affect the amount, timing or certainty of the consolidated cash flows of ING Bank.

Loan loss provisions by type

	Netherlands		International		Total	
	2016	2015	2016	2015	2016	2015
Loans to, or guaranteed by, public authorities			7	2	7	2
Loans secured by mortgages	550	819	638	717	1,188	1,536
Loans guaranteed by credit institutions	2	1	12	15	14	16
Personal lending	122	177	620	712	742	889
Asset backed securities			2	2	2	2
Corporate loans and Credit Facilities	1,738	1,903	1,617	1,438	3,355	3,341
	2,412	**2,900**	**2,896**	**2,886**	**5,308**	**5,786**
The closing balance is included in						
– Loans and advances to banks			11	14	11	14
– Loans and advances to customers	2,349	2,900	2,829	2,872	5,178	5,772
– Other provisions other	63		56		119	
	2,412	**2,900**	**2,896**	**2,886**	**5,308**	**5,786**

Changes in loan loss provisions	2016	2015
Opening balance	5,786	5,995
Write-offs	–1,494	–1,718
Recoveries	94	91
Increase in loan loss provisions	974	1,347
Exchange rate differences	–55	38
Changes in the composition of the group and other changes	3	33
Closing balance	**5,308**	**5,786**

The Increase in loan loss provisions is presented as Addition to loan loss provisions in the Consolidated statement of profit or loss.

7 Investments in associates and joint ventures

Investments in associates and joint ventures

2016	Interest held (%)	Fair value of listed invest-ment	Balance sheet value	Total assets	Total liabilities	Total income	Total expenses
TMB Public Company Limited	25	610	723	21,439	19,275	685	489
Other investments in associates and joint ventures			280				
			1,003				

Investments in associates and joint ventures

2015	Interest held (%)	Fair value of listed invest-ment	Balance sheet value	Total assets	Total liabilities	Total income	Total expenses
TMB Public Company Limited	25	670	612	20,956	19,074	630	419
Other investments in associates and joint ventures			230				
			842				

TMB Public Company Limited (TMB) is an associate in which ING Bank holds a 25% 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 Bank does not hold any interests in Investments in Associates and joint ventures that are individually significant to ING Bank. Other investments in associates and joint ventures represents a large number of associates and joint ventures with an individual statement of financial position value of less than EUR 50 million.

Significant influence for associates in which the interest held is below 20%, is based on the combination on ING Bank's financial interest and other arrangements, such as participation in the Board of Directors.

In general, the reporting dates of all significant associates and joint ventures are consistent with the reporting date of the Bank. However, the reporting dates of certain associates and joint ventures can differ from the reporting date of the Bank, but by no more than three months.

Accumulated impairments of EUR 48 million (2015: EUR 24 million) have been recognised. The values presented in the tables above could differ from the values presented in the individual annual accounts of the associates and joint ventures, due to the fact that the individual values have been brought in line with ING Bank's accounting principles. Where the listed fair value is lower than the statement of financial position value, an impairment review and an evaluation of the going concern basis has been performed.

The associates and joint ventures of ING are subject to legal and regulatory restrictions regarding the amount of dividends it can pay to ING. These restrictions are for example dependant on the laws in the country of incorporation for declaring dividends or as a result of minimum capital requirements that are imposed by industry regulators in the countries in which the associates and joint ventures operate. In addition, the associates and joint ventures also consider other factors in determining the appropriate levels of equity needed. These factors and limitations include, but are not limited to, rating agency and regulatory views, which can change over time.

Changes in Investments in associates and joint ventures

	2016	2015
Opening balance	842	861
Additions	49	24
Transfers to and from Investments/Other assets and liabilities	75	
Revaluations	29	5
Share of results	80	100
Dividends received	–33	–31
Disposals	–54	–125
Impairments	–3	
Exchange rate differences	18	18
Changes in the composition of the group and other changes		–10
Closing balance	**1,003**	**842**

Additions
In 2016, additions are mainly related to several smaller investments in associates.

Transfers to and from Investments/Other assets and liabilities
In transfers included EUR 82 million reclassification from Available-for-sale equity securities to associates and EUR –7 million reclassification from/to other assets and other liabilities.

Revaluations
In 2016, revaluations as presented in the table above of EUR 29 million, includes EUR 45 million relating to TMB, EUR 17 million relating to Equens SE, and EUR –31 million is due to other revaluations.

Share of results
In 2016, Share of results from associates and joint ventures of EUR 77 million as presented in the statement of profit or loss, includes:
- Share of results, of EUR 80 million mainly attributable to results of TMB amounting of EUR 56 million and a gain of EUR 21 million on disposal of shares held in VISA Europe Limited; and
- Impairments on investments on associates and joint ventures of EUR –3 million.

In 2015, Share of results from associates and joint ventures of EUR 493 million as presented in the statement of profit or loss, included:
- Share of results, as presented in the table above, of EUR 100 million mainly attributable to results of TMB amounting to EUR 63 million and gain on disposal of Ivy Retail SRL and Ontwikkelingscombinatie Overhoeks C.V. amounting to EUR 10 million and EUR 5 million respectively;
- A gain on Investments in associates held for sale of EUR 392 million, which comprised EUR 367 million from the merger of ING Vysya with Kotak and EUR 25 million on the sale of ING Nationale Nederlanden PTE Polska, S.A.; and
- Impairments on investments in associates and joint ventures of nil

Disposals
In 2016, Disposals of EUR –54 million is mainly attributable to the sale of Enterprise Center of EUR 40 million and capital repayment CBRE Asia Value Fund of EUR 10 million.

In 2015, Disposals of EUR 125 million was mainly attributable to sale of Ivy Retail SRL and Ontwikkelingscombinatie Overhoeks C.V. as referred to above.

Exchange rate differences
In 2016, Exchange rate differences includes EUR 26 million relating to TMB, and EUR –9 million related to Appia Group (2015: EUR 9 million related to TMB).

8 Property and equipment

Property and equipment by type	2016	2015
Property in own use	881	982
Equipment	1,015	971
Assets under operating leases	106	74
	2,002	**2,027**

ING uses external valuers to value property in own use. All properties are typically appraised by external valuers once every five years.

Changes in property in own use	2016	2015
Opening balance	982	1,020
Additions	9	10
Reclassifications		
- Transfers to and from Investment properties	8	1
- Transfers to and from Other assets		4
	8	5
Amounts recognised in the statement of profit or loss for the year		
- Depreciation	–15	–16
- Impairments	–64	–17
- Reversal of impairments	5	14
	–74	–19
Revaluations recognised in equity during the year	11	32
Disposals	–38	–60
Exchange rate differences	–17	–6
Closing balance	**881**	**982**
Gross carrying amount as at 31 December	1,656	1,823
Accumulated depreciation as at 31 December	–504	–635
Accumulated impairments as at 31 December	–271	–206
Net carrying value as at 31 December	**881**	**982**
Revaluation surplus		
Opening balance	273	219
Revaluation in the year	–17	54
Closing balance	**256**	**273**

The cost or the purchase price amounted to EUR 1,400 million (2015: EUR 1,551 million). Cost or the purchase price less accumulated depreciation and impairments would have been EUR 625 million (2015: EUR 710 million) had property in own use been valued at cost instead of at fair value.

Changes in equipment

	Data processing equipment		Fixtures and fittings and other equipment		Total	
	2016	2015	2016	2015	2016	2015
Opening balance	263	265	708	733	971	998
Additions	161	140	181	176	342	316
Disposals	–5	–6	–20	–7	–25	–13
Depreciation	–137	–125	–178	–186	–315	–311
Exchange rate differences	–5	–4	–5	–1	–10	–5
Changes in the composition of the group and other changes	46	–7	6	–7	52	–14
Closing balance	**323**	**263**	**692**	**708**	**1,015**	**971**
Gross carrying amount as at 31 December	1,274	1,092	2,432	2,482	3,706	3,574
Accumulated depreciation as at 31 December	–950	–828	–1,740	–1,774	–2,690	–2,602
Accumulated impairments as at 31 December	–1	–1			–1	–1
Net carrying value as at 31 December	**323**	**263**	**692**	**708**	**1,015**	**971**

9 Intangible assets

Changes in intangible assets

	Goodwill		Software		Other		Total	
	2016	2015	2016	2015	2016	2015	2016	2015
Opening balance	985	1,061	567	574	15	20	1,567	1,655
Additions			93	134			93	134
Capitalised expenses			195	122			195	122
Amortisation			–182	–265	–5	–5	–187	–270
Impairments			–45	–15			–45	–15
Exchange rate differences	–82	–70	–1			–1	–83	–71
Disposals			–9	–1			–9	–1
Changes in the composition of the group and other changes		–6	–47	18		1	–47	13
Closing balance	**903**	**985**	**571**	**567**	**10**	**15**	**1,484**	**1,567**
Gross carrying amount as at 31 December	903	985	1,756	1,706	29	29	2,688	2,720
Accumulated amortisation as at 31 December			–1,147	–1,128	–17	–12	–1,164	–1,140
Accumulated impairments as at 31 December			–38	–11	–2	–2	–40	–13
Net carrying value as at 31 December	**903**	**985**	**571**	**567**	**10**	**15**	**1,484**	**1,567**

Goodwill

Goodwill is allocated to groups of Cash Generating Units (CGUs) as follows:

Goodwill allocation to groups of CGUs

Groups of CGUs	Method used for recoverable amount	Discount rate	Long term growth rate	Goodwill 2016	Goodwill 2015
Retail Belgium	Values in use	8.64%	0.45%	50	50
Retail Germany	Values in use	7.74%	0.45%	349	349
Retail Growth Markets[1,2]	Fair value less cost of disposal	12.48%	3.19%	375	427
Wholesale Banking[2]	Values in use	8.80%	0.96%	129	159
				903	**985**

1 As of 2016, the group of CGUs Retail Central Europe is renamed to Retail Growth and enhanced with Asian stakes to align with segment reporting. This change has no impact on goodwill allocated to this group of CGUs in 2016 and 2015.
2 Goodwill related to Growth Countries is allocated across two groups of CGUs EUR 375 million to Retail Growth and EUR 109 million to Wholesale Banking.

No goodwill impairment was recognised in 2016 (2015: nil). Changes in the goodwill per group of CGUs in 2016 are due to changes in currency exchange rates.

Goodwill impairment testing

Impairment reviews with respect to goodwill are performed at least annually and more frequently if events indicate that impairments may have occurred. Goodwill is tested for impairment at the lowest level at which it is monitored for internal management purposes and is referred to as a Cash Generating Unit (CGU), or group of CGUs. Goodwill is tested for impairment by comparing the carrying value of the group of CGUs (that is, the group of cash generating units or CGUs) to the best estimate of the recoverable amount of that group of CGUs. In compliance with IAS 36 'Impairment of assets', the carrying value is determined on a basis that is consistent with the way in which the recoverable amount of the CGU is determined. The actual IFRS capital is the basis for allocation of carrying value to CGUs, adjusted for Retail/Wholesale split using a solvency allocation key which is based on the CGUs share of risk-weighted assets.

Methodology

Several methodologies are applied to arrive at the best estimate of the recoverable amount. In line with IFRS, the recoverable amount is determined as the higher of the fair value less costs of disposal and Value in Use (VIU). Fair value less costs of disposal is based on observable share prices (Level 1 inputs in the fair value hierarchy), observable Price-to-Book multiples of relevant peer banks (Level 2), or based on a discounted free cash flow model (Level 3). The VIU calculation is based on a Dividend Discount model using five year management approved plans. When estimating the VIU of a CGU, local conditions and requirements determine the capital requirements, discount rates, and terminal growth rates. These local conditions and requirements determine the ability to upstream excess capital and profits to ING Bank. The discount rate calculation includes other inputs such as equity market premium, country risk premium, and long term inflation which are based on market sources and management's judgement. The long term growth rate for EU-countries is based on long-term risk-free rate by reference to the yield of a composite index consisting of Euro generic government bonds, with a maturity of 30 years. For other countries, the growth rate includes long term inflation rate obtained from market sources.

The carrying value of the CGUs exceeds the recoverable amount for 2016 and 2015 and therefore no impairment is required.

Sensitivity of key assumptions

Key assumptions in the goodwill impairment test model are the Price to Book ratios, share price of listed subsidiaries and the local parameters for CET1, discount rate, and long term growth rates. The model was tested for sensitivity by changing the key parameters in the model to more conservative values. The sensitivity analysis did not trigger additional impairment considerations.

Software

Software, includes internally developed software amounting to EUR 395 million (2015: EUR 319 million).

As of 2016, the amortisation period for capitalised software is changed from three to five years. The change is applied prospectively. The change results in a lower charge to the statement of profit or loss for the year. The change has no significant impact on the statement of profit or loss for the year ended 31 December 2016 and is not expected to have a significant impact on the statement of profit or loss of ING Bank in future years. Amortisation of software and other intangible assets is included in the statement of profit or loss in other operating expenses. Reference is made to Note 26 'Other operating expenses'.

10 Other assets

Other assets by type	2016	2015
Net defined benefit assets	609	643
Investment properties	65	77
Property development and obtained from foreclosures	184	212
Accrued interest and rents	5,589	6,256
Other accrued assets	884	717
Amounts to be settled	4,804	2,087
Other	2,571	2,280
	14,706	**12,272**

Disclosures in respect of Net defined benefit assets are provided in Note 31 'Pension and other post-employment benefits'.

Property development and obtained from foreclosures

Property development and obtained from foreclosures	2016	2015
Property developed	109	141
Property obtained from foreclosures	75	71
	184	**212**
Gross carrying amount as at 31 December	469	531
Accumulated impairments as at 31 December	–285	–319
Net carrying value	**184**	**212**

Accrued interest and rents
As at 31 December 2016, the line item includes accrued interest of nil (2015: EUR 2,290 million) on trading derivative assets and nil (2015: EUR 2,892 million) on loans and available-for-sale bonds. Accrued interest on trading derivative assets should be considered together with accrued interest on trading derivative liabilities as included in Other liabilities. Reference is made to Note 16 'Other liabilities'. The remainder of the balance relates mainly to accrued interest on cash flow hedges, fair value hedges and other non-trading derivatives.

Other accrued assets
In 2016, Other accrued assets increased by EUR 167 million, mainly due to card transactions.

Amounts to be settled
Amounts to be settled are primarily transactions not settled at the balance sheet date. They are short term in nature and are expected to settle shortly after the balance sheet date. The increase in 2016 is partly attributable to the reclassification of Items to be settled in respect of securities transactions. Items to be settled in respect of securities transactions of nil, at 31 December 2016 (31 December 2015: EUR 1,499 million), were previously reported under Loans and advances to customers and Loans and advances to banks. on the basis of materiality, comparative amounts as of 31 December 2015 have not been adjusted. Furthermore, the increased balance, as at 31 December 2016, is due to higher market activity compared to year end.

Other
Other assets - Other relates mainly to other receivables in the normal course of business.

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	
	2016	2015	2016	2015	2016	2015
Non-interest bearing		1,299	449	1,063	449	2,362
Interest bearing	13,778	12,331	17,737	19,115	31,515	31,446
	13,778	**13,630**	**18,186**	**20,178**	**31,964**	**33,808**

In 2016, ING participated in the new targeted longer-term refinancing operations (TLTRO II) of EUR 10.7 billion and early redeemed the old TLTRO I tranches for EUR 8.7 billion.

The TLTRO aims to stimulate lending to the real economy in the Eurozone. The interest rate on the TLTRO's is fixed over the life of each operation at the benchmark rate of the European Central Bank.

Reference is made to Note 38 'Transfer of financial assets' for information on securities lending as well as sale and repurchase transactions.

12 Customer deposits

Customer deposits

	2016	2015
Savings accounts	315,697	305,941
Credit balances on customer accounts[1]	173,346	316,787
Corporate deposits	40,725	48,137
Other	1,328	1,339
	531,096	**672,204**

1 The comparative amounts, as at 31 December 2015, are adjusted as a result of a change in accounting policies. Total Customer deposits, as at 31 December 2015, increased by EUR 163.1 billion from EUR 508.7 billion to EUR 671.8 billion as a result of an increase in Credit balances on customer accounts. Reference is made to Note 1 'Accounting policies' – Change in accounting policies and Changes in presentation in 2016.

Customer deposits by type

	Netherlands[1]		International		Total	
	2016	2015	2016	2015	2016	2015
Non-interest bearing	13,579	12,360	16,911	13,367	30,490	25,727
Interest bearing[1]	159,557	318,914	341,049	327,563	500,606	646,477
	173,136	**331,274**	**357,960**	**340,930**	**531,096**	**672,204**

1 The comparative amounts, as at 31 December 2015, are adjusted as a result of a change in accounting policies. Total Customer deposits, as at 31 December 2015, increased by EUR 163.5 billion from EUR 508.7 billion to EUR 672.2 billion. Reference is made to Note 1 'Accounting policies' – Change in accounting policies in 2016.

Savings accounts relate to the balances on savings accounts, savings books, savings deposits, and time deposits of personal customers. The interest payable on savings accounts, which is contractually added to the accounts, is also included.

Reference is made to Note 38 '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

	2016	2015
Trading liabilities	83,167	88,807
Non-trading derivatives	3,585	4,364
Designated at fair value through profit or loss	12,266	12,616
	99,018	**105,787**

Trading liabilities

Trading liabilities by type

	2016	2015
Equity securities	1,975	3,773
Debt securities	4,146	5,342
Funds on deposit	37,753	38,789
Derivatives	39,293	40,903
	83,167	**88,807**

The decrease in the trading liabilities is mainly due to a reduction of short positions, expiring contracts, and changes in fair value resulting from market interest rates and exchange rates. Reference is made to Note 4 'Financial assets at fair value through profit or loss' for information on trading assets.

Reference is made to Note 38 'Transfer of financial assets' for information on securities lending as well as sale and repurchase transactions.

Non-trading derivatives

Non-trading derivatives by type

	2016	2015
Derivatives used in:		
– fair value hedges	1,888	2,411
– cash flow hedges	671	1,167
– hedges of net investments in foreign operations	33	52
Other non-trading derivatives	993	734
	3,585	**4,364**

Other non-trading derivatives mainly includes interest rate swaps and foreign currency swaps for which no hedge accounting is applied.

Designated as at fair value through profit or loss

Designated as at fair value through profit or loss by type

	2016	2015
Debt securities	10,736	11,623
Funds entrusted	969	407
Subordinated liabilities	561	586
	12,266	**12,616**

In 2016, the change in the fair value of financial liabilities designated at fair value through profit or loss attributable to changes in credit risk is EUR 50 million (2015: EUR –163 million) and EUR 170 million (2015: EUR 119 million) on a cumulative basis. This change has been determined as the amount of change in fair value of the financial liability that is not attributable to changes in market conditions that gave rise to market risk (i.e. mainly interest rate risk based on yield curves).

The amount that ING Bank is contractually required to pay at maturity to the holders of financial liabilities designated as at fair value through profit or loss is EUR 11,720 million (2015: EUR 12,220 million).

14 Provisions

Provisions by type	2016	2015
Reorganisation provisions	1,482	670
Other provisions	546	294
	2,028	**964**

Reorganisation provisions

Changes in reorganisation provisions	2016	2015
Opening balance	670	728
Additions	1,202	180
Unused amounts reversed	–13	–15
Utilised	–365	–226
Exchange rate differences	–5	5
Changes in the composition of the group and other changes	–7	–2
Closing balance	**1,482**	**670**

In 2016, ING Bank recognised an additional reorganisation provision of EUR 1,032 million, for the intended workforce reductions per the intended digital transformation programmes as announced on ING's Investor Day on 3 October. The intended initiatives are expected to result in a reduction of ING's workforce mainly in Belgium and the Netherlands during 2016 – 2021.

In 2015, Additions to reorganisation provisions was mainly attributable to existing reorganisation initiatives in Retail Netherlands and Belgium.

These initiatives are implemented over a period of several years and the estimate of the reorganisation provisions is inherently uncertain. The provision at the balance sheet date represents the best estimate of the expected redundancy costs and are expected to be sufficient to cover these costs.

Other provisions

Changes in other provisions	Litigation		Other		Total	
	2016	2015	2016	2015	2016	2015
Opening balance	187	190	107	99	294	289
Additions	235	105	120	8	355	113
Unused amounts reversed	–46	–81	–6	–24	–52	–105
Utilised	–28	–17	–19	–2	–47	–19
Exchange rate differences	–1	–2	–1	–1	–2	–3
Changes in the composition of the group and other changes	6	–8	–8	27	–2	19
Closing balance	**353**	**187**	**193**	**107**	**546**	**294**

In 2016, Other provisions – other changes include amounts related to Letters of Credit / Guarantees of EUR 119 million. In general, Other provisions are of a short-term nature. As at 31 December 2016, amounts expected to be settled within twelve months, amount to EUR 322 million. The amounts included in other provisions are based on best estimates with regard to amounts and timing of cash flows required to settle the obligation.

Included in Other provisions – Litigation in 2016 and 2015, is a provision related to floating interest rate derivatives that were sold in the Netherlands. Reference is made to Note 26 'Other operating expenses' and Note 41 'Legal proceedings'.

Included in Other provisions – Litigation in 2016, is a provision related to medical insurance plan damages for retired employees of ING Belgium. Reference is made to Note 26 'Other operating expenses' and Note 41 'Legal proceedings'.

15 Other liabilities

Other liabilities by type

	2016	2015
Net defined benefit liability	521	498
Other post-employment benefits	87	98
Other staff-related liabilities	472	349
Other taxation and social security contributions	494	565
Accrued interest	4,373	5,090
Costs payable	2,243	1,874
Amounts to be settled	6,391	2,390
Other	2,212	2,159
	16,793	**13,023**

Disclosures in respect of Net defined benefit liabilities are provided in Note 31 'Pension and other post-employment benefits'.

Other staff-related liabilities
Other staff-related liabilities includes vacation leave provisions, variable compensation provisions, jubilee provisions, and disability/illness provisions.

Amounts to be settled
Amounts to be settled increased compared to 31 December 2015 as a result of reclassification of Items to be settled in respect of securities transactions. The items to be settled in respect of securities transactions of EUR 3,572 million, at 31 December 2016 (31 December 2015: EUR 2,253 million), were previously reported under Customer deposits and Deposits from banks. On the basis of materiality, comparative amounts as at 31 December 2015 have not been adjusted. Furthermore, the remaining increase, as at 31 December 2016, is due to higher market activity compared to year end.

Other
Other liabilities – Other relates mainly to year-end accruals. Included in Other liabilities - Other, are accruals related to ING's contributions to the Deposit Guarantee Scheme (DGS) and the Single Resolution Fund (SRF).

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 Bank, 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 Bank does not have debt securities that are issued on terms other than those available in the regular course of business. The maturities of the debt securities are as follows:

Debt securities in issue – maturities

	2016	2015
Fixed rate debt securities		
Within 1 year	25,458	39,979
More than 1 year but less than 2 years	12,151	6,057
More than 2 years but less than 3 years	7,365	11,192
More than 3 years but less than 4 years	7,893	6,068
More than 4 years but less than 5 years	8,674	7,845
More than 5 years	14,537	20,181
Total fixed rate debt securities	**76,078**	**91,322**
Floating rate debt securities		
Within 1 year	13,278	9,483
More than 1 year but less than 2 years	2,724	6,056
More than 2 years but less than 3 years	4,168	1,958
More than 3 years but less than 4 years	793	2,827
More than 4 years but less than 5 years	320	476
More than 5 years	3,944	5,434
Total floating rate debt securities	**25,227**	**26,234**
Total debt securities	**101,305**	**117,556**

In 2016, the decrease in Debt securities in issue of EUR 16.3 billion is mainly attributable to decrease in long term maturity bonds EUR 7.3 billion, decrease in certificates of deposit EUR 6.5 billion, decrease in covered bonds EUR 2.9 billion, decrease in other debt securities in issue EUR 2.1 billion, partially offset by an increase in commercial paper of EUR 2.5 billion.

As at 31 December 2016, ING Bank has unused lines of credit available including the payment of commercial paper borrowings relating to debt securities in issue of EUR 12,015 million (2015: EUR 14,646 million).

17 Subordinated loans

Subordinated loans relate to subordinated capital debentures an private loans which may be included in the calculation of the capital ratio.

Subordinated loans include EUR 6,603 million (2015: EUR 7,248 million) of loans that qualify as Tier 1 capital. These loans have been placed with ING Bank N.V. by ING Group.

Changes in subordinated loans

	2016	2015
Opening balance	15,920	16,599
New issuances	1,085	2,085
Repayments	-961	-4,244
Exchange rate differences and other	60	1,480
Closing balance	**16,104**	**15,920**

The average interest rate on subordinated loans is 4.82% (2015: 4.81%). The interest expense during the year 2016 was EUR 780 million (2015: EUR 820 million).

In April 2016, ING Bank NV issued EUR 1,000 million CRD IV-eligible Tier-2 instruments. This was offset by the repayment of a USD 800 million perpetual loan to ING Group N.V. ING has classified this instrument as a financial liability because of the contractual interest payments and fixed maturity date.

Equity

18 Equity

Total equity

	2016	2015	2014
Share capital and share premium			
- Share capital	525	525	525
- Share premium	16,542	16,542	16,542
	17,067	**17,067**	**17,067**
Other reserves			
- Revaluation reserve: Available-for-sale and other	3,832	3,896	3,615
- Revaluation reserve: Cash flow hedge	777	675	875
- Revaluation reserve: Property in own use	201	326	291
- Net defined benefit asset/liability remeasurement reserve	–371	–306	–370
- Currency translation reserve	–791	–540	–609
- Share of associates, joint ventures and other reserves	2,187	1,733	1,677
	5,835	**5,784**	**5,479**
Retained earnings	20,638	18,006	15,518
Shareholders' equity (parent)	**43,540**	**40,857**	**38,064**
Non-controlling interests	606	638	622
Total equity	**44,146**	**41,495**	**38,686**

The following components of equity, as included in Other reserves, cannot be freely distributed: Revaluation reserve, Net defined benefit asset/liability remeasurement reserve, Currency translation reserve, Share of associates and joint ventures reserve and the part of Other reserves that relates to the former Stichting Regio Bank and the former Stichting Vakbondsspaarbank SPN.

Share capital and share premium

Share capital

Share capital – ordinary shares

	Ordinary shares (par value EUR 1.13)					
	Number x 1,000			Amount in millions of euros		
	2016	2015	2014	2016	2015	2014
Authorised share capital	1,600,000	1,600,000	1,600,000	1,808	1,808	1,808
Unissued share capital	1,134,965	1,134,965	1,134,965	1,283	1,283	1,283
Issued share capital	**465,035**	**465,035**	**465,035**	**525**	**525**	**525**

No change occurred in the issued share capital and share premium in 2016, 2015 and 2014.

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, subject to the approval of the general meeting of ING Bank. The par value of ordinary shares is EUR 1.13

The authorised ordinary share capital of ING Bank N.V. consists of 1,600 million shares of which as at 31 December 2016, 465 million ordinary shares were issued and fully paid.

ING Bank has 50 authorised preference shares with par value of EUR 1.13 per preference share. As at 31 December 2016, 7 preference shares were issued and fully paid (2015: 7 preference shares; 2014: 7 preference shares) amounting to EUR 8 (2015: EUR 8; 2014: EUR 8).

Dividend restrictions
ING Bank 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 Bank 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 subsidiaries operate, other limitations exist in certain countries.

Other reserves
Revaluation reserve: Available-for-sale and other

Changes in revaluation reserve: Available-for-sale and other

	2016	2015	2014
Opening balance	3,896	3,615	1,870
Unrealised revaluations	208	298	1,866
Realised gains/losses transferred to the statement of profit or loss	–272	–17	–121
Closing balance	**3,832**	**3,896**	**3,615**

In 2016, the available-for-sale revaluation reserve decreased by EUR 154 million related to the release of previously recognised revaluation reserves, included in the line Unrealised revaluations in 2015, on shares held in VISA Europe Limited. Reference is made to Note 5 'Investments', Note 33 'Fair value of assets and liabilities' and Note 47 'Other events.

Revaluation reserve: Cash flow hedge

Changes in revaluation reserve: Cash flow hedge

	2016	2015	2014
Opening balance	675	875	–776
Changes in cash flow hedge reserve	102	–200	1,651
Closing balance	**777**	**675**	**875**

Revaluation reserve: Property in own use

Changes in revaluation reserve: Property in own use

	2016	2015	2014
Opening balance	326	291	320
Unrealised revaluations	2	35	–29
Changes in composition of the group and other changes	–127		
Closing balance	**201**	**326**	**291**

In 2016 the EUR –127 million is a transfer of revaluation reserve to retained earnings.

Net defined benefit asset/liability remeasurement reserve
Reference is made to Note 31 'Pension and other post-employment benefits'.

Currency translation reserve

Changes in currency translation reserve

	2016	2015	2014
Opening balance	–540	–609	–989
Unrealised revaluations	–76	–231	–6
Exchange rate differences	–175	300	386
Closing balance	**–791**	**–540**	**–609**

Unrealised revaluations relates to changes in the value of hedging instruments that are designated as net investment hedges.

Share of associates, joint ventures and other reserves

Share of associates and joint ventures and other reserves

	2016	2015	2014
Share of associates and joint ventures reserves	576	352	363
Other reserves	1,611	1,381	1,314
	2,187	**1,733**	**1,677**

Share of associates, joint ventures reserves

Changes in share of associate and joint ventures reserves

	2016	2015	2014
Opening balance	352	363	328
Changes in composition of the group and other changes	224	–11	35
Closing balance	**576**	**352**	**363**

Other reserves

Changes in other reserves

	2016	2015	2014
Opening balance	1,381	1,314	1,240
Result for the year	124	131	83
Changes in composition of the group and other changes	106	–64	–9
Closing balance	**1,611**	**1,381**	**1,314**

Retained earnings

Changes in retained earnings

	2016	2015	2014
Opening balance	18,006	15,518	16,416
Result for the year	4,103	4,528	2,661
Dividend	–1,345	–2,200	–1,225
Employee stock options and share plans	72	70	55
Changes in composition of the group and other changes	–198	90	–2,389
Closing balance	**20,638**	**18,006**	**15,518**

In 2016, a dividend of EUR 1,345 million was paid to ING Group.

In 2015, a dividend of EUR 2,200 million was paid to ING Group.

In 2014, Changes in composition of the group and other changes included a decrease of EUR 2,235 million in Retained earnings as result of the transfer of part of the Net defined benefit asset/liability remeasurement reserve due to the financial independence of the Dutch ING Pension Fund.

Notes to the Consolidated statement of profit or loss

19 Net interest income

Net interest income	2016	2015	2014
Interest income on loans	18,388	19,177	20,136
Interest income on impaired loans	69	42	56
Negative interest on liabilities	191	66	6
Total interest income on loans	**18,648**	**19,285**	**20,198**
Interest income on available-for-sale securities	1,659	1,785	2,009
Interest income on held-to-maturity securities	97	101	83
Interest income on trading derivatives	16,081	17,151	17,476
Interest income on other trading portfolio	728	677	851
Interest income on non-trading derivatives (no hedge accounting)	666	849	1,684
Interest income on non-trading derivatives (hedge accounting)	6,213	6,394	5,977
Other interest income	129	155	98
Interest income	**44,221**	**46,397**	**48,376**
Interest expense on deposits from banks	283	302	338
Interest expense on customer deposits	3,161	4,180	5,361
Interest expense on debt securities	2,174	2,390	2,593
Interest expense on subordinated loans	780	820	716
Interest expense on trading derivatives	16,263	17,408	17,388
Interest expense on other trading liabilities	210	207	329
Interest expense on non-trading derivatives (no hedge accounting)	766	781	1,512
Interest expense on non-trading derivatives (hedge accounting)	6,720	7,181	7,123
Other interest expense	363	344	410
Negative interest on assets	184	40	
Interest expense	**30,904**	**33,653**	**35,770**
Net interest income	**13,317**	**12,744**	**12,606**

In 2016, the increase in total average assets (with the cash pool balances still calculated on a net basis in order to provide consistent information), combined with an improvement of the net interest margin, lead to an increase of EUR 573 million in net interest income. The increase in total average assets was mainly attributable to an increase in customer lending, partly offset by a decline in financial assets at fair value through profit or loss.

In 2015, the increase in total average assets (excluding Assets held for sale), combined with a decline in the net interest margin lead to an increase of EUR 138 million in net interest income. The increase in total average assets (with the cash pool balances still calculated on a net basis) was partly attributable to an increase in customer lending.

In 2014, the decrease in total average assets, combined with an improvement in the net interest margin lead to an increase of EUR 643 million in net interest income. The decrease in total average assets (with the cash pool balances still calculated on a net basis) was partly attributable to the deconsolidation of ING Vysya and the additional transfers of assets of WestlandUtrecht Bank to NN Group.

In 2016, total interest income and total interest expense for non-trading derivatives used in hedge accounting and for items not valued at fair value through profit or loss amounts to EUR 26,648 million and EUR 13,348 million respectively (2015: EUR 27,675 million and EUR 14,969 million; 2014: EUR 28,307 million and EUR 16,204 million).

20 Net commission income

Fee and commission income	2016	2015	2014
Funds transfer	1,103	1,014	1,006
Securities business	497	570	538
Insurance broking	181	185	172
Asset management fees	91	77	163
Brokerage and advisory fees	477	436	370
Other	1,232	1,138	1,065
	3,581	**3,420**	**3,314**

Included in Other, are commission fees of EUR 202 million (2015: EUR 171 million; 2014: EUR 163 million) in respect of bank guarantees, commission fees of EUR 44 million (2015: EUR 30 million; 2014: EUR 23 million) in respect of underwriting syndication loans, structured finance fees of EUR 110 million (2015: EUR 87 million; 2014: EUR 89 million), and collective instruments distributed but not managed by ING of EUR 145 million (2015: EUR 145 million; 2014: EUR 19 million).

Fee and commission expenses	2016	2015	2014
Funds transfer	403	385	355
Securities business	166	158	151
Insurance broking	8	18	14
Asset management fees	5	8	6
Brokerage and advisory fees	166	140	87
Other	400	391	410
	1,148	**1,100**	**1,023**

21 Valuation results and net trading income

Valuation results and net trading income	2016	2015	2014
Securities trading results	–369	1,352	673
Derivatives trading results	706	600	425
Change in fair value of derivatives relating to			
– fair value hedges	241	1,243	–486
– cash flow hedges (ineffective portion)	–16	31	35
– other non-trading derivatives	1,709	–164	128
Change in fair value of assets and liabilities (hedged items)	–223	–1,308	536
Valuation results on assets and liabilities designated at fair value through profit or loss (excluding trading)	–79	372	–583
Foreign exchange transactions results	–900	–859	–521
Other	24	66	–16
	1,093	**1,333**	**191**

Securities trading results includes the results of market making in instruments such as government securities, equity securities, corporate debt securities, money-market instruments, and interest rate derivatives such as swaps, options, futures, and forward contracts. Foreign exchange transactions results include gains and losses from spot and forward contracts, options, futures, and translated foreign currency assets and liabilities.

The portion of trading gains and losses relating to trading securities still held as at 31 December 2016 amounts to EUR –232 million (2015: EUR 147 million; 2014: EUR –18 million).

Net trading income relates to trading assets and trading liabilities which include assets and liabilities that are classified under IFRS as Trading but are closely related to servicing the needs of the clients of ING. ING offers products that are traded on the financial markets to institutional clients, corporate clients, and governments. A significant part of the derivatives in the trading portfolio are related to servicing corporate clients in their risk management to hedge for example currency or interest rate exposures. In addition, ING provides its customers access to equity and debt markets for issuing their own equity or debt securities (securities underwriting). Although these are presented as Trading under IFRS, these are directly related to services to ING's customers. Loans and receivables in the trading portfolio mainly relate to (reverse) repurchase agreements, which are comparable to collateralised borrowing (lending). These products are used by ING as part of its own regular treasury activities, but also relate to the role that ING plays as intermediary between different professional customers. Trading assets and liabilities held for ING's own risk are very limited. From a risk perspective, the gross amount of trading assets must be considered together with the gross amount of trading liabilities, which are presented separately on the statement of financial position. However, IFRS does not allow netting of these positions in the statement of financial position. Reference is made to Note 4 'Financial assets at fair value through profit or loss' and Note 14 'Financial liabilities at fair value through profit or loss' for information on trading liabilities.

The majority of the risks involved in security and currency trading is economically hedged with derivatives. The securities trading results are partly offset by results on these derivatives. The result of these derivatives is included in Derivatives trading results.

ING Bank'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 2016, Derivatives trading results includes EUR 36 million CVA/DVA adjustments on trading derivatives, compared with EUR 98 million CVA/DVA adjustment in 2015 (2014: EUR –205 million).

Valuation results and net trading income includes the fair value movements on derivatives (used for both hedge accounting and economically hedging exposures) as well as the changes in the fair value of assets and liabilities included in hedging relationships as hedged items. In addition, Valuation results and net trading income includes the results on assets and liabilities designated at fair value through profit or loss.

Included in the Valuation results and net trading income are the fair value movements on derivatives used to economically hedge exposures, but for which no hedge accounting is applied. The fair value movements on the derivatives are influenced by changes in the market conditions, such as stock prices, interest rates and currency exchange rates.

Net valuation results on non-trading derivatives 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 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 2016, Valuation results on assets and liabilities designated as at fair value through profit or loss (excluding trading) includes fair value adjustments on own issued notes amounting to EUR –70 million (2015: EUR 404 million; 2014: EUR –632 million), of which DVA adjustment on own issued notes in 2016 amounted to EUR –50 million (2015: EUR 163 million; 2014: EUR –98 million).

22 Investment income

Investment income	2016	2015	2014
Dividend income	87	63	36
Realised gains/losses on disposal of debt securities	107	127	142
Impairments of available-for-sale debt securities		–17	
Reversal of impairments of available-for-sale debt securities			1
Realised gains/losses and impairments of debt securities	**107**	**110**	**143**
Realised gains/losses on disposal of equity securities	236	67	39
Impairments of available-for-sale equity securities	–13	–117	–14
Realised gains/losses and impairments of equity securities	**223**	**–50**	**25**
Income from and fair value gains/losses on investment properties	4	4	9
Investment income	**421**	**127**	**213**

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. For further information on the disposal of shares held in VISA Europe Limited, reference is made to Note 47 'Other events'

Impairments and reversals of impairments on investments are presented within Investment income, which is part of Total income.

Impairments and reversals of impairment on investments per segment	Impairments			Reversal of impairments		
	2016	2015	2014	2016	2015	2014
Retail Belgium		–5				
Wholesale Banking	–8	–129	–14			1
Corporate Line Banking	–5					
	–13	**–134**	**–14**	**–**	**–**	**1**

23 Result on disposal of group companies

Result on disposal of group companies	2016	2015	2014
Baring Private Equity Partners	1	7	
ING Lease UK		–5	
ING Vysya			202
Other			–7
	1	**2**	**195**

In 2015, the Result on disposal of group companies included EUR 7 million realised deferred profits on divestments in prior periods related to Baring Private Equity Partners and a release of goodwill related to the disposal of the remaining portfolios of ING Lease (UK). Reference is made to Note 9 'Intangible assets'.

In 2014, Result on disposal of group companies included EUR 202 million profit on the deconsolidation of ING Vysya. Reference is made to Note 7 'Investments in associates and joint ventures', Note 29 'Segments', Note 30 'Information on geographical areas', Note 45 'Related parties'.

24 Other income

Other income	2016	2015	2014
Net operating lease income	2	2	5
Income from investment property development projects	1	8	
Other	169	41	97
	172	**51**	**102**

Net operating lease income comprises income of EUR 21 million (2015: EUR 19 million; 2014: EUR 23 million) and depreciation of EUR 19 million (2015: EUR 17 million; 2014: EUR 18 million).

In 2016, Other income – Other includes EUR 16 million related to the disposal of shares held in VISA Europe Limited. For further information on the VISA transaction, reference is made to Note 47 'Other events'.

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	2016	2015	2014
Salaries	3,224	3,221	3,149
Pension costs and other staff-related benefit costs	344	275	1,218
Social security costs	512	514	514
Share-based compensation arrangements[1]	72	70	55
External employees	636	634	623
Education	70	68	57
Other staff costs	178	180	167
	5,036	**4,962**	**5,783**

1 Share-based compensation arrangements are equity settled

In 2015, there was a new collective labour agreement in the Netherlands resulting in reduced rights to future benefits. The impact of this was included in Pension and other staff-related benefits costs.

In 2014, a charge of EUR 871 million was recognised in Pensions costs related to the Dutch defined benefit plan settlement which resulted in the ING Pension Fund being financially independent from ING. Reference is made to Note 31 'Pension and other post-employment benefits' for information on pensions.

Number of employees	Netherlands			International			Total		
	2016	2015[1]	2014	2016	2015[1]	2014	2016	2015[1]	2014
Average number of employees at full time equivalent basis	13,660	14,586	15,209	38,283	38,134	40,736	51,943	52,720	55,945

1 The average number of employees comprises, on an average basis, employees of entities that were sold or classified as held for sale during the year.

Remuneration of senior management, Executive Board and Supervisory Board

Reference is made to Note 45 '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 of the Bank (members of the Management Board, general managers and other officers nominated by the Management 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 Bank, is to attract, retain and motivate senior executives and staff.

ING grants three types of share awards, deferred shares, performance shares, and upfront shares. The entitlement to the share awards is granted conditionally. If the participant remains in employment for an uninterrupted period between the grant date and the vesting date, the entitlement becomes unconditional. In addition to the employment condition, the performance shares contain a performance condition. The number of ING shares that would ultimately be granted at the end of a performance period is dependent on ING's performance over that period. Upfront and deferred shares, with retention periods as soon as it becomes unconditional, were awarded to the Management Board members of ING Bank as well as identified staff. ING has the authority to apply a hold back to awarded but unvested shares and a claw-back to vested shares.

The information presented below on stock options and share plans on ING Groep N.V. shares includes personnel employed by entities that are presented as continuing operations as well as held for sale and discontinued operations.

In 2016, 61,532 share awards (2015: nil; 2014: nil) were granted to the members of the Executive Board of ING Groep N.V., 170,749 share awards (2015: 106,013; 2014: 125,383) were granted to the Management Board of ING Bank. To senior management and other employees of ING Bank 6,590,039 share awards (2015: 6,088,240; 2014: 5,342,269) 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)		
	2016	2015	2014	2016	2015	2014
Opening balance	22,939,049	32,146,647	41,354,477	17.52	16.84	15.98
Exercised	–929,529	–2,400,791	–2,765,824	6.20	6.97	4.83
Forfeited	–140,278	–210,860	–350,831	15.83	16.34	15.98
Expired	–6,031,090	–6,595,947	–6,091,175	24.54	18.08	16.54
Closing balance	**15,838,152**	**22,939,049**	**32,146,647**	15.53	17.52	16.84

The weighted average share price at the date of exercise for options exercised during 2016 is EUR 10.43 (2015: 13.62; 2014: EUR 10.60).

All option rights are vested.

Summary of stock options outstanding and exercisable

	Options outstanding and exercisable as at 31 December			Weighted average remaining contractual life			Weighted average exercise price		
Range of exercise price in euros	2016	2015	2014	2016	2015	2014	2016	2015	2014
0.00 – 5.00	1,771,080	2,146,930	2,874,797	2.21	3.22	3.46	2.87	2.88	2.87
5.00 – 10.00	3,401,679	4,001,835	5,595,047	3.21	4.21	5.20	7.38	7.38	7.39
10.00 – 15.00	97,258	99,973	103,135	1.71	2.72	3.71	14.35	14.35	14.35
15.00 – 20.00	5,973,986	6,446,077	12,838,282	1.21	2.22	1.46	16.93	16.98	17.35
20.00 – 25.00	4,247,605	4,476,049	4,733,530	0.23	1.24	1.51	24.58	24.58	24.57
25.00 – 30.00	346,544	5,768,185	6,001,856	0.38	0.34	1.33	25.42	25.18	25.19
	15,838,152	**22,939,049**	**32,146,647**						

All options outstanding are exercisable. As at 31 December 2016, the aggregate intrinsic value of options outstanding and exercisable is EUR 39 million (2015: EUR 41 million; 2014: EUR 42 million).

The fair value of options granted is recognised as an expense under staff expenses and is allocated over the vesting period of the options. The fair values of the option awards have been determined using a European Black Scholes formula. This model takes the risk free interest rate into account (2.02% to 4.62%), as well as the lifetime of the options granted (5 to 9 years), the exercise price, the current share price (EUR 2.90 – EUR 25.42), the expected volatility of the certificates of ING Groep N.V. shares (25% – 84%) and the expected dividend yield (0.94% to 8.99%). The source for implied volatilities used for the valuation of the stock options is ING's trading system. The implied volatilities in this system are determined by ING's traders and are based on market data implied volatilities not on historical volatilities.

Changes in share awards

	Share awards (in numbers)		Weighted average grant date fair value (in euros)	
	2016	2015	2016	2015
Opening balance	8,648,781	10,751,796	10.07	7.52
Granted	6,822,320	6,194,253	10.20	13.00
Performance effect	542,749	533	8.68	8.50
Vested	–7,493,664	–8,070,866	9.67	8.94
Forfeited	–157,335	–226,935	10.50	9.07
Closing balance	**8,362,851**	**8,648,781**	10.44	10.07

The fair value of share awards granted is recognised as an expense under staff expenses and is allocated over the vesting period of the share awards. As of 2015, ING Group no longer has share awards containing a market based performance condition. Previously, the fair values of share awards containing a market based performance condition have been determined using a Monte Carlo simulation based valuation model. The model takes into account the risk free interest rate, the current stock prices, expected volatilities and current dividend yields of the performance peer group used to determine ING's Total Shareholder Return (TSR) ranking.

As at 31 December 2016 total unrecognised compensation costs related to share awards amount to EUR 41 million (2015: EUR 45 million). These costs are expected to be recognised over a weighted average period of 1.4 years (2015: 1.4 years).

26 Other operating expenses

Other operating expenses

	2016	2015	2014
Depreciation of property and equipment	330	327	325
Computer costs	740	753	705
Office expenses	580	618	620
Travel and accommodation expenses	169	166	140
Advertising and public relations	404	418	405
External advisory fees	319	240	206
Audit and non-audit services	19	18	19
Postal charges	48	56	59
Regulatory costs	845	620	712
Addition/(unused amounts reversed) of provision for reorganisations and relocations	1,189	165	469
Intangible amortisation and (reversals of) impairments	294	298	325
Other	630	667	457
	5,567	**4,346**	**4,442**

Other operating expenses include lease and sublease payments in respect of operating leases of EUR 310 million (2015: EUR 281 million; 2014: EUR 239 million) in which ING Bank 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 ING Bank.

Audit and non-audit services

Audit and non-audit services include fees for services provided by the Bank's auditors.

Regulatory costs
Regulatory costs represent contributions to the Deposit Guarantee Schemes (DGS), The Single Resolution Fund (SRF) and local bank taxes. As of 1 January 2016, the new ex-ante DGS in the Netherlands and the SRF came into effect resulting in increased Regulatory costs for the period. Included in Regulatory costs for 2016, are contributions to DGS of EUR 316 million (2015: EUR 233 million; 2014: EUR 159 million) mainly related to the Netherlands, Germany, Belgium, Poland, Turkey and Spain and contributions to the SRF of EUR 176 million (2015: EUR 143 million related to National Resolution Funds; 2014: nil).

In 2016 local bank taxes increased by EUR 108 million from EUR 243 million to EUR 351 million mainly due to a new Polish bank tax and higher taxes in Belgium.

The nationalisation of SNS Reaal in 2013 had as a consequence, a one-time bank tax of EUR 1 billion to be paid by ING Bank and other Dutch banks. In accordance with the relevant legislation, the bank tax was charged in three equal instalments. For ING, this resulted in a charge of EUR 304 million in 2014.

Addition/(unused amounts reversed) of provision for reorganisations and relocations
Included in Addition/(unused amounts reversed) of provision for reorganisations and relocations in 2016, is an amount of EUR 1,032 million comprising a pre-tax redundancy provision related to the intended digital transformation programmes as announced on ING's Investor Day on 3 October 2016. For further information on Addition/(unused amounts reversed) of provision for reorganisations and relocations, reference is made to the disclosure on the reorganisation provision in Note 14 'Provisions'.

Intangible amortisation and (reversals of) impairments

Intangible amortisation and (reversals of) impairments

	Impairment losses			Reversals of impairments			Total		
	2016	2015	2014	2016	2015	2014	2016	2015	2014
Property and equipment	65	17	43	–5	–14	–5	60	3	38
Property development	3	9	36				3	9	36
Software and other intangible assets	44	15	1				44	15	1
(Reversals of) other impairments	**112**	**41**	**80**	–5	**–14**	**–5**	**107**	**27**	**75**
Amortisation of software and other intangible assets							187	271	250
							294	**298**	**325**

As of 2016, the amortisation period for capitalised software is changed from three to five years. The change is applied prospectively. The change results in a lower charge to the statement of profit or loss. The change has no significant impact on the statement of profit or loss for the year ended 31 December 2016 and is not expected to have a significant impact on the statement of profit or loss of ING Bank in future years. Reference is made to Note 9 'Intangible assets'.

In 2016, impairment losses on software and other intangible assets mainly include software that was impaired to its Value in Use, related to the announcements on ING's Investor Day on 3 October 2016.

Other
Included in Other operating expenses – Other in 2016, is a net charge amounting to EUR 114 million (2015: EUR 76 million) for the provision recognised in relation to floating interest rate derivatives that were sold in the Netherlands. Also included in this line, is a charge related to the provision recognised for medical insurance plan damages for retired employees of ING Belgium. Reference is made to Note 14 'Provisions' and Note 41 'Legal proceedings'.

Notes to the consolidated statement of cash flows
27 Net cash flow from investing activities
Information on the impact of companies acquired or disposed is presented in Note 42 'Consolidated Companies and businesses acquired and divested'.

28 Cash and cash equivalents

Cash and cash equivalents	2016	2015	2014
Treasury bills and other eligible bills	512	363	677
Deposits from banks/Loans and advances to banks	–2,493	–1,467	–2,036
Cash and balances with central banks	18,144	21,458	12,222
Cash and cash equivalents at end of year	**16,163**	**20,354**	**10,863**

Treasury bills and other eligible bills included in cash and cash equivalents	2016	2015	2014
Treasury bills and other eligible bills included in trading assets	126	228	457
Treasury bills and other eligible bills included in available-for-sale investments	386	135	220
	512	**363**	**677**

Deposits from banks/Loans and advances to banks	2016	2015	2014
Included in cash and cash equivalents:			
– deposits from banks	–9,809	–10,306	–11,825
– loans and advances to banks	7,316	8,839	9,789
	–2,493	**–1,467**	**–2,036**
Not included in cash and cash equivalents:			
– deposits from banks	–22,155	–23,502	–18,178
– loans and advances to banks	21,556	21,127	27,333
	–599	**–2,375**	**9,155**
Total as included in the statement of financial position:			
– deposits from banks	–31,964	–33,808	–30,003
– loans and advances to banks	28,872	29,966	37,122
	–3,092	**–3,842**	**7,119**

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 37 'Assets not freely disposable' for restrictions on Cash and balances with central banks.

ING Bank's risk management (including liquidity) is explained in the section 'Risk management – Funding and liquidity risk'.

Segment reporting

29 Segments

ING Bank's segments are based on the internal reporting structures by lines of business.

The Management Board of ING Bank set the performance targets, approve and monitor the budgets prepared by the business lines. Business lines formulate strategic, commercial, and financial policy in conformity with the strategy and performance targets set by the Management Board of ING Bank.

Recognition and measurement of segment results are in line with the accounting policies as described in Note 1 'Accounting policies'. Corporate expenses are allocated to business lines based on time spent by head office personnel, the relative number of staff, or on the basis of income, expenses and/or assets of the segment.

The following table specifies the segments by line of business and the main sources of income of each of the segments:

Specification of the main sources of income of each of the segments by line of business

Segments of the Banking results by line of business	Main source of income
Retail Netherlands *(Market Leaders)*	Income from retail and private banking activities in the Netherlands, including the SME and mid-corporate segments. The main products offered are current and savings accounts, business lending, mortgages and other consumer lending in the Netherlands.
Retail Belgium *(Market Leaders)*	Income from retail and private banking activities in Belgium, including the SME and mid-corporate segments. The main products offered are similar to those in the Netherlands.
Retail Germany *(Challengers and Growth Markets)*	Income from retail and private banking activities in Germany. The main products offered are current and savings accounts, mortgages and other customer lending.
Retail Other *(Challengers and Growth Markets)*	Income from retail banking activities in the rest of the world, including the SME and mid-corporate segments in specific countries. The main products offered are similar to those in the Netherlands.
Wholesale Banking	Income from wholesale banking activities (a full range of products is offered from cash management to corporate finance), real estate and lease.

As of 1 January 2016, Czech Republic, previously fully reported within Wholesale Banking is now segmented to both Retail and Wholesale Banking. The presentation of previously reported underlying profit or loss amounts has been adjusted to reflect this change.

The geographical segments for the Banking results are presented on page 84.

Specification of geographical segments

Geographical segments	Main countries
Netherlands	
Belgium	Including Luxembourg
Germany	Including Austria
Other Challengers	Australia, France, Italy, Spain, Portugal, Czech Republic and UK Legacy run-off portfolio
Growth Markets	Poland, Romania, Turkey and Asian bank stakes
Wholesale Banking Rest of World	UK, Americas, Asia and other countries in Central and Eastern Europe
Other	Corporate Line Banking and the run-off portfolio of Real Estate

ING Bank 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 Bank. The Management Board consider this measure to be relevant to an understanding of the Bank'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 Bank believes that the presentation of underlying net result helps investors compare its segment performance on a meaningful basis by highlighting result before tax attributable to ongoing operations and the underlying profitability of the segment businesses. Underlying result is derived by excluding from IFRS the following: special items; the impact of divestments and Legacy Insurance.

Special items include items of income or expense that are significant and arise from events or transactions that are clearly distinct from the regular operating activities. Disclosures on comparative periods also reflect the impact of current period's divestments.

In addition to the segments by business line as described above, ING Bank reconciles the total segment results to the total result of ING Bank using Corporate Line Banking. The Corporate Line Banking is a reflection of capital management activities and certain expenses that are not allocated to the banking businesses. ING Group applies a system of capital charging for its banking operations in order to create a comparable basis for the results of business units globally, irrespective of the business units' book equity and the currency they operate in.

Underlying result as presented below is a non-GAAP financial measure and is not a measure of financial performance under IFRS. Because underlying result is not determined in accordance with IFRS, underlying result as presented by ING may not be comparable to other similarly titled measures of performance of other companies. The underlying result of ING's segments is reconciled to the Net result as reported in the IFRS Consolidated statement of profit or loss below. The information presented in this note is in line with the information presented to the Management Board.

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.

Segments 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	182	13,317
– Net commission income	546	385	183	320	1,003	–2	2,434
– Total investment and other income	237	253	51	432	855	–65	1,763
Total underlying income	**4,436**	**2,573**	**1,923**	**2,859**	**5,608**	**115**	**17,514**
Underlying expenditure							
– Operating expenses	2,560	1,438	886	1,723	2,572	267	9,445
– Additions to loan loss provision	171	175	–18	278	368		974
Total underlying expenses	**2,731**	**1,613**	**868**	**2,001**	**2,940**	**267**	**10,419**
Underlying result before taxation	**1,705**	**961**	**1,055**	**858**	**2,668**	**–152**	**7,095**
Taxation	422	306	315	178	753	18	1,993
Non-controlling interests		1	2	60	11		75
Underlying net result	**1,282**	**653**	**738**	**620**	**1,903**	**–171**	**5,026**
Special items[1]	–192	–418		–12	–149	–27	–799
Net result IFRS	**1,090**	**235**	**738**	**608**	**1,754**	**–198**	**4,227**

1 Special items in 2016 primarily comprise restructuring charges and impairments related to the intended digital transformation programmes as announced on ING's Investor Day on 3 October 2016.

Reconciliation between Underlying and IFRS-EU income, expenses and net result

2016	Income	Expenses	Taxation	Non-Controlling interests	Net result[1]
Underlying	17,514	10,419	1,993	75	5,026
Special items[2]		1,157	–358		–799
IFRS	**17,514**	**11,577**	**1,635**	**75**	**4,227**

1 Net result, after tax and non-controlling interests.

Notes to the Consolidated annual accounts of ING Bank - continued

Segments by line of business

2015	Retail Netherlands	Retail Belgium	Retail Germany	Retail Other[1]	Wholesale Banking[1]	Corporate Line Banking	Total
Underlying income							
– Net interest income	3,683	1,953	1,634	1,935	3,538	1	12,744
– Net commission income	515	397	172	278	962	–4	2,320
– Total investment and other income	205	195	104	195	1,070	–131	1,639
Total underlying income	**4,403**	**2,546**	**1,910**	**2,408**	**5,570**	**–133**	**16,703**
Underlying expenditure							
– Operating expenses	2,475	1,532	842	1,594	2,559	230	9,231
– Additions to loan loss provision	433	169	57	210	478		1,347
Total underlying expenses	**2,908**	**1,701**	**899**	**1,804**	**3,036**	**230**	**10,578**
Underlying result before taxation	**1,495**	**845**	**1,012**	**604**	**2,533**	**–364**	**6,125**
Taxation	391	255	328	142	676	–91	1,703
Non-controlling interests		6	2	48	16		72
Underlying net result	**1,104**	**583**	**681**	**414**	**1,841**	**–273**	**4,350**
Divestments[2]				367			367
Special items[3]	–58						–58
Net result IFRS	**1,046**	**583**	**681**	**781**	**1,841**	**–273**	**4,659**

1 Amounts are adjusted for comparison purposes. Czech Republic, previously fully reported within Wholesale Banking is now segmented to both Retail and Wholesale Banking.
2 Divestments in 2015 reflect the result from the merger between Vysya Bank and Kotak Mahindra Bank.
3 Special items in 2015 comprise additional charges related to previously announced restructuring programmes in Retail Netherlands.

Reconciliation between Underlying and IFRS-EU income, expenses and net result

2015	Income	Expenses	Taxation	Non-Controlling interests	Net result[1]
Underlying	16,703	10,578	1,703	72	4,350
Divestments	367				367
Special items		77	–19		–58
IFRS	**17,070**	**10,655**	**1,683**	**72**	**4,659**

1 Net result, after tax and non-controlling interests.

Notes to the Consolidated annual accounts of ING Bank - continued

Segments by line of business

2014	Retail Nether-lands	Retail Belgium	Retail Germany	Retail Other[1]	Wholesale Banking[1]	Corporate Line Banking	Total
Underlying income							
– Net interest income	3,778	1,998	1,500	1,832	3,508	–10	12,606
– Net commission income	464	376	143	331	979	–2	2,290
– Total investment and other income	87	243	–27	197	383	–309	574
Total underlying income	**4,330**	**2,617**	**1,615**	**2,359**	**4,870**	**–321**	**15,471**
Underlying expenditure							
– Operating expenses	2,678	1,524	773	1,496	2,392	102	8,965
– Additions to loan loss provision	714	142	72	165	500		1,594
Total underlying expenses	**3,392**	**1,667**	**845**	**1,661**	**2,893**	**102**	**10,559**
Underlying result before taxation	**938**	**951**	**771**	**698**	**1,978**	**–423**	**4,912**
Taxation	243	256	230	140	469	–67	1,271
Non-controlling interests		1	1	51	26		79
Underlying net result	**694**	**693**	**540**	**508**	**1,483**	**–356**	**3,562**
Divestments[2]				202			202
Special items[3]	–63					–957	–1,021
Net result IFRS	**631**	**693**	**540**	**710**	**1,483**	**–1,313**	**2,744**

1 Amounts are adjusted for comparison purposes. Czech Republic, previously fully reported within Wholesale Banking is now segmented to both Retail and Wholesale Banking.
2 Divestments in 2014 reflect the result on the deconsolidation of ING Vysya Bank following changes to the governance structure.
3 Special items in 2014 included the impact (after tax) of the charges for making the Dutch Defined Benefit pension fund financially independent, the bank tax related to the SNS Reaal nationalisation and additional charges related to the restructuring programmes in Retail Netherlands announced before 2013.

Reconciliation between Underlying and IFRS-EU income, expenses and net result

2014	Income	Expenses	Taxation	Non-Controlling interests	Net result[1]
Underlying	15,471	10,559	1,271	79	3,562
Divestments	202				202
Special items		1,259	–239		–1,021
IFRS	**15,674**	**11,818**	**1,032**	**79**	**2,744**

1 Net result, after tax and non-controlling interests.

Geographical segments

2016	Netherlands	Belgium	Germany	Other Challengers	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	183	13,317
– Net commission income	779	482	241	171	309	452	–1	2,434
– Total investment and other income	367	559	75	133	460	202	–33	1,763
Total underlying income	**5,845**	**3,225**	**2,340**	**1,677**	**2,043**	**2,233**	**149**	**17,514**
Underlying expenditure								
– Operating expenses	3,301	1,796	987	951	1,103	1,029	279	9,445
– 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**	**279**	**10,419**
Underlying result before taxation	**2,235**	**1,215**	**1,367**	**607**	**700**	**1,101**	**–130**	**7,095**
Taxation	555	353	426	173	125	335	27	1,993
Non-controlling interests		1	2		71			75
Underlying net result	**1,680**	**860**	**939**	**433**	**504**	**766**	**–157**	**5,026**
Special items	–268	–491		–13			–27	–799
Net result IFRS	**1,412**	**369**	**939**	**420**	**504**	**766**	**–184**	**4,227**

Geographical segments

2015	Netherlands	Belgium	Germany	Other Challengers[1]	Growth Markets	Wholesale Banking Rest of World[1]	Other	Total
Underlying income								
– Net interest income	4,677	2,287	1,812	1,268	1,147	1,551	2	12,744
– Net commission income	754	497	215	156	267	435	–4	2,320
– Total investment and other income	187	434	120	25	330	580	–36	1,639
Total underlying income	**5,619**	**3,217**	**2,146**	**1,449**	**1,743**	**2,566**	**–38**	**16,703**
Underlying expenditure								
– Operating expenses	3,220	1,943	917	840	1,061	1,003	247	9,231
– Additions to loan loss provision	654	166	77	99	176	175		1,347
Total underlying expenses	**3,874**	**2,109**	**994**	**938**	**1,237**	**1,178**	**247**	**10,578**
Underlying result before taxation	**1,744**	**1,108**	**1,152**	**511**	**506**	**1,388**	**–285**	**6,125**
Taxation	469	315	382	174	79	367	–83	1,703
Non-controlling interests		6	2		64			72
Underlying net result	**1,276**	**787**	**768**	**337**	**363**	**1,021**	**–203**	**4,350**
Divestments					367			367
Special items	–58							–58
Net result IFRS	**1,218**	**787**	**768**	**337**	**730**	**1,021**	**–203**	**4,659**

1 Amounts are adjusted for comparison purposes. Czech Republic, previously fully reported within Wholesale Banking Rest of the World is now reported under Other Challengers.

Geographical segments

2014	Netherlands	Belgium	Germany	Other Challengers[1]	Growth Markets	Wholesale Banking Rest of World[1]	Other	Total
Underlying income								
– Net interest income	4,699	2,447	1,616	1,187	1,072	1,596	–10	12,606
– Net commission income	730	464	171	149	333	444	–1	2,290
– Total investment and other income	164	288	–17	52	266	115	–293	574
Total underlying income	**5,593**	**3,198**	**1,770**	**1,388**	**1,671**	**2,155**	**–305**	**15,471**
Underlying expenditure								
– Operating expenses	3,403	1,931	837	735	1,018	893	147	8,965
– Additions to loan loss provision	947	146	67	185	125	123		1,594
Total underlying expenses	**4,350**	**2,078**	**904**	**920**	**1,143**	**1,016**	**147**	**10,559**
Underlying result before taxation	**1,243**	**1,120**	**866**	**468**	**528**	**1,139**	**–452**	**4,912**
Taxation	308	277	266	131	96	275	–83	1,271
Non-controlling interests		2	1		77			79
Underlying net result	**935**	**841**	**599**	**337**	**356**	**864**	**–369**	**3,562**
Divestments				–2	204			202
Special items	–63						–957	–1,021
Net result IFRS	**872**	**841**	**599**	**335**	**560**	**864**	**–1,327**	**2,744**

1 Amounts are adjusted for comparison purposes. Czech Republic, previously fully reported within Wholesale Banking Rest of the World is now reported under Other Challengers.

IFRS statements of financial position by segment are not reported internally to, and not managed by, the chief operating decision maker.

30 Information on geographical areas

ING Bank'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 Bank 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 Bank's country of domicile.

The tables below provide additional information, for the years 2016 and 2015 respectively, on names of principal subsidiaries and branches, nature of main activities and average number of employees on a full time equivalent basis by country.

Notes to the Consolidated annual accounts of ING Bank - continued

Additional information by country

2016

Geographical area	Country	Name of principal subsidiary	Main activity	Average number of employees at full time equivalent basis	Total Income	Total assets	Result before tax	Taxation
Netherlands	Netherlands	ING Bank N.V.	Wholesale banking/Retail banking	13,660	5,790	293,893	1,375	360
Belgium	Belgium	ING België N.V.	Wholesale banking/Retail banking	9,348	3,154	131,431	554	143
	Luxembourg	ING Luxembourg S.A.	Wholesale banking/Retail banking	793	274	10,783	138	32
Rest of Europe	Poland	ING Bank Slaski S.A.	Wholesale banking/Retail banking	8,735	992	26,581	379	90
	Germany	ING DiBa A.G.	Wholesale banking/Retail banking	4,341	2,212	134,902	1,282	407
	Romania	Branch of ING Bank N.V.	Wholesale banking/Retail banking	1,806	288	5,456	123	21
	Spain	Branch of ING Bank N.V.	Wholesale banking/Retail banking	1,116	498	23,309	197	51
	Italy	Branch of ING Bank N.V.	Wholesale banking/Retail banking	833	376	15,920	100	33
	UK	Branch of ING Bank N.V.	Wholesale banking	599	504	29,830	290	154
	France[1]	Branch of ING Bank N.V.	Wholesale banking/Retail banking	613	280	8,614	56	18
	Russia	ING Bank (Eurasia) Z.A.O.	Wholesale banking	276	118	2,008	69	7
	Czech Republic	Branch of ING Bank N.V.	Wholesale banking/Retail banking	220	74	3,653	37	7
	Hungary	Branch of ING Bank N.V.	Wholesale banking	152	37	1,358	–1	3
	Slovakia	Branch of ING Bank N.V.	Wholesale banking	400	14	715	3	1
	Ukraine	PJSC ING Bank Ukraine	Wholesale banking	111	59	622	47	7
	Austria	Branch of ING DiBa A.G.	Wholesale banking/Retail banking	196	86	360	37	–4
	Bulgaria	Branch of ING Bank N.V.	Wholesale banking	76	9	274	–	–
	Ireland	Branch of ING Bank N.V.	Wholesale banking	42	53	1,910	54	7
	Portugal	Branch of ING Bank N.V.	Wholesale banking	11	14	642	10	3
	Switzerland	Branch of ING België N.V.	Wholesale banking	192	187	9,150	122	33
North America	Canada	Belgian Overseas Agencies Ltd.	Wholesale banking	–	–	1	–	–
	USA	ING Financial Holdings	Wholesale banking	519	732	42,571	377	110
Latin America	Brazil	Branch of ING Bank N.V.	Wholesale banking	70	43	2,097	13	–
	Colombia	ING Capital Colombia SAS	Wholesale banking	2	–	1	–	–
	Mexico	ING Consulting S.A. de C.V.	Wholesale banking	7	1	2	–1	–
Asia	China	Branch of ING Bank N.V.	Wholesale banking	72	36	2,049	7	–2
	Japan	Branch of ING Bank N.V.	Wholesale banking	33	36	3,702	22	9
	Singapore	Branch of ING Bank N.V.	Wholesale banking	502	194	25,780	22	5
	Hong Kong	Branch of ING Bank N.V.	Wholesale banking	106	80	5,964	40	7
	Philippines	Branch of ING Bank N.V.	Wholesale banking	423	17	402	4	–2
	South Korea	Branch of ING Bank N.V.	Wholesale banking	87	46	4,107	14	–1
	Taiwan	Branch of ING Bank N.V.	Wholesale banking	32	15	2,484	3	1
	Indonesia	PT ING Securities Indonesia	Wholesale banking	5	1	7	–	–
	Malaysia	Branch of ING Bank N.V.	Wholesale banking	5	–	3	–	–
	India	Branch of ING Bank N.V.	Wholesale banking	–	–	2	–	–
	Turkey	ING Bank A.S.	Wholesale banking/Retail banking	5,497	757	15,864	225	45
	United Arab Emirates	Branch of ING Bank N.V.	Wholesale banking	10	–	1	–2	–
Australia	Australia	ING Bank (Australia) Ltd.	Retail banking	1,053	505	36,691	309	90
Other	Mauritius	ING Mauritius	Investment management	–	32	780	32	–
Total				**51,943**	**17,514**	**843,919**	**5,937**	**1,635**

1 Public subsidies received, as defined in article 89 of the CRD IV, amounts to EUR 1 million (2015: EUR 3 million; 2014: EUR 2 million).

The UK has a high tax charge due to changes in tax law and prior year adjustments.
Russia, China, Philippines and South Korea all have lower tax charges due to prior year adjustments.
Austria has an inverse tax charge due to the recognition of a tax asset for previously unrecognised tax losses.
Brazil has a low tax charge due to the combination of relatively high exempt income with a decreased profit.
Mauritius has no tax charge as the partial sale of Kotak Mahindra Bank shares in September 2016 was tax exempt.

Additional information by country

2015

Geographical area	Country	Name of principal subsidiary	Main activity	Average number of employees at full time equivalent basis	Total Income	Total assets[2]	Result before tax	Taxation
Netherlands	Netherlands[2]	ING Bank N.V.	Wholesale banking/Retail banking	14,586	5,410	468,271	1,059	416
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	15,826	–87	–15
	UK	Branch of ING Bank N.V.	Wholesale banking	642	556	32,156	362	–19
	France[1]	Branch of ING Bank N.V.	Wholesale banking/Retail banking	625	256	7,489	67	23
	Russia	ING Bank (Eurasia) Z.A.O.	Wholesale banking	288	185	2,520	131	32
	Czech Republic	Branch of ING Bank N.V.	Wholesale banking/Retail banking	211	75	2,519	41	8
	Hungary	Branch of ING Bank N.V.	Wholesale banking	162	46	1,129	13	5
	Slovakia	Branch of ING Bank N.V.	Wholesale banking	265	13	573	8	2
	Ukraine	PJSC ING Bank Ukraine	Wholesale banking	120	46	616	27	5
	Austria	Branch of ING DiBa A.G.	Retail banking	169	93	321	51	9
	Bulgaria	Branch of ING Bank N.V.	Wholesale banking	76	10	267	–2	–
	Ireland	Branch of ING Bank N.V.	Wholesale banking	39	64	1,697	36	5
	Portugal	Branch of ING Bank N.V.	Wholesale banking	2	3	616	3	1
	Switzerland	Branch of ING België N.V.	Wholesale banking	177	187	6,927	105	30
North America	Canada	Belgian Overseas Agencies Ltd.	Wholesale banking	–	–	–	–	–
	USA	ING Financial Holdings	Wholesale banking	492	720	47,784	423	122
Latin America	Brazil	Branch of ING Bank N.V.	Wholesale banking	56	48	1,496	32	12
	Mexico	ING Consulting S.A. de C.V.	Wholesale banking	8	–	1	–	–
Asia	China	Branch of ING Bank N.V.	Wholesale banking	59	39	1,551	16	10
	Japan	Branch of ING Bank N.V.	Wholesale banking	30	31	6,772	20	9
	Singapore	Branch of ING Bank N.V.	Wholesale banking	472	386	19,111	230	30
	Hong Kong	Branch of ING Bank N.V.	Wholesale banking	103	85	5,052	49	1
	Philippines	Branch of ING Bank N.V.	Wholesale banking	249	22	436	5	3
	South Korea	Branch of ING Bank N.V.	Wholesale banking	68	53	3,642	23	6
	Taiwan	Branch of ING Bank N.V.	Wholesale banking	34	23	1,744	12	1
	Indonesia	PT ING Securities Indonesia	Wholesale banking	5	1	7	–	–
	Malaysia	Branch of ING Bank N.V.	Wholesale banking	4	–	4	–	–
	India	Branch of ING Bank N.V.	Wholesale banking	–	–	2	–	–
	Turkey	ING Bank A.S.	Wholesale banking/Retail banking	6,070	641	17,544	155	34
	United Arab Emirates	Branch of ING Bank N.V.	Wholesale banking	7	–	–	–1	–
Australia	Australia	ING Bank (Australia) Ltd.	Retail banking	1,021	490	33,507	328	92
Other	Mauritius	ING Mauritius	Investment management	–	380	1,186	380	–
Total				**52,720**	**17,070**	**1,001,992**	**6,415**	**1,684**

1 Public subsidies received, as defined in article 89 of the CRD IV, amounted to EUR 3 million in 2015.(2014: EUR 2 million).
2 Total assets, as at 31 December 2015, is adjusted as a result of a change in accounting policies. Reference is made to Note 1 'Accounting policies' – Changes in accounting policies in 2016.

The Netherlands has a high tax charge, partly due to the non-deductible Dutch bank tax and partly due to the recognition of a deferred tax liability regarding previously deducted (UK) branch losses.
The UK has a low tax charge due to the recognition of previously unrecognised tax losses carried forward.
Mauritius has no tax charge, due to an unrealised tax exempt result, following the merger of ING Vysya with Kotak in April 2015.

Additional notes to the Consolidated annual accounts

31 Pension and other post-employment benefits

ING Bank maintains defined contribution and defined benefit plans. In 2016 and 2015, the defined benefit plans of the Bank are mainly within the United Kingdom and Belgium.

Statement of financial position - Net defined benefit asset/liability

Summary of net defined benefit asset/liability

	2016	2015
Fair value of plan assets	3,337	3,141
Defined benefit obligation	3,249	2,996
Funded status (Net defined benefit asset/(liability))	**88**	**145**
Presented as:		
– Other assets	609	643
– Other liabilities	–521	–498
	88	**145**

ING Bank maintains defined benefit retirement plans in some countries. These plans provide benefits that are related to the remuneration and service of employees upon retirement. The benefits in some of these plans are subject to various forms of indexation. The indexation is, in some cases, at the discretion of management; in other cases it is dependent upon the sufficiency of plan assets.

Annual contributions are paid to the funds at a rate necessary to adequately finance the accrued liabilities of the plans calculated in accordance with local legal requirements. Plans in all countries comply with applicable local regulations governing investments and funding levels.

ING Bank provides other post-employment employee benefits to certain employees and former employees. These are primarily post-employment healthcare benefits and discounts on ING products provided to employees and former employees.

The most recent (actuarial) valuations of the plan assets and the present value of the defined benefit obligation were carried out as at 31 December 2016. The present value of the defined benefit obligation, and the related current service cost and past service cost, were determined using the projected unit credit method.

Changes in the fair value of plan assets for the period were as follows:

Changes in fair value of plan assets

	2016	2015
Opening balance	3,141	3,108
Interest income	87	93
Remeasurements: Return on plan assets excluding amounts included in interest income	467	–72
Employer's contribution	76	34
Participants contributions	2	13
Benefits paid	–137	–170
Effect of curtailment or settlement		
Exchange rate differences	–299	135
Changes in the composition of the group and other changes		
Closing balance	**3,337**	**3,141**

Other

The actual return on the plan assets amounts to EUR 554 million (2015: EUR 21 million).

No plan assets are expected to be returned to ING Bank during 2017.

Changes in the present value of the defined benefit obligation and other post-employment benefits for the period were as follows:

Changes in defined benefit obligation and other post-employment benefits

	Defined benefit obligation		Other post-employment benefits	
	2016	2015	2016	2015
Opening balance	2,996	3,126	98	101
Current service cost	32	34	–25	–7
Interest cost	79	84	3	1
Remeasurements: Actuarial gains and losses arising from changes in demographic assumptions	–17	–55	10	8
Remeasurements: Actuarial gains and losses arising from changes in financial assumptions	498	–118		
Participants' contributions	1	1		2
Benefits paid	–148	–175	–1	–2
Past service cost	2	–11		
Effect of curtailment or settlement	–2	–3		–9
Exchange rate differences	–192	111	2	4
Changes in the composition of the group and other changes		2		
Closing balance	**3,249**	**2,996**	**87**	**98**

Amounts recognised directly in Other comprehensive income (equity) were as follows:

Changes in the net defined benefit assets/liability remeasurement reserve

	2016	2015
Opening balance	–306	–370
Remeasurement of plan assets	467	–72
Actuarial gains and losses arising from changes in demographic assumptions	17	55
Actuarial gains and losses arising from changes in financial assumptions	–498	119
Transfer to Other reserves		
Taxation	–51	–38
Total Other comprehensive income movement for the year	**–65**	**64**
Transfer to Other reserves (pension settlement)		
Changes in the composition of the group and other changes		
Closing balance	**–371**	**–306**

In 2016, EUR 467 million Remeasurement of plan assets and EUR –498 million Actuarial gains and losses arising from changes in financial assumptions are mainly due to a decrease in discount rates.

The accumulated amount of remeasurements recognised directly in Other comprehensive income (equity) is EUR –483 million (EUR –371 million after tax) as at 31 December 2016 (2015: EUR –507 million, EUR –306 million after tax).

Information on plan assets and defined benefit obligation per country

The defined benefit obligation per country and the plan assets per country can be specified as follows:

Plan assets and defined benefit obligation per country

	Plan assets		Defined benefit obligation	
	2016	2015	2016	2015
The Netherlands	414	373	576	516
United States	182	132	243	212
United Kingdom	1,983	1,906	1,377	1,265
Belgium	641	601	776	731
Other countries	117	129	277	272
	3,337	**3,141**	**3,249**	**2,996**

As at 31 December 2016 the various defined benefit plans did not hold any direct investments in ING Groep N.V. (2015: nil).

Determination of the net defined benefit asset/liability

The table provides the key assumptions used in the determination of the Net defined benefit asset/liability and the Other post-employment benefits.

Weighted averages of basic actuarial assumptions in annual % as at 31 December

	Net defined benefit asset/liability		Other post-employment benefits	
	2016	2015	2016	2015
Discount rates	2.10	3.00	3.50	3.20
Mortality rates	0.90	0.80	0.70	0.80
Expected rates of salary increases (excluding promotion increases)	3.40	3.70		
Indexation	2.50	2.60	2.00	2.00

The assumptions above are weighted by defined benefit obligations. The rates used for salary developments, interest discount factors, and other adjustments reflect country-specific conditions.

The discount rate is the weighted average of the discount rates that are applied in different regions where the Bank has defined benefit pension plans. The discount rate is based on a methodology that uses market yields on high quality corporate bonds of the specific regions with durations matching the pension liabilities as key input. Market yields of high quality corporate bonds reflect the yield on corporate bonds with an AA rating for durations where such yields are available. An extrapolation is applied in order to determine the yield to the longer durations for which no AA-rated corporate bonds are available. As a result of the limited availability of long-duration AA-rated corporate bonds, extrapolation is an important element of the determination of the discount rate.

The discount rate is approximately 2.1% on 31 December 2016 (2015: 3.0%). The discount rate used by ING is based on AA-rated corporate bonds. Discussions were ongoing, both in the industry and at the IASB, on the definition of the discount rate for defined benefit pension liabilities and ING would reconsider the methodology for setting the discount rate if and when appropriate.

As at 31 December 2016, the actuarial assumption for Indexation for inflation is 2.5% (2015: 2.6%). The percentage for 2016 was mainly based on the expected inflation and the best estimate assumption for future indexation in the pension plans in the United Kingdom, Belgium, the Netherlands, the United States, and Germany.

Sensitivity analysis of key assumptions

The sensitivity analysis of the most significant assumptions has been determined based on changes of the assumptions occurring at the end of the reporting period that are deemed reasonably possible.

The table discloses the financial impact on the defined benefit obligation if the weighted averages of each significant actuarial assumption would increase or decrease if all other assumptions were held constant. In practice, this is unlikely to occur, and some changes of the assumptions may be correlated.

Sensitivity analysis – financial impact of changes in significant actuarial assumptions on the defined benefit obligation	Financial impact of increase		Financial impact of decrease	
	2016	2015	2016	2015
Discount rates – increase/decrease of 1%	–506	–451	662	554
Mortality – increase/decrease of 1 year	102	82	–103	–82
Expected rates of salary increases (excluding promotion increases) – increase/decrease of 0.25%	24	25	–23	–23
Indexation – increase/decrease 0.25%	79	75	–85	–74

Expected cash flows

Annual contributions are paid to the funds at a rate necessary to adequately finance the accrued liabilities of the plans calculated in accordance with local legal requirements. Plans in all countries comply with applicable local regulations governing investments and funding levels. ING Bank's subsidiaries should fund the cost of the entitlements expected to be earned on a yearly basis.

For 2017 the expected contributions to pension plans are EUR 71 million.

The following benefit payments, which reflect expected future service as appropriate, are expected to be made by the plan:

Benefit payments	Defined benefit obligation	Other post-employment benefits
2017	102	4
2018	105	4
2019	108	4
2020	123	4
2021	128	4
Years 2022 – 2026	448	18

The average duration of the benefit obligation at the end of the reporting period is 17 years (2015: 17 years). This number can be subdivided into the duration related to:
- active members: 16 years (2015: 15 years);
- inactive members: 24 years (2015: 23 years); and
- retired members: 13 years (2015: 13 years).

Statement of profit or loss – Pension and other staff-related benefit costs

Pension and other staff-related benefit costs	Net defined benefit asset/liability			Other post-employment benefits			Other			Total		
	2016	2015	2014	2016	2015	2014	2016	2015	2014	2016	2015	2014
Current service cost	32	34	37	–25	–7	–6	11	–8	20	18	19	51
Past service cost	2	–11	–3							2	–11	–3
Net Interest cost	–8	–9	2	3	1	3	2	2	4	–3	–6	9
Effect of curtailment or settlement	–2	–3	871		–9			–52		–2	–64	871
Other								13	–12		13	–12
Defined benefit plans	**24**	**11**	**907**	**–22**	**–15**	**–3**	**13**	**–45**	**12**	**15**	**–49**	**916**
Defined contribution plans										329	324	302
										344	**275**	**1,218**

Defined benefit plans

In 2014, a charge of EUR 871 million was recognised in Effect of curtailment or settlement related to the Dutch defined benefit plan settlement which resulted in the ING Pension Fund being financially independent from ING.

Defined contribution plans

Most group companies sponsor defined contribution pension plans. The assets of all ING Bank'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.

32 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 Bank is subject to taxation.

Changes in deferred tax

2016	Net liability (-) Net asset (+) 2015	Change through equity	Change through net result	Exchange rate differences	Changes in the 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	–195	–48		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
	168	**5**	**–93**	**3**	**–2**	**81**
Presented in the statement of financial position as:						
– deferred tax liabilities	–645					–919
– deferred tax assets	813					1,000
	168					**81**

Changes in deferred tax

2015	Net liability (-) Net asset (+) 2014	Change through equity	Change through net result	Exchange rate differences	Changes in the composition of the group and other changes	Net liability (-) Net asset (+) 2015
Investments	–1,064	111	152	3	18	–780
Investment properties	–2					–2
Financial assets and liabilities at fair value through profit or loss	1,112		–373			739
Depreciation	–46		4	–4		–46
Cash flow hedges	–233	22		16		–195
Pension and post-employment benefits	213	–14	–5	7		201
Other provisions	42		–22	4		24
Receivables	258		180	3		441
Loans and advances to customers	–136		–100	1		–235
Unused tax losses carried forward	330		–215	3		118
Other	–220	10	113	1	–1	–97
	254	**129**	**–266**	**34**	**17**	**168**
Presented in the statement of financial position as:						
– deferred tax liabilities	–872					–645
– deferred tax assets	1,126					813
	254					**168**

Deferred tax in connection with unused tax losses carried forward

	2016	2015
Total unused tax losses carried forward	1,292	1,560
Unused tax losses carried forward not recognised as a deferred tax asset	973	969
Unused tax losses carried forward recognised as a deferred tax asset	**319**	**591**
Average tax rate	17.8%	20.0%
Deferred tax asset	57	118

The following tax losses carried forward and tax credits will expire as follows as at 31 December:

Total unused tax losses carried forward analysed by expiry terms

	No deferred tax asset recognised		Deferred tax asset recognised	
	2016	2015	2016	2015
Within 1 year	2	41	2	
More than 1 year but less than 5 years	383	190	56	7
More than 5 years but less than 10 years	30	118		1
More than 10 years but less than 20 years	18	34		
Unlimited	540	586	261	583
	973	**969**	**319**	**591**

Deferred tax assets are recognised for temporary deductible differences, for tax losses carried forward and unused tax credits only to the extent that realisation of the related tax benefit is probable.

Breakdown of certain net deferred tax asset positions by jurisdiction

	2016	2015
Luxembourg		8
Netherlands		132
Italy	113	129
	113	**269**

The table above includes a breakdown of certain net deferred tax asset positions by jurisdiction for which the utilisation is dependent on future taxable profits whilst the related entities have incurred losses in either the current or the preceding year. In 2016, the aggregate amount for the most significant entities is EUR 113 million (2015: EUR 269 million).

Recognition is based on the fact that it is probable that the entity will have taxable profits and/or can utilise tax planning opportunities before expiration of the deferred tax assets. Changes in circumstances in future periods may adversely impact the assessment of the recoverability. The uncertainty of the recoverability is taken into account in establishing the deferred tax assets.

Statement of profit or loss – Taxation

Taxation by type

	Netherlands			International			Total		
	2016	2015	2014	2016	2015	2014	2016	2015	2014
Current taxation	167	6	3	1,375	1,412	1,099	1,542	1,418	1,102
Deferred taxation	193	407	–127	–100	–141	57	93	266	–70
	360	**413**	**–124**	**1,275**	**1,271**	**1,156**	**1,635**	**1,684**	**1,032**

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 Bank's effective income tax rate

	2016	2015	2014
Result before tax from continuing operations	5,937	6,415	3,855
Weighted average statutory tax rate	27.5 %	27.3%	29.4%
Weighted average statutory tax amount	**1,630**	**1,748**	**1,132**
Participation exemption	–61	–46	–44
Other income not subject to tax	–123	–160	–169
Expenses not deductible for tax purposes	174	151	185
Impact on deferred tax from change in tax rates	–1	12	–2
Deferred tax benefit from previously unrecognised amounts	–18	54	38
Current tax benefit from previously unrecognised amounts	–22	–63	–58
Write-off/reversal of deferred tax assets	33	18	1
Adjustment to prior periods	23	–30	–51
Effective tax amount	**1,635**	**1,684**	**1,032**
Effective tax rate	**27.6%**	**26.2%**	**26.8%**

The weighted average statutory tax rate in 2016 does not differ significantly compared to 2015.

The weighted average statutory tax rate in 2015 was lower compared to 2014. This was mainly caused by the increase in the result in 2015 in the Netherlands.

The effective tax rate in 2016 is 27.6%.

The effective tax rate in 2016 is almost equal to the weighted average statutory tax rate. This is mainly caused by the fact that the non-deductible expenses, the write-off of deferred tax assets and the adjustments to prior periods are almost fully offset by non-taxable income and the recognition of tax benefits from previously unrecognised amounts.

The effective tax rate in 2015 was lower than the weighted average statutory tax rate. This was mainly caused by non-taxable income, the recognition of tax benefits from previously unrecognised amounts and prior year adjustments which were only partly offset by non-deductible items.

The effective tax rate in 2014 was lower than the weighted average statutory tax rate. This was mainly caused by non-taxable income, the recognition of tax benefits from previously unrecognised amounts and prior year adjustments which were only partly offset by non-deductible items.

Tax exempt income (participation exemption) mainly includes non-taxable income on divestments, tax exempt share in result from associates and joint ventures, and tax exempt gains on financial assets.

Equity – Other comprehensive income

Income tax related to components of other comprehensive income

	2016	2015	2014
Unrealised revaluations available-for-sale investments and other revaluations	17	72	–293
Realised gains/losses transferred to the statement of profit or loss (reclassifications from equity to profit or loss)	57	39	49
Changes in cash flow hedge reserve	–48	22	–554
Remeasurement of the net defined benefit asset/liability	–20	–14	103
Exchange rate differences and other	–1	10	–48
Total income tax related to components of other comprehensive income	**5**	**129**	**–743**

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.

33 Fair value of assets and liabilities

a) Financial assets and liabilities

The following table presents the estimated fair values of ING Bank'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 Bank.

Fair value of financial assets and liabilities

	Estimated fair value		Statement of financial position value	
	2016	2015	2016	2015
Financial assets				
Cash and balances with central banks	18,144	21,458	18,144	21,458
Loans and advances to banks	28,940	30,101	28,872	29,966
Financial assets at fair value through profit or loss				
– trading assets	114,512	131,485	114,512	131,485
– non-trading derivatives	2,309	3,216	2,309	3,216
– designated as at fair value through profit or loss	5,099	3,234	5,099	3,234
Investments				
– available-for-sale	82,912	87,000	82,912	87,000
– held-to-maturity	8,809	7,855	8,751	7,826
Loans and advances to customers[1]	577,809	710,957	562,873	700,007
Other assets[2]	13,693	11,340	13,693	11,340
	852,227	**1,006,646**	837,165	**995,532**
Financial liabilities				
Deposits from banks	32,352	34,329	31,964	33,808
Customer deposits[1]	532,003	672,798	531,096	672,204
Financial liabilities at fair value through profit or loss				
– trading liabilities	83,167	88,807	83,167	88,807
– non-trading derivatives	3,585	4,364	3,585	4,364
– designated as at fair value through profit or loss	12,266	12,616	12,266	12,616
Other liabilities[3]	15,213	11,513	15,213	11,513
Debt securities in issue	101,498	117,860	101,305	117,556
Subordinated loans	16,012	16,053	16,104	15,920
	796,096	**958,340**	794,700	**956,788**

1 Loans and advances to customers and Customer deposits, as at 31 December 2015, are adjusted as a result of a changes in accounting policies. Reference is made to Note 1 'Accounting policies' – Changes in accounting policies and Changes in presentation in 2016.
2 Other assets do not include, among others: net defined benefit asset.
3 Other liabilities do not include, among others: net defined benefit and related employee benefit liabilities, and other taxation and social security contributions.

Valuation Methods

The estimated fair values represent the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It is a market-based measurement, which is based on assumptions that market participants would use and takes into account the characteristics of the asset or liability that market participants would take into account when pricing the asset or liability. Fair values of financial assets and liabilities are based on quoted prices in active market where available. When such quoted prices are not available, the fair value is determined by using valuation techniques.

ING uses unadjusted quotes where available. Unadjusted quoted prices are primarily obtained from exchange prices for listed financial instruments. Where an exchange price is not available, quoted market prices in active markets may be obtained from independent market vendors, brokers, or market makers. In general, positions are valued at the bid price for a long position and at the offer price for a short position or are valued at the price within the bid-offer spread that is most representative of fair value at the date of valuation.

For certain financial assets and liabilities quoted market prices are not available. For these financial assets and liabilities, fair value is determined using valuation techniques. These valuation techniques range from discounting of cash flows to various valuation models, where relevant pricing factors including the market price of underlying reference instruments, market parameters (volatilities, correlations and credit ratings), and customer behaviour are taken into account. ING maximises the use of market observable inputs and minimises the use of unobservable input in determining the fair value. The fair value can be subjective dependent on the significance of the unobservable input to the overall valuation. All valuation techniques used are subject to internal review and approval. Most data used in these valuation techniques are validated on a daily basis.

When a group of financial assets and financial liabilities are managed on the basis of their net risk exposures, it measures the fair value of a group of financial assets and liabilities on net portfolio basis.

Control framework

To determine whether the valuations based upon data inputs have led to an appropriate fair and prudent value, the process of independent price verification (IPV) or price testing is applied. This is done to ensure the appropriate reflection of these valuations in balance sheet and the profit and loss accounts. IPV tests and confirms the reliability of the market data used in these valuations and can lead to adjustments in valuation where data is found to be unreliable. The IPV process is performed at least monthly or more frequently depending on the nature of the market or trading activity. Multiple data sources are used to the extent that such prices are available and taking into account cost-benefit ratio of retrieving such prices. Valuation differences between primary and secondary source data are assessed. When differences resulting from price testing exceed pre-approved thresholds, adjustments to the profit and loss shall be made. Differences and adjustments must be assessed individually, approved by the Local Parameter Committee, and reported back in the meeting minutes. In case a material difference in value is found through the IPV process, it must be fully understood what the underlying cause is for the difference, and if a systematic change is required (e.g. change of source). Pricing and price testing is applied at individual trade level and is organised at a desk level.

Valuation processes are governed by various governance bodies, which include Local Parameter Committees (LPC), Global Price Testing Committee (GP&IC), Market Data Committee (MDC), Trading Pricing Model Committee (TPMC) and others. All relevant committees meet on a quarterly basis or more frequent as required. Key valuation controls including product approval, IPV, valuation adjustments, and model use is monitored on a monthly basis

The Global Price Testing Committee is responsible for the use of appropriate models and inputs related to fair valued positions. It oversees the quality and coherence of valuation methodologies and processes. Local Parameter Committees monitor the appropriateness of (quoted) pricing, any other relevant market info, as well as that of pricing models themselves related to the fair valued positions to which they are applied. LPC executes valuation methodology and processes at a local level. Global Price Testing Committee oversees market data sources and market data set up / points used for official valuation of positions for fair value. Trading Pricing Model Committee approve and review all pricing models and methodologies for the calculation of market parameters.

Valuation Adjustments

Valuation adjustments are integral part of the fair value. They are included as part of the fair value to provide better estimation of market exit value on measurement date. ING applies various valuation adjustments including Bid-Offer adjustments, Credit Valuation Adjustments (CVA), Debt Valuation Adjustments (DVA), Model Risk Valuation Adjustments, Collateral Valuation Adjustment (CollVA) and Funding Valuation Adjustment. (FVA). The combination of Credit Valuation adjustments is called Bilateral Valuation Adjustment (BVA).

- Bid-Offer adjustments are required to adjust mid-market values to appropriate bid or offer value in order to best represent the exit value, and therefore fair value. It is applicable to financial assets and liabilities that are valued at mid-price initially. If financial assets or liabilities have been quoted at bid and offer price, then no Bid-Offer adjustment is necessary. In practice this adjustment accounts for the difference in valuation from mid-to-bid and mid-to-offer for long and short exposures respectively. In principle assets are valued at the bid prices and liabilities are valued at the offer price. For certain assets or liabilities, where market quoted price is not available, the price within the bid-offer spread that is most representative of fair value is used.
- Credit Valuation Adjustment (CVA) is the valuation component for counterparty credit risk of the derivative contracts. It has bilateral nature, where both counterparty's credit risk and ING own credit risks are taken into account. The calculation is based on the estimation of the expected exposure, counterparties' risk of default, and taking into account the collateral agreements as well as netting agreements. The counterparties' risk of default is measured by probability of default and expected loss given default, which is based on market information including credit default swap (CDS) spread. Where counterparty CDS spreads are not available, relevant proxy spreads are used. Additionally, wrong-way risk (when exposure to a counterparty is increasing and the credit quality of that counterparty deteriorates) and right-way risk (when exposure to a counterparty is increasing and the credit quality of that counterparty improves) are included in the adjustment.
- ING applies Debt Valuation Adjustment (DVA) to own issued financial liabilities that are measured at fair value through profit or loss, if the credit risk component has not been included in the prices. In the DVA calculation, the default probability of the institution are estimated based on the ING Funding spread.
- Model risk occurs in a valuation when the model does not produce the correct valuation due to mis-specification, mis-application, or incorrect implementation of the model. Potential adjustments are determined during new product approval or model review process.
- Collateral Valuation Adjustment (CollVA) is a derivative valuation adjustment capturing specific features of CSA (Credit Swap Annex) with a counterparty that the regular OIS (Overnight Indexed 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 Bank to estimate the fair value of the financial instruments:

a.1) Financial assets

Cash and balances with central banks

The carrying amount of cash approximates its fair value.

Loans and advances to banks

The fair values of receivables from banks are generally based on quoted market prices or, if unquoted, on estimates based on discounting future cash flows using available market interest rates including appropriate spreads offered for receivables with similar characteristics, similar to Loans and advances to customers described below.

Financial assets at fair value through profit or loss and Investments

Derivatives

Derivatives contracts can either be exchange-traded or over the counter (OTC). The fair value of exchange-traded derivatives is determined using quoted market prices in an active market and those derivatives are classified in Level 1 of the fair value hierarchy. For those instruments not actively traded, fair values are estimated based on valuation techniques. OTC derivatives and derivatives trading in an inactive market are valued using valuation techniques because quoted market prices in an active market are not available for such instruments. The valuation techniques and inputs depend on the type of derivative and the nature of the underlying instruments. The principal techniques used to value these instruments are based on discounted cash flows, Black-Scholes option models and Monte Carlo simulation. These valuation models calculate the present value of expected future cash flows, based on 'no-arbitrage' principles. These models are commonly used in the financial industry. Inputs to valuation models are determined from observable market data where possible. Certain inputs may not be observable in the market directly, but can be determined from observable prices via valuation model calibration procedures. The inputs used include prices available from exchanges, dealers, brokers or providers of pricing, yield curves, credit spreads, default rates, recovery rates, dividend rates, volatility of underlying interest rates, equity prices, and foreign currency exchange rates. These inputs are determined with reference to quoted prices, recently executed trades, independent market quotes and consensus data, where available.

For uncollateralised OTC derivatives, ING applies Credit Valuation Adjustment to correctly reflect the counterparty credit risk in the valuation. The technique for calculating CVA is based on Monte Carlo simulation and uses various input including counterparty credit spread, market interest rates, and market exchanges rates. The counterparty credit spreads are based on counterparty CDS spread where available. Otherwise, the indexed proxy CDS spreads are used.

Equity securities

The fair values of publicly traded equity securities are based on quoted market prices when available. Where no quoted market prices are available, fair value is determined based on quoted prices for similar securities or other valuation techniques.

The fair value of private equity is based on quoted market prices, if available. In the absence of quoted prices in an active market, fair value is estimated on the basis of an analysis of the investee's financial position and results, risk profile, prospects, price, earnings comparisons and revenue multiples, and by reference to market valuations for similar entities quoted in an active market.

Debt securities

Fair values for debt securities are based on quoted market prices, where available. Quoted market prices may be obtained from an exchange, dealer, broker, industry group, pricing service, or regulatory service. The quoted prices from non-exchange sources are assessed to determine if they are tradable prices or consensus prices derived from in-house models utilising a variety of inputs. This distinction determines where it falls in the fair value hierarchy.

If quoted prices in an active market are not available, fair value is based on an analysis of available market inputs, which may include values obtained from one or more pricing services or by a valuation technique that discounts expected future cash flows using a market interest rate curves, referenced credit spreads, maturity of the investment, and estimated prepayment rates where applicable.

Loans and receivables

Reference is made to Loans and advances to customers below.

Loans and advances to customers
For loans and advances that are repriced frequently and have had no significant changes in credit risk, carrying amounts represent a reasonable estimate of the fair value. The fair value of other loans is estimated by discounting expected future cash flows using a discount rate that reflects credit risk, liquidity, and other current market conditions. The fair value of mortgage loans is estimated by taking into account prepayment behaviour. Loans with similar characteristics are aggregated for calculation purposes.

Other assets
The other assets are stated at their carrying value which is not significantly different from their fair value.

a.2) Financial liabilities
Deposits from banks
The fair values of payables to banks are generally based on quoted market prices or, if not available, on estimates based on discounting future cash flows using available market interest rates and credit spreads for payables to banks with similar characteristics.

Customer deposits
The carrying values of customer deposits with 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 Bank 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 Bank's own assumptions about the factors that market participants would use in pricing an asset or liability, developed based on the best information available in the market. Unobservable inputs may include volatility, correlation, spreads to discount rates, default rates and recovery rates, prepayment rates and certain credit spreads. Transfers into and transfers out of fair value hierarchy levels are recognised as of the date of the event or change in circumstances that caused the transfer.

Level 1 – (Unadjusted) quoted prices in active markets

This category includes financial instruments whose fair value is determined directly by reference to (unadjusted) quoted prices in an active market that ING Bank 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 Bank 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 Bank has chosen to align the definition of significant with the 90% confidence range as captured in the prudent value definition by EBA. Unobservable parameters are shifted down and upwards to reach this 90% confidence range. The same 90% confidence range is applied to model uncertainty. If the combined change in asset value resulting from the shift of the unobservable parameters and the model uncertainty exceeds the threshold, the asset is classified as Level 3. A value change below the threshold results in a Level 2 classification.

Valuation techniques used for Level 2 assets and liabilities range from discounting of cash flows to various industry standard valuation models such as option pricing model and Monte Carlo simulation model, where relevant pricing factors including the market price of underlying reference instruments, market parameters (volatilities, correlations, and credit ratings), and customer behaviour are taken into account.

Level 3 – Valuation technique supported by unobservable inputs

This category includes financial instruments whose fair value is determined using a valuation technique (e.g. a model) for which more than an insignificant part of the inputs in terms of the overall valuation are not market observable. This category also includes financial assets and liabilities whose fair value is determined by reference to price quotes but for which the market is considered inactive. Level 3 Trading assets, Non-trading derivatives, Assets designated at fair value through profit or loss, and Level 3 Financial liabilities at fair value through profit or loss include financial instruments with different characteristics and nature, which are valued on the basis of valuation techniques that feature one or more significant inputs that are unobservable. An instrument in its entirety is classified as Level 3 if a significant portion of the instrument's fair value is driven by unobservable inputs. Unobservable in this context means that there is little or no current market data available from which to derive a price that an unrelated, informed buyer would purchase the asset or liability at.

Financial instruments at fair value

The fair values of the financial instruments were determined as follows:

Methods applied in determining fair values of financial assets and liabilities (carried at fair value)				
2016	Level 1	Level 2	Level 3	Total
Financial Assets				
Trading assets	17,660	95,629	1,223	114,512
Non-trading derivatives	3	2,244	62	2,309
Financial assets designated as at fair value through profit or loss	502	4,141	456	5,099
Available-for-sale investments	76,238	6,153	521	82,912
	94,403	**108,167**	**2,262**	**204,832**
Financial liabilities				
Trading liabilities	6,139	75,650	1,378	83,167
Non-trading derivatives		3,561	24	3,585
Financial liabilities designated as at fair value through profit or loss	1,348	10,795	123	12,266
	7,487	**90,006**	**1,525**	**99,018**

Main changes in fair value hierarchy in 2016

In 2016, the decrease in Level 2 financial assets and liabilities is mainly due to decreased (reverse) repo balances.

There were no significant transfers between Level 1 and Level 2.

There were no changes in the valuation techniques during the year.

Methods applied in determining fair values of financial assets and liabilities (carried at fair value)				
2015	Level 1	Level 2	Level 3	Total
Financial Assets				
Trading assets	27,144	103,195	1,146	131,485
Non-trading derivatives	4	3,205	7	3,216
Financial assets designated as at fair value through profit or loss	242	2,654	338	3,234
Available-for-sale investments	81,640	4,667	693	87,000
	109,030	**113,721**	**2,184**	**224,935**
Financial liabilities				
Trading liabilities	9,037	78,531	1,239	88,807
Non-trading derivatives		4,363	1	4,364
Financial liabilities designated as at fair value through profit or loss	1,578	10,840	198	12,616
	10,615	**93,734**	**1,438**	**105,787**

Main changes in fair value hierarchy in 2015

There were no significant transfers between Level 1 and Level 2.

In 2015, there were changes in the valuation techniques driven by current market conditions, with LIBOR being negative.

Changes in Level 3 Financial assets

2016	Trading assets	Non-trading derivatives	Financial assets designated as at fair value through profit and loss	Available-for-sale investments	Total
Opening balance	1,146	7	338	693	2,184
Amounts recognised in the statement of profit or loss during the year	226	–7	76	200	495
Revaluation recognised in equity during the year				–144	–144
Purchase of assets	77	5	193	68	343
Sale of assets	–71	–5	–76	–183	–335
Maturity/settlement	–135			–9	–144
Reclassifications				–92	–92
Transfers into Level 3	21	62		5	88
Transfers out of Level 3	–43		–75		–118
Exchange rate differences	3			8	11
Changes in the composition of the group and other changes	–1			–25	–26
Closing balance	**1,223**	**62**	**456**	**521**	**2,262**

In 2016, financial assets were transferred out of Level 3 on the basis that the valuation is not significantly impacted by unobservable inputs.

Included in Amounts recognised in the statement of profit or loss during the year, is EUR 163 million related to the release of revaluation reserves on shares held in VISA Europe Limited. For further information on the VISA transaction, reference is made to Note 47 'Other events'.

Changes in Level 3 Financial assets

2015	Trading assets	Non-trading derivatives	Financial assets designated as at fair value through profit and loss	Available-for-sale investments	Total
Opening balance	810	130	90	573	1,603
Amounts recognised in the statement of profit or loss during the year	146	–127	–55	30	–6
Revaluation recognised in equity during the year				171	171
Purchase of assets	356	4	467	125	952
Sale of assets	–76		–148	–209	–433
Maturity/settlement	–46		–16	–5	–67
Transfers into Level 3	11				11
Transfers out of Level 3	–61				–61
Exchange rate differences	6			23	29
Changes in the composition of the group and other changes				–15	–15
Closing balance	**1,146**	**7**	**338**	**693**	**2,184**

In 2015, there were no significant transfers into or out of Level 3.

Included in Revaluation recognised in equity during the year, was an amount of EUR 154 million related to available-for-sale equity securities held in VISA Europe Limited. References is made to Note 5 'Investments', Note 18 'Equity and Note 47 'Other events'.

Changes in Level 3 Financial liabilities

2016	Trading liabilities	Non-trading derivatives	Financial liabilities designated as at fair value through profit or loss	Total
Opening balance	1,239	1	198	1,438
Amounts recognised in the statement of profit or loss during the year	277	12	–3	286
Issue of liabilities	53	11	4	68
Early repayment of liabilities	–62	–11	–13	–86
Maturity/settlement	–62			–62
Transfers into Level 3	16	11		27
Transfers out of Level 3	–86		–63	–149
Exchange rate differences	6			6
Changes in the composition of the group and other changes	–3			–3
Closing balance	**1,378**	**24**	**123**	**1,525**

In 2016, financial liabilities were transferred out of Level 3 mainly due to the valuation not being significantly impacted by unobservable inputs.

Changes in Level 3 Financial liabilities

2015	Trading liabilities	Non-trading derivatives	Financial liabilities designated as at fair value through profit or loss	Total
Opening balance	997	16	323	1,336
Amounts recognised in the statement of profit or loss during the year	120	–15	–83	22
Issue of liabilities	244		121	365
Early repayment of liabilities	–54		–31	–85
Maturity/settlement	–24		–15	–39
Transfers into Level 3	12			12
Transfers out of Level 3	–65		–117	–182
Exchange rate differences	9			9
Closing balance	**1,239**	**1**	**198**	**1,438**

In 2015, financial liabilities of EUR 182 million were transferred out of Level 3 mainly due to the valuation not being significantly impacted by unobservable inputs.

Amounts recognised in the statement of profit or loss during the year (Level 3)

2016	Held at balance sheet date	Derecognised during the year	Total
Financial assets			
Trading assets	226		226
Non-trading derivatives	–7		–7
Financial assets designated as at fair value through profit or loss	76		76
Available-for-sale investments	–3	203	200
	292	**203**	**495**
Financial liabilities			
Trading liabilities	277		277
Non-trading derivatives	12		12
Financial liabilities designated as at fair value through profit or loss	–3		–3
	286		**286**

Amounts recognised in the statement of profit or loss during the year (Level 3)

2015	Held at balance sheet date	Derecognised during the year	Total
Financial assets			
Trading assets	146		146
Non-trading derivatives	–127		–127
Financial assets designated as at fair value through profit or loss	–55		–55
Available-for-sale investments	–34	64	30
	–70	**64**	**–6**
Financial liabilities			
Trading liabilities	120		120
Non-trading derivatives	–15		–15
Financial liabilities designated as at fair value through profit or loss	–83		–83
	22	**–**	**22**

Recognition of unrealised gains and losses in Level 3

Amounts recognised in the statement of profit or loss relating to unrealised gains and losses during the year that relates to Level 3 assets and liabilities are included in the statement of profit or loss as follows:

- Results on trading assets and trading liabilities are included in Net trading income;
- Non-trading derivatives are included in Net valuation results on non-trading derivatives; and
- Financial assets and liabilities designated at fair value through profit or loss are included in Net valuation results on non-trading derivatives - Valuation results on assets and liabilities designated at fair value through profit or loss (excluding trading).

Unrealised gains and losses that relate to Available-for-sale investments recognised in Other comprehensive income are included in the Revaluation reserve – Available-for-sale reserve and other.

Level 3 Financial assets and liabilities

Financial assets measured at fair value in the statement of financial position as at 31 December 2016 of EUR 205 billion includes an amount of EUR 2.3 billion (1.1%) which is classified as Level 3 (31 December 2015: EUR 2.2 billion, being 1.0%). Changes in Level 3 from 31 December 2015 to 31 December 2016 are disclosed above in the table Changes in Level 3 Financial assets.

Financial liabilities measured at fair value in the statement of financial position as at 31 December 2016 of EUR 99 billion includes an amount of EUR 1.5 billion 1.5%) which is classified as Level 3 (31 December 2015: EUR 1.4 billion, being 1.4%). Changes in Level 3 from 31 December 2015 to 31 December 2016 are disclosed above in the table ‘Changes in Level 3 Financial liabilities’.

Financial assets and liabilities in Level 3 include both assets and liabilities for which the fair value was determined using valuation techniques that incorporate unobservable inputs and assets and liabilities for which the fair value was determined using quoted prices, but have been adjusted to reflect that the market was not actively trading at or around the balance sheet date. Unobservable inputs are inputs which are based on ING's own assumptions about the factors that market participants would use in pricing an asset or liability, developed based on the best information available in the circumstances. Unobservable inputs may include volatility, correlation, spreads to discount rates, default rates and recovery rates, prepayment rates, and certain credit spreads. Valuation techniques that incorporate unobservable inputs are sensitive to the inputs used.

Of the total amount of financial assets classified as Level 3 as at 31 December 2016 of EUR 2.3 billion (31 December 2015: EUR 2.2 billion), an amount of EUR 1.0 billion (45%) (31 December 2015: EUR 0.9 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 0.5 billion (31 December 2015: EUR 0.4 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 0.8 billion (31 December 2015: EUR 0.9 billion) of the fair value classified in Level 3 financial assets is established using valuation techniques that incorporates certain inputs that are unobservable. This relates mainly to assets that are classified as Available-for-sale investments, for which changes in fair value are recognised in shareholders' equity and do not directly impact profit or loss.

Of the total amount of financial liabilities classified as Level 3 as at 31 December 2016 of EUR 1.5 billion (31 December 2015: EUR 1.4 billion), an amount of EUR 0.9 billion (59%) (31 December 2015: EUR 0.7 billion, being 50%) is based on unadjusted quoted prices in inactive markets. As ING does not generally adjust quoted prices using its own inputs, there is no significant sensitivity to ING's own unobservable inputs.

Furthermore, Level 3 financial liabilities includes approximately EUR 0.1 billion (31 December 2015: EUR 0.2 billion) which relates to financial liabilities that are part of structures that are designed to be fully neutral in terms of market risk. As explained above, the fair value of each of the components of these structures may be sensitive to unobservable inputs, but the overall sensitivity is by design not significant.

The remaining EUR 0.5 billion (31 December 2015: EUR 0.5 billion) of the fair value classified in Level 3 financial liabilities is established using valuation techniques that incorporates certain inputs that are unobservable.

The table below provides a summary of the valuation techniques, key unobservable inputs and the lower and upper range of such unobservable inputs, by type of Level 3 asset/liability. The lower and upper range mentioned in the overview represent the lowest and highest variance of the respective valuation input as actually used in the valuation of the different financial instruments. Amounts and percentages stated are unweighted. The range can vary from period to period subject to market movements and change in Level 3 position. Lower and upper bounds reflect the variability of Level 3 positions and their underlying valuation inputs in the portfolio, but do not adequately reflect their level of valuation uncertainty. For valuation uncertainty assessment, reference is made to section Sensitivity analysis of unobservable inputs (Level 3).

Valuation techniques and range of unobservable inputs (Level 3)

2016	Assets	Liabilities	Valuation techniques	Significant unobservable inputs	Lower range	Upper range
At fair value through profit or loss						
Debt securities	180		Price based	Price (%)	0%	122%
			Net asset value	Price (%)	10%	19%
Equity securities	4		Price based	Price (%)	0%	0%
Loans and advances	326	3	Price based	Price (%)	60%	101%
			Present value techniques	Credit spread (bps)	130	150
Structured notes	6	125	Price based	Price (%)	52%	111%
			Net asset value	Price (%)	19%	19%
			Option pricing model	Equity volatility (%)	16%	34%
				Equity/Equity correlation	0.0	0.8
				Equity/FX correlation	-0.4	0.1
				Dividend yield (%)	1%	5%
				Interest rate volatility (%)	n.a.	n.a
			Present value techniques	Implied correlation	0.7	0.7
Derivatives						
– Rates	486	457	Option pricing model	Interest rate volatility (bps)	22	300
				Interest rate correlation	n.a	n.a
				IR/INF correlation	0.5	0.5
			Present value techniques	Reset spread (%)	2%	2%
				Prepayment rate (%)	5%	10%
				Inflation rate (%)	2%	4%
– FX	642	688	Present value techniques	Inflation rate (%)	2%	3%
– Credit	33	43	Present value techniques	Credit spread (bps)	0	1,596
				Implied correlation	0.7	1.
				Jump rate (%)	12%	12%
			Price based	Price (%)	99%	99%
– Equity	64	208	Option pricing model	Equity volatility (%)	0%	140%
				Equity/Equity correlation	-0.1	1.0
				Equity/FX correlation	-0.9	0.6
				Dividend yield (%)	0%	13%
– Other		1	Option pricing model	Commodity volatility (%)	13%	55%
				Com/Com correlation	0.0	0.9
				Com/FX correlation	-0.5	0.0
Available for sale						
– Debt	55		Price based	Price (%)	0%	99%
			Present value techniques	Credit spread (bps)	339	400
				Weighted average life (yr)	1.6	3.2
– Equity	466		Discounted cash flow	Financial Statements	n.a	n.a
			Multiplier method	Observable market factors	n.a	n.a
			Comparable transactions		n.a	n.a
Total	**2,262**	**1,525**				

Notes to the Consolidated annual accounts of ING Bank - continued

Valuation techniques and range of unobservable inputs (Level 3)

2015	Assets	Liabilities	Valuation techniques	Significant unobservable inputs	Lower range	Upper range
At fair value through profit or loss						
Debt securities	72		Price based	Price (%)	1%	115%
			Net asset value	Price (%)	15%	33%
Loans and advances	356	7	Price based	Price (%)	0%	100%
			Present value techniques	Credit spread (bps)	130	135
Structured notes		198	Price based	Price (%)	0%	111%
			Net asset value	Price (%)	33%	33%
			Option pricing model	Equity volatility (%)	10%	109%
				Equity/Equity correlation	0.6	0.9
				Equity/FX correlation	-0.5	0.3
				Dividend yield (%)	1%	5%
				Interest rate volatility (%)	n.a	n.a
			Present value techniques	Implied correlation	0.7	0.9
Derivatives						
– Rates	480	602	Option pricing model	Interest rate volatility (bps)	21	93
				Interest rate correlation	0.9	0.9
				IR/INF correlation	0.5	0.5
			Present value techniques	Reset spread (%)	3%	3%
				Prepayment rate (%)	5%	5%
				Inflation rate (%)	2%	4%
– FX	412	359	Present value techniques	Inflation rate (%)	1%	3%
– Credit	42	50	Present value techniques	Credit spread (bps)	3	16,704
				Implied correlation	0.6	1.0
				Jump rate (%)	12%	12%
– Equity	128	222	Option pricing model	Equity volatility (%)	0%	136%
				Equity/Equity correlation	-0.1	1.0
				Equity/FX correlation	-1.0	1.0
				Dividend yield (%)	0%	13%
– Other	1		Option pricing model	Commodity volatility (%)	17%	82%
				Com/Com correlation	0.3	1.0
				Com/FX correlation	-0.8	0.6
Available for sale						
– Debt	63		Price based	Price (%)	0%	98%
			Present value techniques	Credit spread (bps)	204	400
				Weighted average life (yr)	1.6	3.3
– Equity	630		Discounted cash flow	Financial Statements	n.a	n.a
			Multiplier method	Observable market factors	n.a	n.a
			Comparable transactions		n.a	n.a
Total	**2,184**	**1,438**				

Non-listed equity investments

Level 3 equity securities mainly include corporate investments, fund investments, real estate positions and other equity securities which are not traded in active markets. In the absence of an active market, fair values are estimated on the basis of the analysis of fund managers reports, company's financial position, future prospects and other factors, considering valuations of similar positions or by the reference to acquisition cost of the position. For equity securities best market practice will be applied using the most relevant valuation method.

All non-listed equity investments, including investments in private equity funds, are subject to a standard review framework which ensures that valuations reflect fair values.

Price
For securities where market prices are not available fair value is measured by comparison with observable pricing data from similar instruments. Prices of 0% are distressed to the point that no recovery is expected, while prices significantly in excess of 100% or par are expected to pay a good yield.

Credit spreads
Credit spread is the premium above a benchmark interest rate, typically LIBOR or relevant Treasury instrument, required by the market participant to accept a lower credit quality. Higher credit spreads indicate lower credit quality and a lower value of an asset.

Volatility
Volatility is a measure for variation of the price of a financial instrument or other valuation input over time. Volatility is one of the key inputs in option pricing models. Typically, the higher the volatility, the higher value of the option. Volatility varies by the underlying reference (equity, commodity, foreign currency and interest rates), by strike, and maturity of the option. The minimum level of volatility is 0% and there is no theoretical maximum.

Correlation
Correlation is a measure of dependence between two underlying references which is relevant for valuing derivatives and other instruments which have more than one underlying reference. For example, correlation between underlying equity names may be a relevant input parameter for basket equity option pricing models. High positive correlation (close to 1) indicates strong positive (statistical) relationship between underlyings, implying they typically move in the same direction. High negative correlation, on the other hand, implies that underlyings typically move in opposite directions.

Interest rates
Prepayment rate and reset spread are key inputs to mortgage linked prepayment swaps valuation. Prepayment rate is the estimated rate at which mortgage borrowers will repay their mortgages early, e.g. 5% per year. Reset spread is the future spread at which mortgages will re-price at interest rate reset dates.

Inflation rate is a key input to inflation linked instruments. Inflation linked instruments protect against price inflation and are denominated and indexed to investment units. Interest payments would be based on the inflation index and nominal rate in order to receive/pay the real rate of return. A rise in nominal coupon payments is a result of an increase in inflation expectations, real rates, or both. As markets for these inflation linked derivatives are illiquid, the valuation parameters become unobservable.

Dividend yield
Dividend yield is an important input for equity option pricing models showing how much dividends a company pays out each year relative to its share price. Dividend yields are generally expressed as an annualised percentage of share price.

Sensitivity analysis of unobservable inputs (Level 3)
Where the fair value of a financial instrument is determined using inputs which are unobservable and which have a more than insignificant impact on the fair value of the instrument, the actual value of those inputs at the balance date may be drawn from a range of reasonably possible alternatives. In line with market practice the upper and lower bounds of the range of alternative input values reflect a 90% level of valuation certainty. The actual levels chosen for the unobservable inputs in preparing the financial statements are consistent with the valuation methodology used for fair valued financial instruments.

If ING had used input values from the upper and lower bound of this range of reasonable possible alternative input values when valuing these instruments as of 31 December 2016, then the impact would have been higher or lower as indicated below. The purpose of this disclosure is to present the possible impact of a change of unobservable inputs in the fair value of financial instruments where unobservable inputs are significant to the valuation.

As ING has chosen to apply a 90% confidence level already for its IFRS valuation of fair valued financial instruments as of end of 2014, the downward valuation uncertainty has become immaterial, whereas the potential upward valuation uncertainty, reflecting a potential profit, has increased. Specifically for the AFS Debt positions the upward valuation uncertainty decreased.

For more detail on the valuation of fair valued instruments, refer to the section 'Risk Management – Market risk', paragraph 'Fair values of financial assets and liabilities' in this document.

In practice valuation uncertainty is measured and managed per exposure to individual valuation inputs (i.e. risk factors) at portfolio level across different product categories. Where the disclosure looks at individual Level 3 inputs the actual valuation adjustments may also reflect the benefits of portfolio offsets.

Because of the approach taken, the valuation uncertainty in the table below is broken down by related risk class rather than by product.

In reality some valuation inputs are interrelated and it would be unlikely that all unobservable inputs would ever be simultaneously at the limits of their respective ranges of reasonably possible alternatives. Therefore it can be assumed that the estimates in the table below show a greater fair value uncertainty than the realistic position at year end assuming normal circumstances/normal markets.

Also, this disclosure does not attempt to indicate or predict future fair value movement. The numbers in isolation give limited information as in most cases these Level 3 assets and liabilities should be seen in combination with other instruments (for example as a hedge) that are classified as Level 2.

Sensitivity analysis of Level 3 instruments

2016	Positive fair value movements from using reasonable possible alternatives	Negative fair value movements from using reasonable possible alternatives
Fair value through profit or loss		
Equity (equity derivatives, structured notes)	96	
Interest rates (Rates derivatives, FX derivatives)	80	
Credit (Debt securities, Loans, structured notes, credit derivatives)	33	
Available-for-sale		
Equity	8	14
Debt	2	
	219	14

Sensitivity analysis of Level 3 instruments

2015	Positive fair value movements from using reasonable possible alternatives	Negative fair value movements from using reasonable possible alternatives
Fair value through profit or loss		
Equity (equity derivatives, structured notes)	129	
Interest rates (Rates derivatives, FX derivatives)	83	
Credit (Debt securities, Loans, structured notes, credit derivatives)	39	
Available-for-sale		
Equity	9	14
Debt	15	
	275	**14**

Other financial instruments

The fair values of the financial instruments carried at amortised cost in the statement of financial position, but for which fair values are disclosed are determined as follows:

Methods applied in determining fair values of financial assets and liabilities (carried at amortised cost)

2016	Level 1	Level 2	Level 3	Total
Financial assets				
Loans and advances to banks	3,534	11,135	14,271	28,940
Held-to-maturity investments	6,983	1,749	77	8,809
Loans and advances to customers	5,121	21,612	551,076	577,809
	15,638	**34,496**	**565,424**	**615,558**
Financial liabilities				
Deposits from banks[1]		14,447	8,096	22,543
Customer deposits[1]		12,922	59,863	72,785
Debt securities in issue	39,359	47,822	14,317	101,498
Subordinated loans	7,569	4,396	4,047	16,012
	46,928	**79,587**	**86,323**	**212,838**

1 Financial assets and liabilities that are on demand are excluded from the fair value hierarchy as their fair value approximates the carrying value.

Methods applied in determining fair values of financial assets and liabilities (carried at amortised cost)

2015	Level 1	Level 2	Level 3	Total
Financial assets				
Loans and advances to banks	5,197	12,572	12,332	30,101
Held-to-maturity investments	5,739	1,951	165	7,855
Loans and advances to customers[1]	4,815	16,703	525,975	547,493
	15,751	**31,226**	**538,472**	**585,449**
Financial liabilities				
Deposits from banks[2]		15,984	8,038	24,022
Customer deposits[1, 2]		31,332	55,947	87,279
Debt securities in issue	53,145	51,443	13,272	117,860
Subordinated loans	8,633	7,430		16,063
	61,778	**106,189**	**77,257**	**245,224**

1 Loans and advances to customers and Customer deposits, as at 31 December 2015, are adjusted as a result of a changes in accounting policies Reference is made to Note 1 'Accounting policies' – Changes in accounting policies and Changes in presentation in 2016.
2 Financial assets and liabilities that are on demand are excluded from the fair value hierarchy as their fair value approximates the carrying value, comparative figures have been restated.

b) Non-financial assets and liabilities

ING Bank's non-financial assets comprise Investments in associates and joint ventures, Property in own use, and Investment properties as included in the Statement of financial position in the line items Investments in associates and joint ventures, Property and equipment, and Other assets respectively.

Investments in associates and joint ventures are accounted for using the equity method. For further information, reference is made to Note 7 'Investments in associates and joint ventures'.

Other non-financial assets are recognised at fair value at the balance sheet date. For the methods and assumptions used by ING Bank to estimate the fair value of these non-financial assets, reference is made to Note 1 'Accounting policies', sections 'Property in own use' and 'Investment properties'.

As at 31 December 2016, the estimated fair value of Property in own use and Investment properties amounts to EUR 881 million (2015: 982 million) and EUR 65 million (2015: EUR 77 million) respectively and is categorised as Level 3 (2015: Level 3) of the fair value hierarchy on the basis of methods applied in determining the fair values.

Amounts recognised in the statement of profit or loss relating to unrealised gains and losses during the year that relate to Level 3 assets and liabilities are included in the statement of profit or loss as follows:

- Impairments on Property in own use are included in Other operating expenses - Intangible amortisation and (reversals) of impairments; and
- Changes in the fair value of Investment properties are included in Investment income.

Unrealised gains and losses on Property in own use are included in the Revaluation reserve – Property in own use reserve.

For amounts recognised in the Statement of profit or loss and other changes in non-financial assets during the year, reference is made to Note 8 'Property and equipment' and Note 10 'Other assets'.

As at 31 December 2016, ING Bank has no non-financial liabilities (2015: none).

34 Derivatives and hedge accounting

Use of derivatives and hedge accounting

As described in the sections 'Risk management – Credit risk and Market risk', ING Bank 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 Bank's hedging activities is to optimise the overall cost to the Bank 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 Bank 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 Bank 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 Bank'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 – Net valuation results on non-trading derivatives

Fair value changes on derivatives designated under fair value hedge accounting	2016	2015
Change in fair value of derivatives	241	1,243
Change in fair value of assets and liabilities (hedged items)	–224	–1,308
Net accounting ineffectiveness recognised in the Statement of profit or loss	**17**	**65**

The fluctuation in balances between 2015 and 2016 relate to the volatility in interest rate movements.

Statement of financial position – Financial assets and liabilities at fair value through profit or loss

Fair values of outstanding derivatives designated under fair value hedge accounting	2016	2015
Positive fair values outstanding (Non-trading derivative assets)	1,012	1,010
Negative fair values outstanding (Non-trading derivative liabilities)	–1,888	–2,411
	–876	**–1,401**

ING Bank applies fair value hedge accounting for portfolio hedges of interest rate risk (macro hedging) under the EU carve out of IFRS. The EU carve-out for macro hedging enables a group of derivatives (or proportions) to be viewed in combination and jointly designated as the hedging instrument and removes some of the limitations in fair value hedge accounting relating to hedging core deposits and under-hedging strategies. Under the EU carve-out, hedge accounting may be applied to core deposits and ineffectiveness only arises when the revised estimate of the amount of cash flows in scheduled time buckets falls below the designated amount of that bucket. ING Bank applies the EU carve-out to its retail operations in which the net exposure of retail funding (savings and current accounts) and retail lending (mortgages) is hedged. The hedging activities are designated under a portfolio fair value hedge on the mortgages, using the IFRS provisions.

Cash flow hedge accounting

ING Bank's cash flow hedges principally consist of (forward) interest rate swaps and cross-currency interest rate swaps that are used to protect against its exposure to variability in future interest cash flows on non-trading assets and liabilities that bear interest at variable rates or are expected to be refunded or reinvested in the future. The amounts and timing of future cash flows, representing both principal and interest flows, are projected for each portfolio of financial assets and liabilities, based on contractual terms and other relevant factors including estimates of prepayments and defaults. The aggregate principal balances and interest cash flows for the respective portfolios form the basis for identifying the notional amount subject to interest rate risk that is designated under cash flow hedge accounting.

Gains and losses on the effective portions of derivatives designated under cash flow hedge accounting are recognised in Shareholders' equity. Interest cash flows on these derivatives are recognised in the statement of profit or loss in net interest income consistent with the manner in which the forecast cash flows affect net result. The gains and losses on ineffective portions of such derivatives are recognised immediately in the statement of profit or loss.

Statement of changes in equity – Cash flow hedge reserve

Cash flow hedge reserve	2016	2015
Effective portion of fair value changes on derivatives under cash flow hedges, after tax	102	–200
Cash flow hedge reserve as at 31 December, gross	1,015	870
Cash flow hedge reserve as at 31 December, after deferred tax	777	675

This cash flow hedge reserve will fluctuate with the fair value changes of the underlying derivatives and will be reflected in the statement of profit or loss under Interest income/expense over the remaining term of the underlying hedged items. The cash flow hedge reserve relates to a large number of derivatives and hedged items with varying maturities, up to 28 years, with the largest concentrations in the range of 3 to 4 years.

Statement of financial position – Financial assets and liabilities at fair value through profit or loss

Fair values of outstanding derivatives designated under cash flow hedge accounting	2016	2015
Positive fair values outstanding (Non-trading derivative assets)	438	917
Negative fair values outstanding (Non-trading derivative liabilities)	–671	–1,167
	–233	**–250**

As at 31 December 2016, the fair value of outstanding non-derivatives designated as hedging instruments for cash flow hedge accounting purposes was EUR 0 million (2015: nil).

Statement of profit or loss – Net interest income

Net interest income on cash flow hedge derivatives	2016	2015
Interest income on cash flow hedge derivatives	2,654	2,876
Interest expense on cash flow hedge derivatives	–2,181	–2,435
	473	441

Accounting ineffectiveness on derivatives designated under cash flow hedge accounting resulted in a loss of EUR 16 million (2015: EUR 31 million gain) which was recognised in the statement of profit or loss, in the line Net valuation results on non-trading derivatives.

Hedges of net investments in foreign operations

ING Bank's net investment hedges principally consist of derivatives (including currency forwards and swaps) and non-derivative financial instruments such as foreign currency denominated funding that are used to protect against foreign currency exposures on foreign subsidiaries.

Gains and losses on the effective portions of derivatives designated under net investment hedge accounting are recognised in Shareholders' equity. The balance in equity is recognised in the statement of profit or loss when the related foreign subsidiary is disposed. The gains and losses on ineffective portions are recognised immediately in the statement of profit or loss.

Statement of financial position – Financial assets and liabilities at fair value through profit or loss

Fair values of outstanding derivatives designated under net investment hedge accounting	2016	2015
Positive fair values outstanding (Non-trading derivative assets)	73	72
Negative fair values outstanding (Non-trading derivative liabilities)	–33	–52
	40	**20**

As at 31 December 2016, the fair value of outstanding non-derivatives designated under net investment hedge accounting was EUR 0 million (2015: EUR 1,288 million).

Accounting ineffectiveness recognised in the statement of profit or loss for the year ended 31 December 2016 on derivatives and non-derivatives designated under net investment hedge accounting was EUR 0 million (2015: nil).

35 Assets by contractual maturity

Amounts presented in these tables by contractual maturity are the amounts as presented in the statement of financial position and are discounted cash flows. Reference is made to the section 'Risk Management – Funding and liquidity risk'.

Assets by contractual maturity

2016	Less than 1 month[1]	1–3 months	3–12 months	1–5 years	Over 5 years	Maturity not applicable	Total
Cash and balances with central banks	18,144						18,144
Loans and advances to banks	14,652	4,373	5,414	3,779	654		28,872
Financial assets at fair value through profit or loss							
– trading assets	47,218	19,236	13,722	16,967	17,369		114,512
– non-trading derivatives	107	29	85	793	1,295		2,309
– designated 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	56,186	17,187	42,515	162,805	284,180		562,873
Intangible assets			145	290		1,049	1,484
Other assets[2]	9,864	1,673	2,716	855	850		15,958
Remaining assets (for which maturities are not applicable)[3]						3,005	3,005
Total assets	**149,210**	**47,647**	**74,987**	**226,456**	**337,542**	**8,077**	**843,919**

1 Includes assets on demand.
2 Includes Other assets and Current and Deferred tax assets as presented in the Consolidated statement of financial position.
3 Included in remaining assets for which maturities are not applicable are property and equipment, and investments in associates. Due to their nature remaining assets consist mainly of assets expected to be recovered after more than 12 months.

Assets by contractual maturity

2015	Less than 1 month[1]	1–3 months	3–12 months	1–5 years	Over 5 years	Maturity not applicable	Total
Cash and balances with central banks	21,458						21,458
Loans and advances to banks	16,206	4,141	5,152	3,502	965		29,966
Financial assets at fair value through profit or loss							
– trading assets	53,181	19,060	17,244	19,845	22,155		131,485
– non-trading derivatives	7	63	265	787	2,094		3,216
– designated at fair value through profit or loss	256	963	1,112	540	363		3,234
Investments							
– available-for-sale	1,187	1,532	7,622	37,648	34,577	4,434	87,000
– held-to-maturity	1	249	12	5,456	2,108		7,826
Loans and advances to customers[2]	219,804	14,457	37,665	153,002	275,079		700,007
Intangible assets			189	378		1,000	1,567
Other assets[3]	7,021	1,802	2,685	337	1,442		13,287
Remaining assets (for which maturities are not applicable)[4]						2,946	2,946
Total assets	**319,121**	**42,267**	**71,946**	**221,495**	**338,783**	**8,380**	**1,001,992**

1 Includes assets on demand.
2 Loans and advances to customers, as at 31 December 2015, is adjusted as a result of a changes in accounting policies. Amounts to be settled have been reclassified from Loans and advances to banks, Loans and advances to customers, Reference is made to Note 1 'Accounting policies' – Changes in accounting policies and Changes in presentation in 2016.
3 Includes Other assets and Current and Deferred tax assets as presented in the Consolidated statement of financial position.
4 Included in remaining assets for which maturities are not applicable are property and equipment, investment properties and investments in associates. Due to their nature remaining assets consist mainly of assets expected to be recovered after more than 12 months.

36 Liabilities by maturity

The tables below include all financial liabilities by maturity based on contractual, undiscounted cash flows. Furthermore, the undiscounted future coupon interest on financial liabilities payable is included in a separate line and in the relevant maturity bucket. Derivative liabilities are included on a net basis if cash flows are settled net. For other derivative liabilities the contractual gross cash flow payable is included.

Non-financial liabilities are included based on a breakdown of the amounts per the statement of financial position, by expected maturity. Reference is made to the liquidity risk paragraph in the section 'Risk Management – Funding and liquidity risk' for a description on how liquidity risk is managed.

Liabilities by maturity

2016	Less than 1 month[1]	1–3 months	3–12 months	1–5 years	Over 5 years	Maturity not applicable	Adjust-ment[2]	Total
Deposits from banks	11,874	506	2,060	14,324	3,200			31,964
Customer deposits	476,489	19,694	25,563	6,720	2,617		13	531,096
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	725	1,844	1,497		–1,051	3,585
– designated as 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	20,599	44,089	20,364		–1,883	101,305
Subordinated loans			86	34	9,117	6,603	264	16,104
Financial liabilities	**521,566**	**51,349**	**59,251**	**87,191**	**55,475**	**6,603**	**–1,948**	**779,487**
Other liabilities[3]	10,413	1,941	4,361	2,201	1,370			20,286
Non-financial liabilities	**10,413**	**1,941**	**4,361**	**2,201**	**1,370**			**20,286**
Total liabilities	**531,979**	**53,290**	**63,612**	**89,392**	**56,845**	**6,603**	**–1,948**	**799,773**
Coupon interest due on financial liabilities	1,115	1,198	3,688	13,321	42,028			61,350

1 Includes liabilities on demand.
2 This column reconciles the contractual undiscounted cash flows on financial liabilities to the statement of financial position values. The adjustments mainly relate to the impact of discounting, and for derivatives, to the fact the contractual cash flows are presented on a gross basis (unless the cash flows are actually settled net).
3 Includes Other liabilities, Current and deferred tax liabilities and Provisions as presented in the Consolidated statement of financial position.

Liabilities by maturity

2015	Less than 1 month[1]	1–3 months	3–12 months	1–5 years	Over 5 years	Maturity not applicable	Adjust-ment[2]	Total
Deposits from banks	14,835	1,094	2,370	11,021	4,488			33,808
Customer deposits[3]	607,956	28,646	24,221	8,892	2,462		27	672,204
Financial liabilities at fair value through profit or loss								
– other trading liabilities	35,168	6,806	800	1,645	2,703		782	47,904
– trading derivatives	2,471	2,580	7,983	16,314	17,232		–5,677	40,903
– non-trading derivatives	431	129	808	2,235	157		604	4,364
– designated as at fair value through profit or loss	207	452	1,374	4,835	6,089		–341	12,616
Debt securities in issue	8,772	25,308	15,383	42,478	22,772		2,843	117,556
Subordinated loans				117	8,128	7,248	427	15,920
Financial liabilities	**669,840**	**65,015**	**52,939**	**87,537**	**64,031**	**7,248**	**–1,335**	**945,275**
Other liabilities[4]	6,820	1,944	4,576	719	1,163			15,222
Non-financial liabilities	**6,820**	**1,944**	**4,576**	**719**	**1,163**	**–**	**–**	**15,222**
Total liabilities	**676,660**	**66,959**	**57,515**	**88,256**	**65,194**	**7,248**	**–1,335**	**960,497**
Coupon interest due on financial liabilities	3,078	1,602	4,947	16,413	8,278			34,318

1 Includes liabilities on demand.
2 This column reconciles the contractual undiscounted cash flows on financial liabilities to the statement of financial position values. The adjustments mainly relate to the impact of discounting, and for derivatives, to the fact the contractual cash flows are presented on a gross basis (unless the cash flows are actually settled net).
3 Customer deposits, as at 31 December 2015, is adjusted as a result of a changes in accounting policies. Reference is made to Note 1 'Accounting policies' – Changes in accounting policies and Changes in presentation in 2016.
4 Includes Other liabilities, Current and deferred tax liabilities and Provisions as presented in the Consolidated statement of financial position.

37 Assets not freely disposable

The assets not freely disposable consist primarily of Loans and advances to customers pledged to secure Debt securities in issue, deposits from De Nederlandsche Bank (the Dutch Central Bank) and other banks and serve to secure margin accounts and are used for other purposes required by law. The assets not freely disposable are as follows:

Assets not freely disposable

	2016	2015
Banks		
– Cash and balances with central banks	1,353	1,899
– Loans and advances to banks	6,054	7,806
Financial assets at fair value through profit or loss	447	550
Investments	825	726
Loans and advances to customers	70,457	74,506
Other assets	935	675
	80,071	**86,162**

In some jurisdictions ING Bank N.V. has an obligation to maintain a reserve with central banks. As at 31 December 2016, the minimum mandatory reserve deposits with various central banks amount to EUR 9,055 million (2015: EUR 8,929 million).

Loans and advances to customers that have been pledged as collateral for Debt securities in issue and for liquidity purposes, amount in the Netherlands to EUR 49 billion (2015: EUR 53 billion), in Germany to EUR 12 billion (2015: EUR 13 billion), in Belgium EUR 5 billion (2015: EUR 5 billion), in Australia to EUR 2 billion (2015: EUR 3 billion) and in the United States to EUR 1 billion (2015: nil).

The table does not include assets relating to securities lending as well as sale and repurchase transactions. Reference is made to Note 38 ‘Transfer of financial assets’.

38 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 44 ‘Structured entities’.

Transfer of financial assets not qualifying for derecognition

	Securities lending		Sale and repurchase	
2016	Equity	Debt	Equity	Debt
Transferred assets at carrying amount				
Financial assets at fair value through profit or loss	1,428		4,106	8,965
Investments	2			1,427
Loans and advances to customers				25
Associated liabilities at carrying amount				
Deposits from banks	n.a	n.a		
Customer deposits	n.a	n.a		
Financial liabilities at fair value through profit or loss	1,443		4,635	4,280

Transfer of financial assets not qualifying for derecognition

	Securities lending		Sale and repurchase	
2015	Equity	Debt	Equity	Debt
Transferred assets at carrying amount				
Loans and advances to banks				18
Financial assets at fair value through profit or loss			4,339	7,892
Investments				2,502
Associated liabilities at carrying amount				
Deposits from banks	n.a	n.a		
Customer deposits	n.a	n.a		
Financial liabilities at fair value through profit or loss			4,384	3,966

The tables above include the associated liabilities which are reported after offsetting, compared to the gross positions of the encumbered assets.

Included in the tables above, are the carrying amounts of transferred assets under repurchase agreements, and securities lending that do not qualify for derecognition.

The tables above do not include assets transferred to consolidated securitisation entities as the related assets remain recognised in the consolidated statement of financial position.

39 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

2016		Gross amounts of recognised financial assets	Gross amounts of recognised financial liabilities offset in the statement of financial position	Net amounts of financial assets presented in the statement of financial position	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	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.

Notes to the Consolidated annual accounts of ING Bank - continued

Financial assets subject to offsetting, enforceable master netting arrangements and similar agreements

2015		Gross amounts of recognised financial assets	Gross amounts of recognised financial liabilities offset in the statement of financial position	Net amounts of financial assets presented in the statement of financial position	Related amounts not offset in the statement of financial position: Financial instruments	Related amounts not offset in the statement of financial position: Cash and financial instruments received as collateral	Net amount
Statement of financial position line item	**Financial instrument**						
Loans and advances to banks	Reverse repurchase, securities borrowing and similar agreements	151		151		151	
	Other	3	–3				
		154	**–3**	**151**	**–**	**151**	**–**
Financial assets at fair value through profit or loss							
Trading assets	Derivatives	28,362	–815	27,547	25,204	104	2,239
	Reverse repurchase, securities borrowing and similar agreements	65,854	–22,569	43,285	242	42,597	446
		94,216	**–23,384**	**70,832**	**25,446**	**42,701**	**2,685**
Non-trading derivatives	Derivatives	70,226	–67,843	2,383	2,138	–3	248
		70,226	**–67,843**	**2,383**	**2,138**	**–3**	**248**
Loans and advances to customers[1]	Reverse repurchase, securities borrowing and similar agreements	74		74	74		
	Other	172,530	–2,873	169,657	163,464	397	5,796
		172,604	**–2,873**	**169,731**	**163,538**	**397**	**5,796**
Other items where offsetting is applied in the statement of financial position		3,576	–3,477	99	4		95
Impact of enforceable master netting arrangements or similar arrangements[2]	Derivatives				–7,104	3,791	3,313
		–	**–**	**–**	**–7,104**	**3,791**	**3,313**
Total financial assets		**340,776**	**–97,580**	**243,196**	**184,022**	**47,037**	**12,137**

1 Loans and advances to customers, as at 31 December 2015, is adjusted as a result of a change in accounting policies. Reference is made to Note 1 'Accounting policies' – Changes in accounting policies in 2016.

2 The line 'Impact of enforceable master netting agreements or similar arrangements' contains derivative positions under the same master netting arrangements being presented in different statement of financial position line items.

Financial liabilities subject to offsetting, enforceable master netting arrangements and similar agreements

2016					Related amounts not offset in the statement of financial position		
		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	Financial instruments	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
	Other						
		76,797	**–20,412**	**56,385**	**27,888**	**27,248**	**1,249**
Non-trading derivatives	Derivatives	59,510	–56,975	2,535	2,343	–153	345
Other items where offsetting is applied in the statement of financial position		5,041	–4,472	569	28		541
Impact of enforceable master netting arrangements or similar arrangements[1]	Derivatives				–10,513	8,047	2,466
					–10,513	**8,047**	**2,466**
Total financial liabilities		**342,778**	**–268,920**	**73,858**	**19,782**	**35,142**	**18,934**

1 The line 'Impact of enforceable master netting agreements or similar arrangements' contains derivative positions under the same master netting arrangements being presented in different statement of financial position line items.

Financial liabilities subject to offsetting, enforceable master netting arrangements and similar agreements

2015					Related amounts not offset in the statement of financial position		
		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	Financial instruments	Cash and financial instruments pledged as collateral	Net amount
Statement of financial position line item	**Financial instrument**						
Deposits from banks	Repurchase, securities lending and similar agreements	678		678		677	1
	Other	3	–3				
		681	**–3**	**678**	**–**	**677**	**1**
Customer deposits [1]	Repurchase, securities lending and similar agreements	301		301	74	227	
	Corporate deposits	14,761	–10,486	4,275			4,275
	Other	166,768	7,613	174,381	163,464		10,917
		181,830	**–2,873**	**178,957**	**163,538**	**227**	**15,192**
Financial liabilities at fair value through profit or loss							
Trading liabilities	Derivatives	31,317	–930	30,387	30,153	104	130
	Repurchase, securities lending and similar agreements	53,508	–22,569	30,939	242	30,570	127
		84,825	**–23,499**	**61,326**	**30,395**	**30,674**	**257**
Non-trading derivatives	Derivatives	72,562	–69,031	3,531	3,307	–236	460
Other items where offsetting is applied in the statement of financial position		2,201	–2,174	27	25		2
Impact of enforceable master netting arrangements or similar arrangements[2]	Derivatives				–13,231	7,457	5,774
	Other				–12		12
		–	**–**	**–**	**–13,243**	**7,457**	**5,786**
Total financial liabilities		**342,099**	**–97,580**	**244,519**	**184,022**	**38,799**	**21,698**

1 Customer deposits, as at 31 December 2015, is adjusted as a result of a change in accounting policies. Reference is made to Note 1 'Accounting policies' – Changes in accounting policies in 2016.
2 The line 'Impact of enforceable master netting agreements or similar arrangements' contains derivative positions under the same master netting arrangements being presented in different statement of financial position line items.

40 Contingent liabilities and commitments

In the normal course of business, ING Bank is party to activities where risks are not reflected in whole or in part in the consolidated financial statements. In response to the needs of its customers, the Bank offers financial products related to loans. These products include traditional off-balance sheet credit-related financial instruments.

Contingent liabilities and commitments

2016	Less than 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Maturity not applicable	Total
Contingent liabilities in respect of							
– discounted bills			1				1
– guarantees	18,536	677	965	1,167	3,525		24,870
– irrevocable letters of credit	6,583	5,973	824	154	12		13,546
– other	39				309		348
	25,158	**6,650**	**1,790**	**1,321**	**3,846**		**38,765**
Irrevocable facilities	59,214	2,587	4,832	22,606	9,315		98,554
	84,372	**9,237**	**6,622**	**23,927**	**13,161**		**137,319**

Contingent liabilities and commitments

2015	Less than 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Maturity not applicable	Total
Contingent liabilities in respect of							
– guarantees	16,813	494	465	1,121	3,299		22,192
– irrevocable letters of credit	7,447	2,065	1,393	251	6		11,162
– other	244						244
	24,504	**2,559**	**1,858**	**1,372**	**3,305**	**–**	**33,598**
Irrevocable facilities	49,133	1,458	6,407	36,255	5,125		98,378
	73,637	**4,017**	**8,265**	**37,627**	**8,430**	**–**	**131,976**

Guarantees relate both to credit and non-credit substitute guarantees. Credit substitute guarantees are guarantees given by ING Bank 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 Bank 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 Bank's credit risk in these transactions is limited since these transactions are collateralised by the commodity shipped and are of a short duration.

Other contingent liabilities include acceptances of bills and are of a short-term nature. Other contingent liabilities also include contingent liabilities resulting from the operations of the Real Estate business including obligations under development and construction contracts. Furthermore other contingent liabilities include a contingent liability in connection with a possible Dutch tax obligation that relates to the deduction from Dutch taxable profit of losses incurred by ING Bank in the United Kingdom in previous years. The existence of this obligation will be confirmed only by the occurrence of future profits in the United Kingdom.

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 Bank'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 Bank leases assets from third parties under operating leases as lessee. The future rental commitments to be paid under non-cancellable operating leases are as follows:

Future rental commitments for operating lease contracts

	2016	2015
2016		310
2017	307	160
2018	179	143
2019	151	122
2020	129	109
Years after 2020	476	404

41 Legal proceedings

ING Bank and its consolidated subsidiaries are involved in governmental, regulatory, arbitration and legal proceedings and investigations in the Netherlands and in a number of foreign jurisdictions, including the U.S., involving claims by and against them which arise in the course of their businesses, including in connection with their activities as lenders, broker-dealers, underwriters, issuers of securities and investors and their position as employers and taxpayers. In certain of such proceedings, very large or indeterminate amounts are sought, including punitive and other damages. While it is not feasible to predict or determine the ultimate outcome of all pending or threatened governmental, regulatory, arbitration and legal proceedings and investigations, ING Bank N.V. 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 Bank N.V. and/or ING Bank N.V. and its consolidated subsidiaries.

Because of the geographic spread of its business, ING Bank may be subject to tax audits, investigations and procedures in numerous jurisdictions at any point in time. Although ING Bank believes that it has adequately provided for all its tax positions, the ultimate resolution of these audits, investigations and procedures may result in liabilities which are different from the amounts recognised. ING has also recently identified issues in connection with its US tax information reporting and withholding obligations in respect of prior periods. A review of such issues is ongoing, and at this time it is not possible to estimate any financial or other consequences thereof.

A complaint has been filed against ING Bank in January 2015 in the New York District Court by Alfredo and Gustavo Villoldo and the executor of their father's estate (Villoldo). Villoldo holds two judgments against the Cuban government and other Cuban entities in the aggregate amount of USD 2.9 billion. Those judgments remain outstanding and uncollected. The complaint against ING Bank alleges that if ING Bank had complied with the applicable US sanction laws, Cuban assets would have been frozen by OFAC and available for execution and seizure by Villoldo. The complaint alleges that the acts set out in ING's settlement with OFAC in 2012 constitute wire fraud, money laundering, and fraudulent transfer and that Villoldo is therefore entitled to actual damages in the amount to be believed no less than USD 1.654 billion and treble damages of not less than USD 4.962 billion. In July 2015 the New York District Court dismissed all claims with prejudice. The Court of Appeals affirmed this judgment in April 2016. This judgement is now final.

In July 2016, investors in derivatives tied to the Singapore Interbank Offer Rate (SIBOR) filed a U.S. class action complaint in the New York District Court alleging that several banks, including ING, conspired to rig the prices of derivatives tied to SIBOR and the Singapore Swap Offer Rate (SOR). The lawsuit refers to investigations by the Monetary Authority of Singapore (MAS) and other regulators, including the U.S. Commodity Futures Trading Commission (CFTC), in relation to rigging prices of SIBOR and SOR-based derivatives. Currently, it is not possible to provide an estimate of the (potential) financial effect of this claim.

ING Bank Turkey has received various claims from (former) customers of legal predecessors of ING Bank Turkey. The claims are based on offshore accounts held with these banks, which banks were seized by the Savings Deposit Insurance Fund (SDIF) prior to the acquisition of ING Bank Turkey in 2007 from Oyak. SDIF has also filed various lawsuits against ING Bank Turkey to claim compensation from ING Bank Turkey, with respect to amounts paid out to offshore account holders so far. ING Bank N.V. has initiated an arbitration procedure against OYAK in which ING Bank seeks to be held harmless for these claims. At this moment it is not possible to assess the outcome of these procedures nor to provide an estimate of the (potential) financial effect of these claims.

In January 2011, the Dutch Association of Stockholders (Vereniging van Effectenbezitters, 'VEB') issued a writ alleging that investors were misled by the prospectus that was issued with respect to the September 2007 rights issue of Fortis N.V. (now Ageas N.V.) against Ageas N.V., the underwriters of such rights issue, including ING Bank N.V., and former directors of Fortis N.V. According to the VEB the prospectus shows substantive incorrect and misleading information. The VEB stated that the impact and the risks of the sub-prime crisis for Fortis and Fortis' liquidity position were reflected incorrectly in the prospectus. The VEB requested a declaratory decision stating that the summoned parties acted wrongfully and are therefore responsible for the damages suffered by the investors in Fortis. In March 2016, Ageas, VEB and certain other claimants announced that the claim in relation to Fortis has been settled. Ageas has agreed to pay €1.2 billion to investors as compensation, provided that the Amsterdam Court of Appeal declares the settlement to be binding. According to the settlement documentation, as filed by Ageas with the Court of Appeal in May 2016, the settlement agreement contains a third-party clause by which the banks will also be released from the claims made by VEB and certain other claimants, if the settlement becomes unconditional.

A number of retired employees of ING Belgium have initiated legal proceedings against ASCEL (a non-profit organisation established by ING Belgium that provided medical insurance coverage to current and retired employees till the beginning of 2015 via a subdivision of ASCEL: FMC) and ING Belgium following the decision to externalise this medical insurance coverage which resulted in an increase of premium. Following a summary proceedings in which the initial claim of the retired employees was rejected, proceedings at the Court of first instance have been initiated aiming to either uphold the former insurance coverage or reimburse the increase of premium. In a decision of September 2016, the Court has considered that FMC has validly been closed but that, as the medical coverage qualifies as an insurance contract not linked with the professional activity of the claimants, ING could not unilaterally terminate the agreement between FMC and the pensioners. The Court has yet to determine the amount of damages. The Court decision is subject to appeal. A provision has been taken.

ING is involved in several legal proceedings in the Netherlands with respect to interest rate derivatives that were sold to clients in connection with floating interest rate loans in order to hedge the interest rate risk of the loans. These proceedings are based on several legal grounds, depending on the facts and circumstances of each specific case, *inter alia* alleged breach of duty of care, insufficient information provided to the clients on the product and its risks and other elements related to the interest rate derivatives that were sold to clients. In some cases, the court has ruled in favour of the claimants and awarded damages, annulled the interest rate derivative or ordered repayment of certain amounts to the claimants. The total amounts that need to be repaid or compensated in some cases still need to be determined. ING may decide to appeal against adverse rulings. Although the outcome of the pending litigation and similar cases that may be brought in the future is uncertain, it is possible that the courts may ultimately rule in favour of the claimants in some or all of such cases. A provision has been taken. However, the aggregate financial impact of the current and future litigation could become material.

As requested by the AFM, ING has reviewed a significant part of the files of clients who bought interest rate derivatives. In December 2015, the AFM concluded that Dutch banks had to re-assess certain client files, potentially including derivative contracts that were terminated prior to April 2014 or other client files. As advised by the AFM, the Minister of Finance appointed a Committee of independent experts (the Committee) which has established a uniform recovery framework for Dutch SME clients with interest rate derivatives. ING has adopted this recovery framework and will reassess individual files against this framework. ING has taken an additional provision for the financial consequences of the recovery framework.

ING Bank is the subject of criminal investigations by Dutch authorities regarding various requirements related to the on-boarding of clients, money laundering, and corrupt practices. ING Groep has also received related information requests from U.S. authorities. ING Groep and ING Bank are cooperating with such ongoing investigations and requests. It is currently not feasible to determine how the ongoing investigations and requests may be resolved or the timing of any such resolution, nor to estimate reliably the possible timing, scope or amounts of any resulting fines, penalties and/or other outcome, which could be significant.

42 Consolidated companies and business acquired and divested

Acquisitions

There were no significant acquisitions in 2016, 2015 and 2014.

Divestments effective in 2016

There were no significant divestments, of consolidated companies, in 2016.

Divestments effective in 2015

For details on the transactions in 2015 with regard to ING's interest in ING Vysya, reference is made to Note 7 'Investments in associates and joint ventures' and Note 45 'Related parties'.

Divestments effective in 2014

There were no significant divestments in 2014.

43 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 Bank is based on the majority of ownership.

For the principal investments in associates ING Bank has significant influence but not control. Significant influence generally results from a shareholding of between 20% and 50% of the voting rights, but also is the ability to participate in the financial and operating policies through situations including, but not limited to one or more of the following:

- Representation on the board of directors;
- Participation in the policymaking process; and
- Interchange of managerial personnel.

The principal subsidiaries, investments in associates and joint ventures of ING Bank 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 Bank	
			2016	2015
Subsidiary	**Statutory place of Incorporation**	**Country of operation**		
Bank Mendes Gans N.V.	Amsterdam	The Netherlands	100%	100%
ING Lease (Nederland) B.V.	Amsterdam	The Netherlands	100%	100%
ING Corporate Investments B.V.	Amsterdam	The Netherlands	100%	100%
ING België N.V.	Brussels	Belgium	100%	100%
ING Luxembourg S.A.	Luxembourg City	Luxembourg	100%	100%
ING-DiBa AG	Frankfurt am Main	Germany	100%	100%
ING Bank Slaski S.A.	Katowice	Poland	75%	75%
ING Financial Holdings Corporation	Delaware	United States of America	100%	100%
ING Bank A.S.	Istanbul	Turkey	100%	100%
ING Bank (Australia) Ltd	Sydney	Australia	100%	100%
ING Bank (Eurasia) Joint stock company	Moscow	Russia	100%	100%
Investments in associates				
TMB Public Company Limited	Bangkok	Thailand	25%	25%

44 Structured entities

ING Bank'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 Bank's involvement in these entities varies and includes both debt financing and equity financing of these entities as well as other relationships. Based on its accounting policies, as disclosed in the section Principles of valuation and determination of results of these financial statements, ING establishes whether these involvements result in no significant influence, significant influence, joint control or control over the structured entity.

The structured entities over which ING can exercise control are consolidated. ING may provide support to these consolidated structured entities as and when appropriate. However, this is fully reflected in the consolidated financial statements of ING Bank 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 bank enters into liquidity management securitisation programmes in order to obtain funding and improve liquidity. Within the programme ING bank 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 Bank acts as investor of the securitised notes. ING Bank 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 Bank as collateral in the money market for secured borrowings.

ING Bank originated various securitisations with, at 31 December 2016, approximately EUR 77.0 billion (2015: EUR 78.5 billion) of AAA rated notes and subordinated notes, of which approximately EUR 7.2 billion (2015: EUR 7.4 billion) are held by third parties. The underlying exposures are residential mortgages and SME loans. Apart from the third party funding, these securitisations did not impact ING Bank's consolidated statement of financial position and profit or loss.

In 2016, there are no non-controlling interests as part of the securitisation structured entities that are significant to ING Bank. ING Bank for the majority of the securitisation vehicles provides the funding for the entity except for EUR 7.2 billion (2015: EUR 7.4 billion) which are funded by third parties.

2. Consolidated ING originated Covered bond programme (CBC)
ING Bank has entered into a covered bond programme. Under the covered bond programme ING issues bonds. The payment of interest and principal is guaranteed by an ING administered structured entity, Covered Bond Company B.V. (CBC). In order for CBC to fulfil its guarantee, ING legally transfers mainly Dutch mortgage loans originated by ING to CBC. Furthermore ING offers CBC protection against deterioration of the mortgage loans. CBC is consolidated by ING Bank.

Covered bond programme

	Fair value pledged mortgage loans		Cash balance structured entity	
	2016	2015	2016	2015
ING Covered Bond Company B.V. ('CBC')	43,931	43,684	39	754
	43,931	**43,684**	**39**	**754**

In general, the third-party investors in securities issued by the structured entity have recourse only to the assets of the entity and not to the assets of ING Bank.

3. Consolidated ING sponsored Securitisation programme (Mont Blanc)
In the normal course of business, ING Bank 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 Bank 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 Bank. ING Bank 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 Bank 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 Bank 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 Bank guarantees to a limited amount all remaining losses incorporated in the SPE to the commercial paper investors.

The liquidity facilities, including programme wide enhancements, provided to Mont Blanc are EUR 812 million (2015: EUR 1,072 million). The drawn liquidity amount is EUR 0 million as at 31 December 2016 (2015: EUR 276 million).

The normal non-structured standby liquidity facilities and the structured facilities are reported under irrevocable facilities. All facilities, which vary in risk profile, are granted to the SPE subject to normal ING Bank credit and liquidity risk analysis procedures. The fees received for services provided and for facilities are charged subject to market conditions.

4. Unconsolidated Securitisation programme
In 2013 ING transferred financial assets (mortgages loans) for an amount of approximately EUR 2 billion to a newly established special purpose entity (SPE). The transaction resulted in full derecognition of the financial assets from ING's statement of financial position. The derecognition did not have a significant impact on net result. Following this transfer ING continues to have two types of on-going involvement in the transferred assets: as counterparty to the SPE of a non-standard interest rate swap and as servicer of the transferred assets. ING has an option to unwind the transaction by redeeming all notes at their principal outstanding amount, in the unlikely event of changes in accounting and/or regulatory requirements that significantly impact the transaction. The fair value of the swap as at 31 December 2016 amounted to EUR –4.6 million (2015: EUR 1.3 million); fair value changes on this swap recognised in the statement of profit or loss in 2016 were EUR –5.9 million (2015: EUR –32.4 million). Fee income recognised in the statement of profit or loss in 2016 amounted to EUR 0.0 million (2015: nil).

5. Other structured entities
In the normal course of business, ING Bank enters into transactions with structured entities as counterparty. Predominantly in its structured finance operations, ING can be instrumental in facilitating the creation of these structured entity counterparties. These entities are generally not included in the consolidated financial statements of ING Bank, 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.

45 Related parties
In the normal course of business, ING Bank 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 Bank include, among others, its subsidiaries, associates, joint ventures, key management personnel, and various defined benefit and contribution plans. Transactions between related parties include rendering or receiving of services, leases, transfers under finance arrangements, and provisions of guarantees or collateral. There are no significant provisions for doubtful debts or individually significant bad debt expenses recognised on outstanding balances with related parties.

Transactions between ING Bank N.V. and its subsidiaries are eliminated on consolidation. Reference is made to Note 43 'Principal subsidiaries' for a list of principal subsidiaries and their statutory place of incorporation. ING Bank together with NN Group forms the ING Group. ING Bank also enters into transactions with ING Group, NN Group and its subsidiaries. These transactions vary from financing activities to regular purchases and sales transactions. Disclosed in the table below, are transactions with ING Groep N.V. and NN Group N.V.

Transactions with ING Groep and NN Group N.V.

	ING Groep N.V.		NN Group N.V.	
	2016	2015	2016	2015[1]
Assets	70	286		
Liabilities	14,903	15,608		
Off-balance sheet commitments				
Income received	–384	–297		15
Expenses paid				8

1 Transactions with NN Group until deconsolidation at the end of May 2015.

In 2015, a number of divestment transactions reduced ING Group's interest in NN Group, resulting in ING Group losing control over NN Group. NN Group was deconsolidated at the end of May 2015 and accounted for as an Investment in associate held for sale. For further information on transactions with NN Group, reference is made to Associates and joint ventures below.

Liabilities to ING Groep N.V. mainly comprise long-term funding. Liabilities to NN Group N.V. mainly comprise short-term deposits and private loans made by NN Group N.V.

Associates and joint ventures

Transactions with ING Bank's main associates and joint ventures

	Associates		Joint ventures	
	2016	2015	2016	2015
Assets	27	1,803	12	5
Liabilities	16	616	59	
Off-balance sheet commitments	34	66	2	
Income received	9	–213		
Expenses paid	1			

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 Bank. 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 by ING Group and transactions with ING Bank were included as Associates in the table above.

In April 2015, the merger between ING Vysya and Kotak was completed and the legal entity ING Vysya Bank ceased to exist. As a result of this transaction, ING holds a stake in the combined company, which operates under the Kotak brand. As of April 2015, ING Vysya was no longer a related party of ING Bank. Reference is made to Note 7 'Investments in associates and joint ventures'.

Key management personnel compensation

Transactions with key management personnel (Executive Board, Management Board and Supervisory Board) and post-employment benefit plans are transactions with related parties. These transactions are disclosed in more detail as required by Part 9 Book 2 of the Dutch Civil Code in the remuneration report included in the annual report. The relevant sections of the remuneration report therefore form part of the annual accounts. For post-employment benefit plans, reference is made to Note 35 'Pension and other postemployment benefits'.

In 2016 and 2015, three members of the Executive Board of ING Groep N.V. were also members of the Management Board Banking. The members of the Management Board Banking are considered to be key management personnel and their compensation is therefore included in the tables below.

Key management personnel compensation (Executive Board and Management Board)

2016 in EUR thousands	Executive Board of ING Groep N.V.[1]	Management Board of ING Bank N.V.[1,2,3]	Total
Fixed Compensation			
– Base salary	4,070	4,111	8,181
– Collective fixed allowances[4]	1,167	1,167	2,334
– Pension costs	78	108	186
– Severance benefits	–	918	918
Variable compensation			
– Upfront cash	–	485	485
– Upfront shares	300	572	872
– Deferred cash	–	727	727
– Deferred shares	449	857	1,306
– Other	–	1,184	1,184
Total compensation	**6,064**	**10,129**	**16,193**

1 Includes their compensation earned in the capacity as Board members.
2 Excluding members that are also members of the Executive Board of ING Groep N.V.
3 In 2016, one new member joined and one member retired
4 The collective fixed allowances consist of two savings allowances applicable to employees in the Netherlands; an individual savings allowance of 3.5% and a collective savings allowance to compensate for loss of pension benefits with respect to salary in excess of EUR 101,519.

Key management personnel compensation (Executive Board and Management Board)

2015 in EUR thousands	Executive Board of ING Groep N.V.[1]	Management Board of ING Bank N.V.[1,2,3]	Total
Fixed Compensation			
– Base salary	3,990	3,505	7,495
– Collective fixed allowances[4]	1,115	1,045	2,160
– Pension costs	75	90	165
Variable compensation			
– Upfront cash	–	390	390
– Upfront shares	254	466	720
– Deferred cash	–	585	585
– Deferred shares	382	698	1,080
– Other	–	830	830
Total compensation	**5,816**	**7,609**	**13,425**

1 Included their compensation earned in the capacity as Board members.
2 Excluded members that are also members of the Executive Board of ING Groep N.V.
3 In 2015, one new member joined.
4 The collective fixed allowances consisted of two savings allowances applicable to employees in the Netherlands; an individual savings allowance of 3.5% and a collective savings allowance to compensate for loss of pension benefits with respect to salary in excess of EUR 100,000.

Key management personnel compensation (Supervisory Board)

in EUR thousands	2016	2015
Total compensation	1,088	835

The table above shows the fixed remuneration, expense allowances and attendance fees for the Supervisory Board for 2016 and 2015.

Loans and advances to key management personnel

	Amount outstanding 31 December		Average interest rate[1]		Repayments	
in EUR thousands	2016	2015	2016	2015	2016	2015
Executive Board members	2,849	2,999	2.6%	2.4%	150	0
Management Board members of ING Bank N.V.	532	532	3.8%	2.6%	–	68
Supervisory Board members	–	–	–	–	–	–
Total	**3,381**	**3,531**			**150**	**68**

1 Dutch legislation changed in 2016. Employee mortgage interest rate discount is no longer deducted from the interest rate but compensated via base salary compensation.

Number of ING Groep N.V. shares and stock options to key management personnel

	ING Groep N.V. shares		Stock options on ING Groep N.V. shares	
in numbers	2016	2015	2016	2015
Executive Board members	261,684	244,973	95,921	116,146
Management Board members of ING Bank N.V.	120,646	216,211	123,237	216,568
Supervisory Board members	172,734	172,734	226,864	319,848
Total number of shares and stock options	**555,064**	**633,918**	**446,022**	**652,562**

Key management personnel compensation is generally included in Staff expenses in the statement of profit or loss, except for key management personnel employed by entities that are presented as held for sale and discontinued operations in which case their compensation is included in the Total net result from discontinued operations.

Remuneration of the Executive Board and Management Board Bank is recognised in the statement of profit or loss in Staff expenses as part of Total expenses. The total remuneration of the Executive Board and Management Board Bank as disclosed in the table above includes all variable remuneration related to the performance year 2016. Under IFRS, certain components of variable remuneration are not recognised in the statement of profit or loss directly, but are allocated over the vesting period of the award. The comparable amount recognised in Staff expenses in 2016 and included in Total expenses in 2016, relating to the fixed expenses of 2016 and the vesting of variable remuneration of earlier performance years, is EUR 16 million. Remuneration in respect of NN Group is reflected in Net result from discontinued operations and does not impact the Total expenses. Total compensation of the Supervisory and Management Boards of NN Group, for the period until deconsolidation at the end of May 2015, amounted to EUR 3.0 million. These amounts are included in the 2015 statement of profit or loss of ING Group in the line item Net result from discontinued operations.

Risk Management Programme (RMP) Settlement Agreement and Outsourcing Agreement

ING Groep N.V. and ING Bank N.V. and NN Re (Netherlands) N.V. have entered into an RMP Settlement Agreement which has a purpose to remove from the reinsurer its economic exposure to losses resulting from the RMP claims of the RMP Bank, Voya Financial, Inc. and the LatAm subsidiaries. The Reinsurer and ING Groep N.V. agreed on the Outsourcing Agreement to provide claims handling services in connection with the claims relating to the Voya Entities, the LatAm Entities and RMP Bank. The reinsurer and ING Groep N.V. have agreed that ING Bank N.V. handles the relevant claims on the terms set out in this RMP Settlement Agreement. The terms and conditions for this claims handling have been included in the Outsourcing Agreement.

46 The European Commission Restructuring Plan

ING's Restructuring, which began in 2009, has come to an end with the sale of the company's remaining stake in NN Group on 14 April 2016. Due to the restructuring ING's has transformed from a diversified financial services company into a standalone, leading European bank.

ING's Restructuring

2008 – 2016

In 2008 and 2009, as a consequence of the financial crisis, ING Group, like other major financial institutions in Europe, received state aid from the Dutch State. In order to receive approval from the European Commission ('EC') for the Dutch State aid, ING Group together with the Dutch State were required in 2009 to develop and submit a restructuring plan to the EC that included the divestment of ING Group's insurance and investment management businesses across the world. The sale of ING Direct USA was also included in the package of restructuring measures. This Restructuring Plan was initially approved by the EC in November 2009. Subsequently, the insurance and investment management businesses of ING Group were operationally separated from ING as of 31 December 2010 for the purpose of divesting it. The Restructuring Plan was amended and re-approved by the EC in 2012 and 2013.

In line with the Restructuring Plan, ING Group divested a number of businesses around the world from 2011 to 2013, including divestments of insurance and investment management businesses in the United States, Latin America and Asia/Pacific (other than Japan). ING Group had indicated in 2012 that the intended base case for divestment of its European insurance and investment management businesses was through an Initial Public Offering (IPO), while keeping all other options open. In November 2013, ING Group expanded the scope of this intended base case IPO with the inclusion of the Japan Life and Japan Closed Block VA businesses.

On the banking front, ING Direct USA was sold in 2012, meeting a key requirement of the EC Restructuring Plan.

In the course of the continued streamlining of the company's business portfolio, ING also made other major divestments including ING Direct Canada (2012), ING Direct UK (2012) and ING Car Lease (2011).

In May 2013, ING listed its US insurance and investment management business, Voya Financial, on the New York Stock Exchange and divested 25% of its stake. Following a number of follow-on transactions, the remaining stake was sold by March 2015. Following this transaction, ING Group had effectively eliminated its core debt (group leverage), meeting one of our key commitments in the EC Restructuring Plan.

In July 2014, NN Group, ING's former European/Japanese insurance and investment management business, was listed on the Euronext Amsterdam stock exchange. Through the listing, ING's stake in NN Group was reduced to 68.1%. Through a series of follow-on transactions, ING reduced its shareholding to 25.8% by 30 June 2015. ING's minority stake was deconsolidated in line with IFRS accounting rules. With the divestment of more than 50% of its stake in NN Group and its deconsolidation, ING achieved compliance with the EC divestment conditions before the committed deadline of year-end 2015. In addition, after the deconsolidation of NN Group, the restrictions on acquisitions and on price leadership from the original 2009 Restructuring Plan, and amended in a restructuring agreement with the EC in 2012, no longer applied.

ING announced the sale of its remaining 14.1% stake in NN Group on 14 April 2016, fulfilling the terms of the revised restructuring agreement with the EC as amended in 2012, whereby ING was required to fully divest its shareholding in NN Group before the end of 2016. In the course of 2016, the European Commission confirmed that ING's Restructuring was completed.

Illiquid Assets Back-up Facility

ING Group and the Dutch State reached an agreement on an Illiquid Assets Back-up Facility (IABF) on 26 January 2009. The transaction closed on 31 March 2009. The IABF covered the Alt-A portfolios of both ING Direct USA and Voya (formerly ING Insurance US), with a par value of approximately EUR 30 billion. Under the IABF, ING transferred 80% of the economic ownership of its Alt-A portfolio to the Dutch State. As a result, an undivided 80% interest in the risk and rewards on the portfolio was transferred to the Dutch State. ING retained 100% of the legal ownership of its Alt-A portfolio. The transaction price was 90% of the par value with respect to the 80% proportion of the portfolio of which the Dutch State had become the economic owner. The transaction price remained payable by the Dutch State to ING and was redeemed over the remaining life. Furthermore, under the IABF ING paid a guarantee fee to the Dutch State and received a funding fee and a management fee. As a result of the transaction ING derecognised 80% of the Alt-A portfolio from its balance sheet and recognised a receivable from the Dutch State. The transferred Alt-A portfolio was previously included in Available-for-sale debt securities. The Dutch State also acquired certain consent rights with respect to the sale or transfer of the 20% proportion of the Alt-A portfolio that was retained by ING.

Under the terms of the transaction as agreed on 26 January 2009, the overall sales proceeds amounted to EUR 22.4 billion at the transaction date. The amortised cost (after prior impairments) at the transaction date was also approximately EUR 22.4 billion. The transaction resulted in a loss in 2009 of EUR 109 million after tax (the difference between the sales proceeds and the amortised cost).

The fair value under IFRS at the date of the transaction was EUR 15.2 billion.

In order to obtain approval from the European Commission (EC) on ING Group's Restructuring Plan (see below), ING agreed to make additional Illiquid Assets Back-up Facility payments as part of the overall agreement with the EC to the Dutch State corresponding to an adjustment of the fees for the Illiquid Assets Back-up Facility. In total, these additional Illiquid Assets Back-up Facility payments as part of the overall agreement with the European Commission amounted to a net present value of EUR 1.3 billion before tax, which was recognised as a one-off charge in 2009.

The difference between the total sales proceeds of EUR 21.1 billion (EUR 22.4 billion -/- adjustment of EUR 1.3 billion) and the fair value under IFRS of EUR 15.2 billion represents a Government grant under IAS 20. This government grant is considered to be an integral part of the transaction and is therefore accounted for as part of the result on the transaction. The transaction resulted in a reduction of the negative revaluation and therefore an increase in equity of EUR 4.6 billion (after tax).

The valuation method of the 20% Alt-A securities in the IFRS balance sheet is not impacted by the IABF. The methodology used to determine the fair value for these assets in the balance sheet under IFRS is disclosed in Note 36 'Fair value of assets and liabilities'.

In connection with the sale of ING Direct USA, ING reached an agreement with the Dutch State to adjust the structure of the IABF. This adjustment served to de-link the IABF from ING Direct USA by putting ING Bank in its place as counterparty for the Dutch State and became effective at the closing of the sale in February 2012. Under the terms of the original transaction ING Direct USA held on its balance the remaining 20% of the Alt-A portfolio, ensuring an alignment of interests between ING and the Dutch State regarding the performance of the portfolio.

Upon closing of the sale ING provided a counter guarantee to the Dutch State covering 25% of the 80% part of the Dutch State. This guarantee covered realised cash losses if they would exceed the 35% that is implied by the market value of the portfolio in June 2011. This adjustment therefore lowered the risk exposure for the Dutch State. The impact on equity and result of the alignment for ING Bank was limited.

In November 2012, NN Group (formerly ING Insurance) restructured the IABF to effectively de-link Voya from the IABF. Voya transferred its Dutch State receivable of approximately EUR 1.1 billion (USD 1.4 billion) to ING Bank, and at the same time transferred legal title to 80% of the Alt-A portfolio to ING Bank. The securities were held in an ING Bank custody account for the benefit of the Dutch State (the portion for which the investment risk has been transferred to the Dutch State). Following the restructuring, Voya continued to own 20% of the Alt-A portfolio (the portion for which the economic ownership and investment risk remained for the risk of ING), but had the right to sell these securities, subject to a right of first refusal granted to ING Bank. ING committed to the Dutch State that it would not sell these securities to non-ING parties without the prior written consent of the Dutch State.

In 2013, ING reached a final agreement with the Dutch State on the unwinding of the IABF. The terms of the agreement were approved by the EC. Under the agreement, the IABF in its current form was terminated, the regular guarantee fee payments were settled for an amount of EUR 0.4 billion and the other restrictions as part of the IABF agreement were no longer applicable. Furthermore, under the agreement, the Dutch State committed to sell the Alt-A securities in the market. Unwinding the IABF also resulted in eliminating a counter-guarantee that ING extended to the Dutch State in connection with the divestment of ING Direct USA in 2012.

The first tranche of the divestment of securities was executed in December 2013. All the remaining securities held by the Dutch State as at 31 December 2013 were sold in January and early February 2014.

The Dutch State used all repayments and net fees received to repay the loan from ING. The loan was fully repaid in January 2014.

47 Other events

VISA

In 2015, VISA announced a definitive agreement for VISA Inc. to acquire VISA Europe. This announcement, together with letters received by ING Bank and its subsidiaries from VISA which detailed ING's share in the transfer proceeds, provided the basis for reassessment of the fair value of shares held by ING Bank and its subsidiaries. The shares are recognised as Investment in available-for-sale equity securities. The fair value of the shares, EUR 154 million as at 31 December 2015, was determined by taking into account the upfront consideration, consisting of cash and preferred shares, the earn-out consideration and any uncertain factors that could affect the upfront and earn-out consideration. The increase in fair value of EUR 154 million was recognised in Equity in 2015. The transaction was subject to regulatory approvals.

Following an amendment to the agreement in April 2016, the transaction closed on 21 June 2016. The available-for-sale equity securities are derecognised from the statement of financial position with a corresponding release of the revaluation reserve recognised in Equity. The transaction resulted in a net profit of EUR 200 million and is recognised in the statement of profit or loss, in the line items Investment income, Share of results of associates and joint ventures and Other income. Reference is made to Note 5 'Investments', Note 7 'Share of results of associates and joint ventures', Note 18 'Equity', Note 22 'Investment income', Note 24 'Other income' and Note 33 'Fair value of financial assets and liabilities'.

Poland Pension Fund

In 2015, the remaining stake in the Polish Pension Fund, was sold resulting in a gain on the investment in associate held for sale of EUR 25 million which was recognised in Share of results from associates and joint ventures in the profit and loss account. Reference is made to Note 7 'Investments in associates and joint ventures'.

In 2014, NN Group reached an agreement with ING Bank Slaski to acquire the remaining 20% stake in the Polish Pension Fund, Powszechne Towarzystwo Emerytalne S.A (ING PTE) in which NN Group held 80% of the shares for a consideration of PLN 210 million (approximately EUR 48 million at prevailing exchange rates at that time). As previously announced, the parties entered into a non-binding agreement in May 2014, in line with the EC restructuring plan which requires ING Group to divest its insurance and investment management businesses. The purchase price was supported by a fairness opinion and was subject to adjustments for dividends paid before closing the transaction.

Risk management

amounts in millions of euros, unless stated otherwise

ING Bank risk management

Introduction

ING Bank operates through a comprehensive risk management framework to ensure the risks are identified, well understood, accurately measured, controlled and pro-actively managed at all levels of the organisation so that ING Bank's financial strength is safeguarded.

The Risk Management section describes the key risks that arise from ING Bank's business model. It explains how the risk management function is embedded within the organisation based on the 'three lines of defence'. This includes front office as 'first line of defence', independent risk management as the 'second line of defence' and the internal audit function as the 'third line of defence'. The key risks resulting from the bank's business model are managed by dedicated and specific risk management departments that each covers its own area of expertise. ING Bank's risk management disclosures provide qualitative and quantitative disclosures about credit, market, liquidity and funding, business and non-financial risks.

The risk management section is in line with the accounting standards relating to the nature and the extent of the risks as required by IFRS7 'Financial Instruments: Disclosures' as adopted by the European Union and covered by an opinion of the External Auditors as part of the notes to the consolidated financial statements.

Navigation map

The index below enables the readers to track the main risk items through the various risk disclosures.

Risk management	Subjects	Risk Management	Pillar III
These sections show ING's approach to risk management.	Introduction to risk section	135	
	Introduction to Pillar III		236
	Purpose and business model	136	
	Risk governance	136	
	Risk management function and risk culture	139	
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	Economic and Regulatory Capital	147	245
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Credit risk	Subjects	Risk Management	Pillar III
Credit risk is the risk of potential loss due to default by ING Bank's debtors (including bond issuers) or trading counterparties.	Governance and credit risk definitions	149	246,275
	Credit risk appetite and concentration risk framework	151	
	Environmental and Social Risk Framework	153	
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Market risk

	Subjects	Risk Management	Pillar III
Market risk is the risk of potential loss due to adverse movements in market variables.	Governance	178	
	RWA comparison		290
	Economic Capital	178	290
	Market risk in banking books	179	
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	Capital at Risk		291

Funding and liquidity risk

	Subjects	Risk Management	Pillar III
Funding and liquidity risk is the risk that ING Bank or one of its subsidiaries cannot meet the financial liabilities when they come due, at reasonable cost and in a timely manner.	Governance	193	
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	Funding and Liquidity profile	196	
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Non-financial risk

	Subjects	Risk Management	Pillar III
Operational risk is the risk of direct or indirect loss returning from inadequate or failed internal processes, people and systems or from external events.	Governance	197	
	Framework	197	
	Operational risk and main developments	199	294
Compliance risk is the risk of impairment of ING Bank's integrity, leading to damage to ING's reputation, legal or regulatory sanctions, or financial loss, as a result of failure (or perceived failure) to comply with applicable laws, regulations, ING Bank policies and minimum standards and the ING Values.	Compliance risk and main developments	200	294
	Non-financial risk awareness	202	

Business risk

	Subjects	Risk Management	Pillar III
Business risk is the exposure to value loss due to fluctuations in volumes, margins and costs, as well as customers' behaviour risk.	Analysis business risk	203	
	Governance	203	

Purpose and business model

The purpose of ING Bank's risk management function is to support the ambition of ING Bank to be the primary bank for our customers, empowering the business through an integrated, state of the art, enterprise-wide risk management platform. The following principles support this purpose:

- The risk management function is embedded in all levels of ING Bank's organisation and is part of the daily business activities and strategic planning to have a sustainable competitive advantage;
- Products and portfolios are structured, underwritten, priced, approved and managed properly and compliance with internal and external rules is monitored;
- Delegated authorities are consistent with the overall Bank strategy and risk appetite; and
- Transparent communication to internal and external stakeholders on risk management.

Risk governance

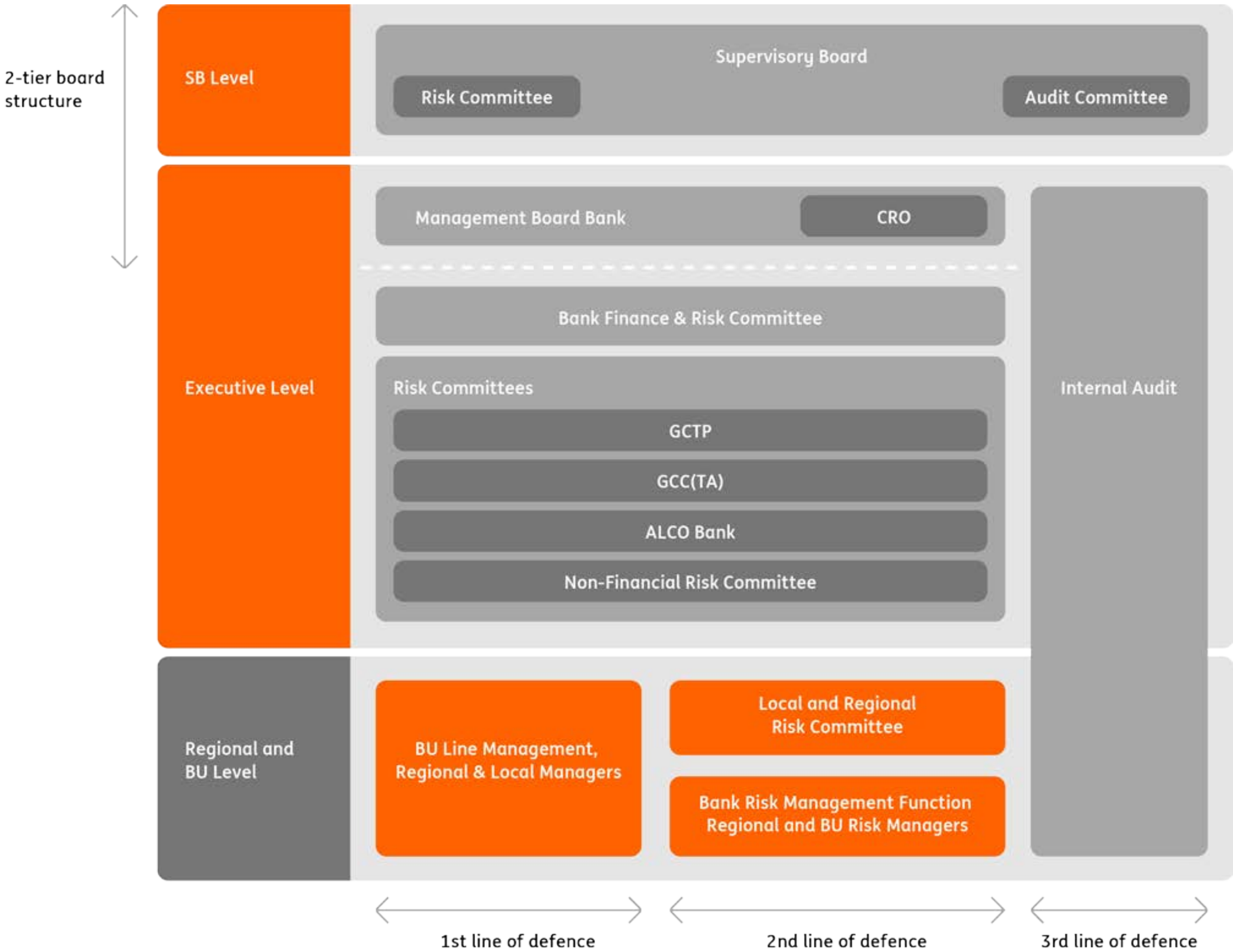
Effective risk management requires a firm-wide risk governance. ING Bank's risk and control structure is based on the 'three lines of defence' governance model, whereby each line has a specific role and defined responsibilities in such a way that the execution of tasks is separated from the control of the same tasks. At the same time, they have to work closely together to identify, assess and mitigate risks. This governance framework ensures that risk is managed in line with the risk appetite as approved by the Management Board Bank (MBB) and the Supervisory Board (SB), and is cascaded throughout ING Bank.

The head of ING's line of business and their delegates form the first line of defence and have primary accountability for the performance, operations, compliance and effective control of risks affecting their respective businesses. They originate loans, deposits and other products within applicable frameworks and limits, they know our customers well and are well-positioned to act in both the customers' and ING's best interest. The COO is responsible and accountable for proper security and controls on global applications and IT-platforms servicing the Bank.

The second line of defence consists of oversight functions with a major role for the risk management organisation headed by the Chief Risk Officer (CRO), the ultimate responsible officer. Risk Management at corporate level is responsible for (i) the development of overall policies and guidance, (ii) objectively challenge the execution, management and control processes and (iii) coordinate the reporting of risks and controls by the first line of defence. It also has an escalation/veto power in relation to business activities that are judged to present unacceptable risks to ING Bank.

The internal audit function forms the third line of defence. It provides an on-going independent (i.e. outside of the businesses and the risk organisation) and objective assessment of the effectiveness of internal controls of the first two lines, including financial and non-financial risk management.

The graph below illustrates the different key senior management level committees in place in the risk governance structure.



Board level risk oversight

ING Bank has a two-tier board structure consisting of the Management Board Banking (MBB) and the Supervisory Board (SB); both tiers play an important role in managing and monitoring the risk management framework.

- The SB is responsible for supervising the policy of the MBB, the general course of affairs of ING Bank and its business (including its financial policies and corporate structure). For risk management purposes the SB is assisted by two sub-committees:
  - The Audit Committee, which assists the SB in monitoring the integrity of the financial statements of ING Bank, in monitoring the compliance with legal and regulatory requirements, and in monitoring the independence and performance of ING's internal and external auditors; and
  - The Risk Committee, which assists and advises the SB in monitoring the risk profile of the company as well as the structure and operation of the internal risk management and control systems.
- The MBB is responsible for managing risks associated with all activities of ING Bank. The MBB's responsibilities include ensuring that internal risk management and control systems are effective and that ING Bank complies with relevant legislation and regulations. On a regular basis, the MBB reports on these issues and discusses the internal risk management and control systems with the SB. On a quarterly basis, the MBB reports on the Bank's risk profile versus its risk appetite to the Risk Committee, explaining changes in the risk profile.

As a member of the MBB, the CRO ensures that risk management issues are heard and discussed at the highest level, thus establishing the appropriate tone at the top. The CRO steers a functional, independent risk organisation both at head-office and business-unit level, which supports the commercial departments in their decision-making, but at the same time has sufficient countervailing power to keep the risk profile within the risk tolerance. Every quarter, the CRO reports to the board committees on ING Bank's risk appetite levels and on ING Bank's risk profile. In addition, the CRO briefs the board committees on developments in internal and external risk related issues and ensures the board committees understand specific risk concepts.

As part of the integration of risk management into the annual strategic planning process, the MBB annually issues a Planning Letter which provides the corporate strategic direction and addresses key risk issues. Based on the Planning Letter, the business lines and business units develop their business plans which align with the Bank's strategic direction. The process includes a qualitative and quantitative assessment of the risks involved. As part of the process, strategic limits and risk appetite levels are explicitly discussed. Based on the business plans, the MBB formulates the Strategic Plan which is submitted to the SB for approval.

Executive level

The ING Bank Finance and Risk Committee (BF&RC) is a platform for the CRO and the Chief Financial Officer (CFO), along with their respective direct reports, to coordinate issues that relate to both the finance and risk domains. On reporting level, BF&RC has the responsibility to coordinate finance and risk decisions that have an impact on internal and/or external reporting.

The key risk committees described below act within the overall risk policy and delegated authorities granted by the MBB:

- Global Credit & Trading Policy Committee (GCTP), former Global Credit Committee Policy or GCC (P): Discusses and approves policies, methodologies and procedures related to credit, trading, country and reputation (ESR) risks within ING Bank. The GCTP meets on a monthly basis;
- Global Credit Committee – Transaction Approval (GCC(TA)): Discusses and approves transactions which entail taking credit risk (including investment risk), country, legal and ESR risk. The GCC(TA) meets twice a week;
- Asset and Liability Committee Bank (ALCO Bank): Discusses and approves on a monthly basis the overall risk profile of all ING Bank's market risks that occur in its activities. ALCO Bank defines the policy regarding funding, liquidity, interest rate mismatch and solvency for ING Bank; and
- Non-Financial Risk Committee Bank (NFRC Bank): Accountable for the design and maintenance of the Non-Financial Risk Management Framework including Operational Risk Management, Compliance and Legal policies, minimum standards, procedures and guidelines; the NFRC structure; development of tools, methods and key parameters (incl. major changes) for risk identification, measurement and monitoring/ reporting. The minimum frequency of the NFRC Bank is at least quarterly.

Regional and business unit level

The CRO is supported by regional and/or business unit CROs focussing on specific risks in the geographical and/or business areas of their responsibilities. ING Bank's regional and/or business unit management have primary responsibility for the management of risks (credit, market, funding and liquidity, operational, legal and compliance risks) that arise in their daily operations. They are accountable for the implementation and execution of appropriate risk frameworks affecting their businesses to ensure compliance with procedures and processes at Corporate level. The implementation is adapted if necessary to local requirements.

The local (regional and BU) CRO is responsible for the analysis, control and management of risks across the whole value chain (from front to back office), based on which a robust control structure is maintained. The regional and business unit CROs report both to the ING Bank's CRO and to the head of their regional area and business unit. This dual reporting system aims to ensure that the local risk management function is independent from the operating functions and that it is aligned with the corporate risk policies and goals.

Risk management function

Organisational structure

Based on the three lines of defence, an independent risk management function has oversight in all levels of ING Bank's organisation. The CRO, a MBB member, bears primary overall responsibility for the risk management function and reports directly to the Chief Executive Officer. The CRO is responsible for the management and control of risk on a consolidated level to ensure that ING Bank's risk profile is consistent with its financial resources and the risk appetite. The CRO is also responsible for establishing and maintaining a robust organisational basis for the management of risk throughout the organisation.

The Global Risk Management function consists further of corporate risk departments headed by General Managers directly reporting to the CRO. The corporate risk departments support the CRO to set the Bank's risk appetite, develop the corporate policies, rules and global procedures and infrastructures. The General Managers bear direct responsibility for risk (mitigating) decisions at Bank level. The General Managers and the CRO are responsible for the harmonisation and standardisation of risk management practices.

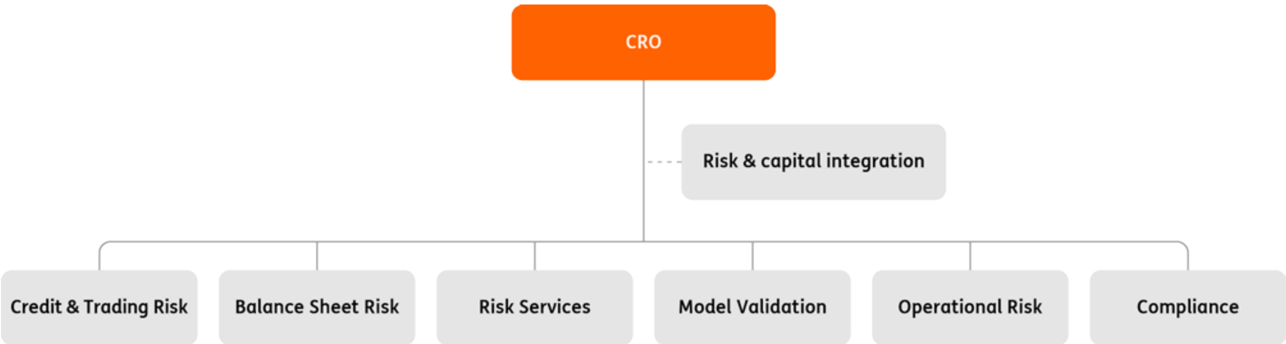
Over the past years, banks have been faced with regulatory and public pressure with regard to their risk management policies, processes and systems. New requirements and regulations have been introduced and implemented. To be able to effectively address these internal and external (market and regulatory) developments and challenges, ING Bank started to redesign the set-up of its risk-management organisation in 2015. This in order to better support the Bank's Think Forward strategy and enhance the interconnection of the business units risk oversight responsibilities on one hand, and the global risk functions on the other hand.

In 2016, the position of Head of NFR cessed to exist resulting in a direct report of the Heads of Corporate Operational Risk Management (CORM) and Bank Compliance Risk Management (BCRM) to the CRO. ING Bank is looking at a new structure for the validation of Risk Models in a broader perspective. Setting up a new Model Risk Management function is of significant strategic importance to the Risk Organisation.

The global Risk function is composed of the following departments: Credit & Trading Risk, Balance Sheet Risk, Corporate Operational Risk, Bank Compliance Risk and Risk Services. In addition, there is one staff department in place:

- Risk & Capital Integration: a staff department that reports functionally to the CRO and is responsible for overarching risk topics as risk appetite, disclosures, recovery and resolution planning and stress testing as well as capital planning. Risk & Capital Integration reports directly to the Head of Capital Management.

The organisation chart below illustrates the current reporting lines within ING Bank global risk organisation:



As announced in October 2016, ING is accelerating its Think Forward strategy. Therefore, ING has introduced a number of initiatives to further improve the customer experience, further grow primary customers and lending, and increase efficiency. For Risk, it has initiated a Target Operating Model (TOM) programme to enable further convergence of our operations, which resulted in a new risk organisation to start on 1 March 2017.

Risk policies, procedures and standards

ING Bank has a framework of risk management policies, procedures and minimum standards in place to create consistency throughout the organisation, and to define requirements that are binding to all business units. The governance framework of the local business units aligns with ING Bank's framework and meets local (regulatory) requirements. Senior management is responsible to ensure policies, procedures and standards are implemented and adhered to. Policies, procedures and standards are regularly reviewed and updated via the relevant risk committees to reflect changes in markets, products and practices.

Risk model governance and validation
Risk models are built according to the internal risk modelling methodology standards and model life cycle, in line with regulatory requirements. After thorough review and documentation of the model by the modelling and Model Validation (MV) departments, specific model risk committees for each risk type approve new models. After approval by the specific risk committee, and where necessary the regulator, a new risk model is implemented and entitled for usage. In addition, MV validates each model on a regular basis. Validation results and its capital impact are reported on a quarterly basis to senior management, the risk committee and to the supervisor.

An independent MV department is one of the cornerstones of ING Bank's risk model governance. It consists of the process of determining that a model is appropriate for its intended use. It is an on-going process whereby the reliability of the model is verified at different stages during its lifecycle: at conception, before approval, periodically after implementation, and when significant changes to the model are made. The validation process contains a mix of developmental evidence, process verification and outcome analysis.

The MV department backtests all existing risk models. In addition to (i) evaluating the underlying model parameters, (ii) ensuring continued applicability of the models for the relevant portfolios, and (iii) discussing the model performance with front office and risk users of the models, MV also (iv) tests the observed performance of a model (and its components) with the predicted level. A model where the observed results deviate from the predicted results becomes a candidate for either re-calibration or re-development.

Risk culture
The risk management framework based on the three lines of defence governance model is effective when a sound and consistent risk culture is present throughout the whole organisation. The reputation and integrity of ING Bank's organisation are considered key requirements to operate successfully in the financial world. It promotes awareness of collectively shared values, ideas and goals but also of potential threats and it ensures alignment of individual performance objectives with the short- and long-term strategy. By making ING's risk responsibilities transparent within the different levels of the organisation and holding every employee accountable for his/her acts, the risk culture and awareness are embedded in the organisation. This leads to effective risk management.

Commonly seen as norms and traditions of behaviour of individuals and of groups within an organisation, risk culture determines the way in which employees identify, understand, discuss, and act on the risks the organisation is confronted with and the risks it takes. This is a continuous long-term commitment and journey. In this respect, The Orange Code has been set as a declaration of who we are. It describes what we can expect from each other when we turn up to work each day. A set of standards that we collectively value, strive to live up to, and invite others to measure us by.

The Orange Code is the sum of two parts, the ING Values and ING Behaviours, with integrity being an important principle. The ING Values (being honest, prudent and responsible) are designed to be non-negotiable promises we make to the world, principles we seek to stick to, no matter what. The ING Behaviours (take it on and make it happen, help others to be successful, and be always a step ahead) represent our way to differentiate ourselves. The Orange Code is embedded in commitments we make to each other and the standards by which we will measure each other's performance.

To support the embedding of risk culture into the business practices, ING Bank has initiated different programmes and issued several guidelines. Risk awareness is to be alert on potential threats that can occur during day-to-day business, which can be specific to the sector, the region or the clients ING Bank is doing business with. Part of the training curriculum to increase risk awareness is the Promoting Integrity Programme (PIP), which is a long-term, global, educational and behavioural change programme supported by the MBB for all ING Bank employees. With the programme, ING Bank gains a sound risk culture and ensures that every employee in every part of the organisation understands how his/her actions and behaviour can help earn and retain customer and stakeholder trust. Recently, additional modules with current topics, were added to the programme, among others on integrity and cybersecurity. To enhance risk awareness, these topics are discussed between managers and employees through dialogue sessions that managers organise within their teams to create clear and consistent understanding. The endorsement from the executive level and the emphasis in the communication strengthen the culture.

In the Netherlands, employees of all financial institutions – and that includes ING Bank – are required to take the Banker's Oath. This legal requirement came into force on 1 April 2015 as part of the joint approach from all banks, known as 'Future-oriented Banking'. With the introduction of a social regulation, the revision of the Dutch Banking Code and the implementation of a banker's oath (with the associated rules of conduct and disciplinary law), the banks want to show the society what they stand for and what they can be held accountable for, both as individual banks and the banking sector as a whole.

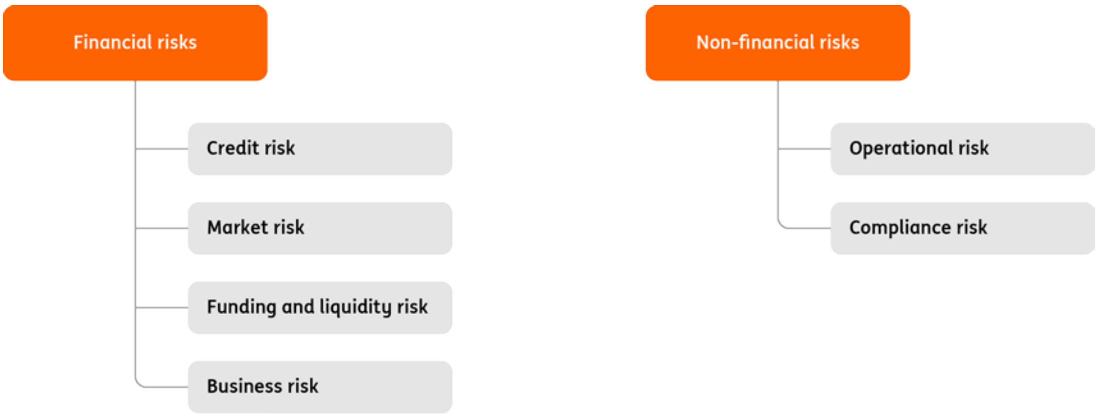
Lastly, ING Bank makes sure that the remuneration policy is properly aligned with its risk profile and the interests of all stakeholders. For more information on ING's compensation and benefits policies and its relation to the risk taken, please refer to the "Capital Requirements Regulation (CRR) Remuneration disclosure" published on the corporate website ing.com. https://www.ing.com/About-us/Annual-reporting-suite.htm

Risk profile

As a global financial institution with a strong European base offering banking services, ING Bank is exposed, to varying degrees of a variety of risks. The main financial risks ING Bank is exposed to can be divided into credit risk (including transfer risk), market risk (including interest rate, equity, real estate, credit spread, and foreign exchange risks), funding & liquidity risk and business risk. Furthermore, ING Bank is exposed to non-financial risks, e.g. operational and compliance risks.

Key risk categories

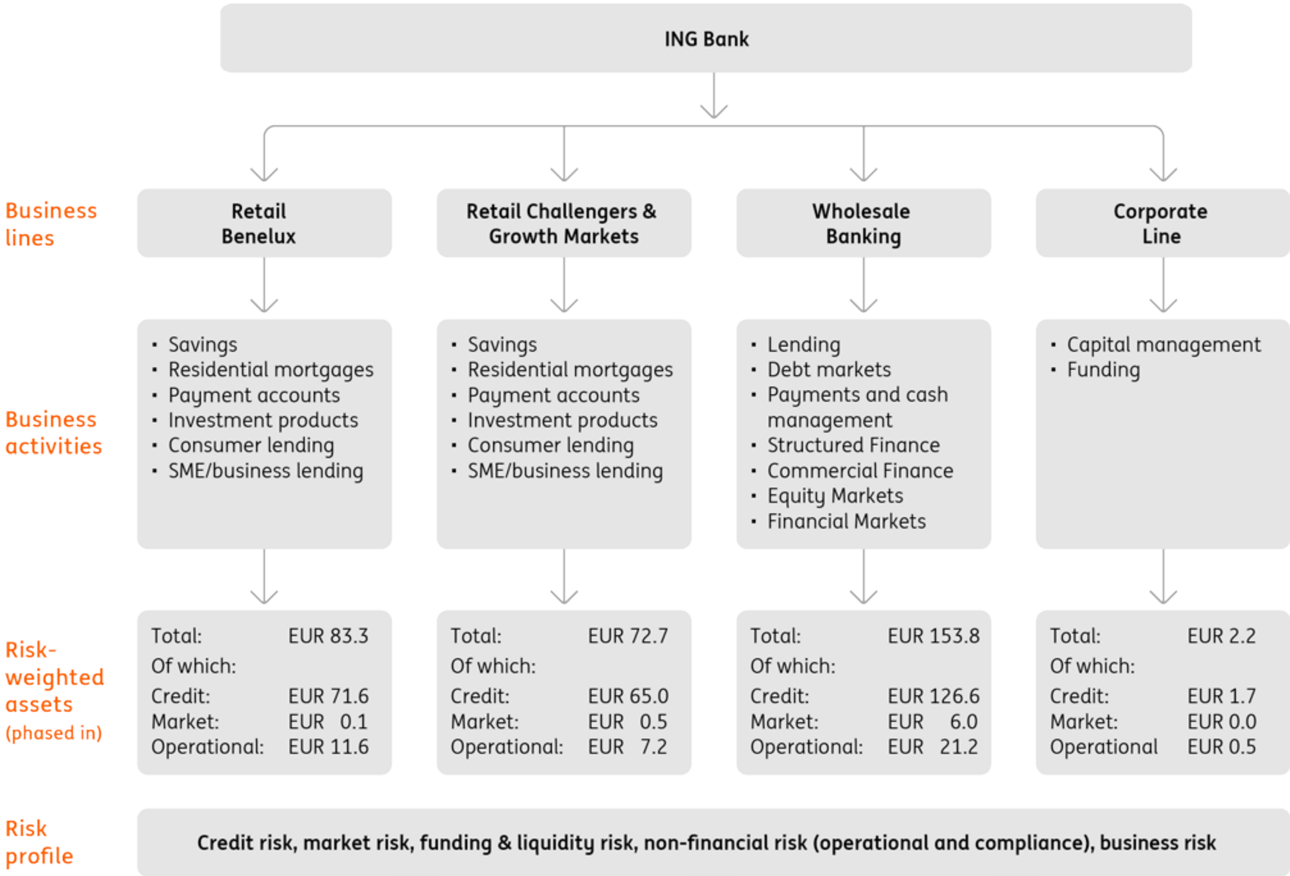
The table below presents the key risk categories (financial as well as non-financial risks) that are associated with ING Bank's business activities.



Financial risks:
- Credit risk: the risk of potential loss due to default and/or credit rating deterioration by ING Bank's debtors (including bond issuers) or trading counterparties;
- Market risk: the risk of potential loss due to adverse movements in market variables. Market risks include interest rate, credit spread, equity, real estate and foreign exchange risks;
- Funding and liquidity risk: the risk that ING Bank or one of its subsidiaries cannot meet its financial liabilities when they come due, at reasonable cost and in a timely manner. Liquidity risk can materialise both through trading and non-trading positions;
- Business risk: the exposure to value loss due to fluctuations in volumes, margins and expenses, as well as customer behaviour risk. These fluctuations can occur because of internal, industry, or wider market factors. It is the risk inherent to strategy decisions and internal efficiency, and as such strategic risk is included in business risk.

Non-financial risks:
- Operational risk: the risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems or from external events. It includes reputational risk, as well as legal risk;
- Compliance risk: the risk of impairment of ING Bank's integrity as a result of failure (or perceived failure) to comply with applicable laws, regulations, ING Bank policies and minimum standards and the ING Values as part of the Orange Code.

The chart below provides, in EUR billion, high level information on the risks arising from the Bank's business activities. The RWAs illustrate the relative size of the risks incurred in respect of each business from a regulatory perspective.



Risk cycle process

ING uses a step-by-step risk management approach to monitor, mitigate and manage its financial and non-financial risks. The approach consists of a cycle of five recurrent activities: risk identification, risk assessment, risk control, risk monitoring and risk reporting. In short, this implies: determine what the risks are, assess which of those risks can really do harm, take mitigating measures to control these risks, monitor the development of the risk and if measures taken are effective and report the findings to management at all relevant levels to enable them to take action when needed.

The recurrence is twofold. One: identification, assessment and review, and update of mitigating measures are done periodically. Two: the periodical monitoring exercise may indicate that new risks are arising, known risks are changing, assessed risk levels are changing, or control measures are not effective enough. Further analyses of these findings may result in renewed and more frequent risk identification, and/or assessment, and/or change of mitigating measures.

Risk identification
Risk identification is a joint effort of the commercial business and the risk management functions. Its goal is to detect potential new risks and determine changes in known risks. Regular risk identification is essential for both the effectiveness and efficiency of risk management. Potential risks that are not identified, will not be controlled and monitored and may lead to surprises later. Known risks may have changed over time and as a consequence the existing mitigating measures and monitoring may be inadequate or obsolete.

Risk identification is performed periodically. In case of material internal or external change, additional ad-hoc risk identification can be performed.

Risk assessment and control
Each identified risk is assessed to determine the importance, or risk level, of the risk for the ING Bank entity in scope. This enables the entity to decide which of the identified risks need control measures and how strict or tolerant these measures must be. Known risks are re-assessed to either confirm the risk level or detect change.

The importance of a risk is assessed based on the likelihood the risk materialises and the subsequent financial or reputational impact should the risk occur. Unlikely risks with a potentially high impact need to be controlled. For a risk that is likely to happen regularly, but is expected to have a modest financial impact, business management may decide to not mitigate and accept the consequences when it happens.

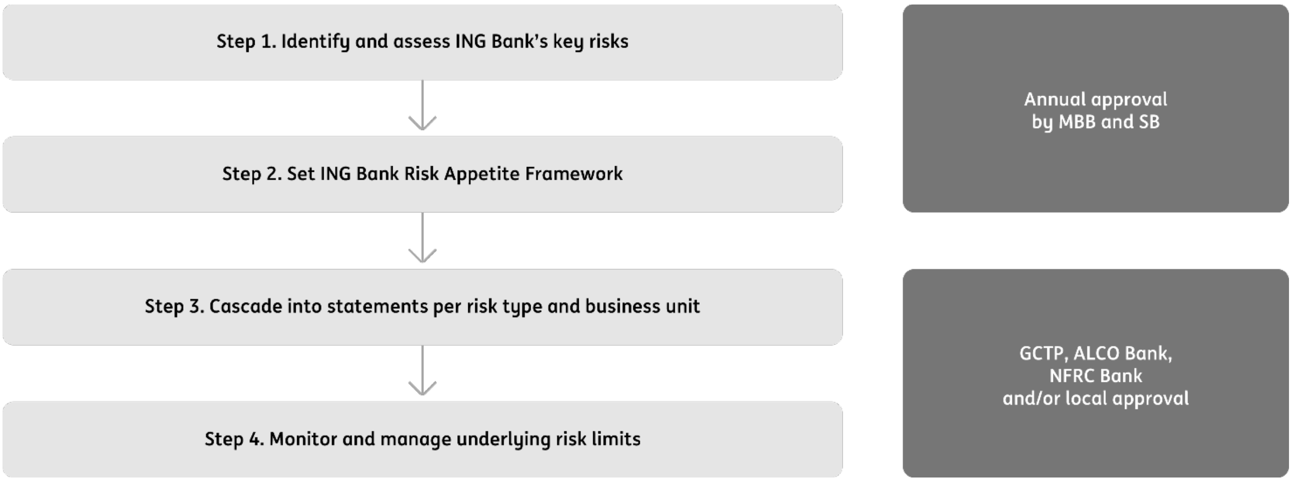
Risks can be controlled by mitigating measures that either lower the likelihood the risk occurs, or measures that lower the impact when they occur. The ultimate measure to lower risk is to stop the activity or service that causes the risk (risk avoidance). Risk controlling/mitigating measures are defined and maintained at both Bank wide and local level.

Monitoring and reporting
With the monitoring of the risk control measures, ING Bank continuously checks if they are executed, complied with, have the expected mitigating effects and follow the development of the risks and their risk levels. Adequate risk reporting provides senior and local management with the information they need to manage risk.

Risk Appetite Framework
ING uses an integrated risk management approach for its banking activities. The MBB uses the Risk Appetite Framework (RAF) to set both boundaries for the Medium Term Plan (MTP) budget process and to monitor and manage the actual risk profile in relation to the risk appetite.

Process

The RAF is focused on setting the risk appetite at the consolidated level and across the different risk categories, and provides the principles for cascading this risk appetite down into the organisation. The RAF is approved by the SB on an annual basis, or more frequently if necessary based on their quarterly review in the MBB and SB. It is therefore essentially a top-down process, which bases itself on the ambition of the bank in terms of its risk profile and is a function of the capital and liquidity levels and ambitions, the regulatory environment and the economic context. The process is set up according to the following steps:



Step 1. Identify & assess ING's key risks

Setting the RAF starts with a multi-dimensional step to identify & assess the risks ING is facing when executing its strategy. This step includes the following actions that are performed on an annual basis:

- detect unidentified risks that are not yet controlled within ING Bank's risk management function & assess their potential impact;
- benchmark current risk framework versus regulatory developments;
- re-assess known risks to confirm risk level or detect potential changes; and
- reflect on the current set of Risk Appetite Statements.

This annual Risk Assessment serves as input when defining the global risk appetite which – in line with its business model and risk ambition – is currently formulated as follows: ING Bank has the ambition to be and remain a strong bank, able to address possible adverse events on its own strengths and resources.

In order to achieve this risk ambition, ING has the following targets:

- Have a rating ambition which is in line with the strongest among its peer group;
- Be able to restore the capital and liquidity position following a stress situation on its own strength;
- Be in a position to meet current and forthcoming regulatory requirements and targets; and
- Have a risk profile that compares favourably to its main banking peers.

Step 2. Set Risk Appetite Framework

Based on ING's risk assessment and risk ambition, specific targets are set for both financial and non-financial risks:

Financial risk

For financial risks, ING expresses its risk appetite as a tolerance allowed to key ratios deviating from their target levels. Therefore, the high level risk ambition is translated into quantitative targets for solvency risk, funding & liquidity risk and for concentration risk.

The **solvency risk appetite** is closely aligned with capital management activities and policies. ING has determined tolerances for its risk-weighted solvency position (CET1 ratio), for non-risk-weighted solvency (leverage ratio) and for a more economic value based solvency (economic capital utilisation expressed via the Overall Supervisory Review and Evaluation Process (SREP) Capital Requirement). These statements are complemented with a specific statement regarding profitability. The CET1 ratio and leverage solvency risk appetite statements as well as profitability statement are not only compared to the actual reported level, but also include the potential impact of a standardised and pre-determined 1-in-10-year stress event (i.e. at a 90% confidence level with a 1-year horizon). Based on this mild stress scenario, the impact on ING Bank's earnings, revaluation reserve and risk-weighted assets (RWA) is calculated (these are labelled earnings-at-risk, revaluation reserve-at-risk and RWA-at-risk). These stressed figures are used as input for a two-year simulation which depicts the developments of ING's solvency level versus its risk appetite.

Funding and liquidity risk management has two dimensions: liquidity risk management focuses on having a sufficient buffer to cope with the short-term situation, funding risk management ensures long-term compliance with both internal and external targets. Managing funding and liquidity risk focuses both on 'business as usual' (based on the run-off profile to show the stickiness of deposits combined with the run-off of assets without new production) and on a stressed situation. For liquidity risk, we use the time to survive under specific scenario, while for funding risk we focus on having a stable funding profile.

The **concentration risk appetite** set at consolidated level are directly translated into corresponding limits in the underlying risk appetite statements for profitability risk, credit risk, market risk and funding & liquidity risk.

Non-financial risk
For non-financial risks, levels are set according to what ING is willing to tolerate in pursuit of the strategic objectives of the bank, to ensure that the organisation's actual risk exposure is commensurate with its strategic objectives and that exposure moving beyond the tolerance risk levels is timely identified and acted upon.

ING measures and monitors its exposure to non-financial risk on an ongoing basis by assessing risks, analysing scenarios and mitigating actions as a result of audit and risk assessment findings. The aggregation of the assessed risk levels is expressed in an expected loss figure on non-financial risk, which is compared to the tolerance levels as captured in the NFR Risk Appetite Statements (RAS) based on a percentage of the operational income. The overall non-financial risk levels and tolerance breaches are periodically reported through the Non-Financial Risk Dashboard (NFRD). The NFRD consists of comprehensive and integrated NFR information on a quarterly basis. Changes in capital are monitored and reported in the NFRD as well. In case risk events cause ING to move towards or beyond the tolerance level, management is required to undertake action.

In particular to **compliance risk**: ING must meet its compliance obligations, seek to adhere to the spirit as well as to the letter of applicable laws and regulations, ING policies and minimum standards, the values and behaviours as defined in the Orange Code, and to act upon identified compliance breaches immediately and diligently.

Step 3. Cascade into statements per risk type and business unit
The risk appetite is translated per risk type, which is further cascaded down into the organisation to the lowest level .The risk appetite statements are then translated into dedicated underlying risk limits which are used for day-to-day monitoring and management of ING Bank's risks.

For financial risks, a sequence of different risk appetite frameworks is implemented to address the most significant risks. This implies that a whole framework of credit risk limits is in place that monitors the overall quality of the ING Bank credit portfolio and that of all the underlying portfolios as well. In addition, specific concentration risk appetites are defined on product level, geographic level and (single name) counterparty level which are cascaded down into the organisation. The risk appetite for the trading book activities within Financial Markets is accompanied by a risk appetite framework for market risks in the banking books. For both types of market risk, limits at Bank level are translated into the organisation. The funding & liquidity risk appetite statements that are defined on ING Bank level are translated into the organisation, taking the funding & liquidity specific situation of each (solo) unit into account. The risk appetite for non-financial risk is cascaded to the divisions and business units through a set of quantitative and qualitative statements. The risk appetite at ING Bank level is applicable to all divisions and business units. The suite of risk appetite statements serves as input for the Medium Term Planning process as well as for the establishment of key performance indicators and targets for senior management.

Step 4. Monitor and manage underlying risk limits
In order to verify that it remains within the risk appetite framework as it is executing its budget, ING reports its risk positions vis-à-vis its limits on a regular basis towards senior management committees. The Risk and Capital Management Report reflecting the exposure of ING against the risk appetite targets is submitted quarterly to the MBB and to the (Risk Committee of the) SB.

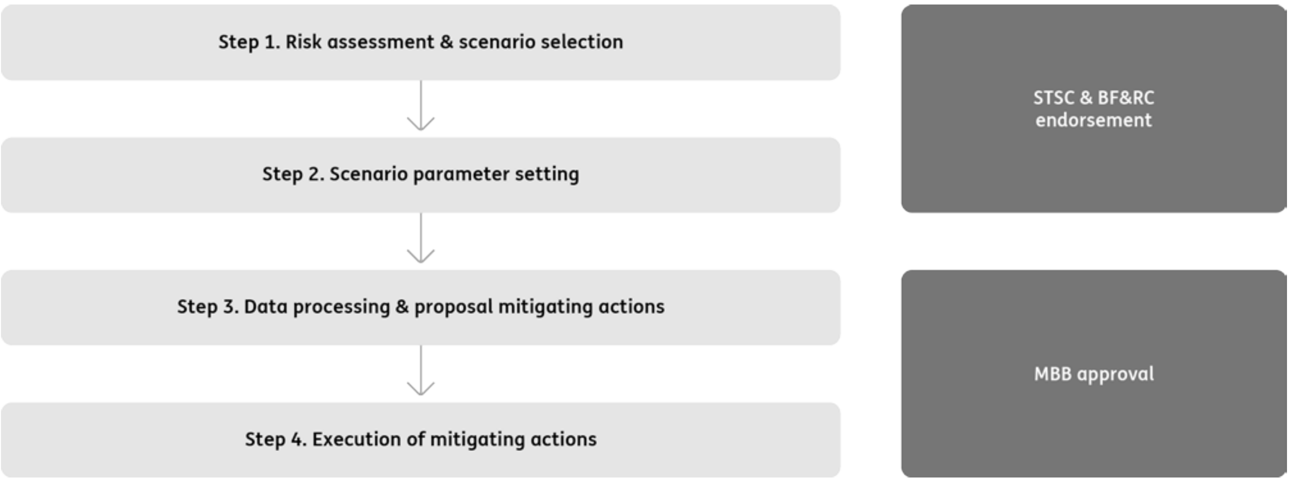
Stress testing
Stress testing is an important risk management tool that provides input for strategic decisions and capital planning. The purpose of stress testing is to assess the impact of plausible but severe stress scenarios on ING's capital and liquidity position. Stress test analyses provide insights in the vulnerabilities of certain portfolios, w.r.t. adverse macroeconomic circumstances, stressed financial markets and changes in the (geo)political climate.

Types of stress tests

Within ING, different types of stress tests are performed. The most comprehensive type of stress tests are the firm-wide scenario analyses, which involve setting scenario assumptions for all the relevant macroeconomic and financial market variables in all countries relevant to ING. These assumptions usually follow a qualitative narrative that provides background to the scenario. In addition to firm-wide scenario analyses, ING executes scenario analyses for a specific country or portfolio. Furthermore, sensitivity analyses are performed, which focus on stressing one or more risk drivers; usually without an underlying scenario narrative. The 1-in-10-year stress scenario used in the risk appetite framework is an example of a sensitivity analysis. Finally, ING performs reverse stress tests, which aim to determine scenarios that could lead to a pre-defined severe adverse outcome.

Process

The stress testing process of ING consists of several stages, which are summarised in below diagram.



Step 1. Risk assessment & scenario selection

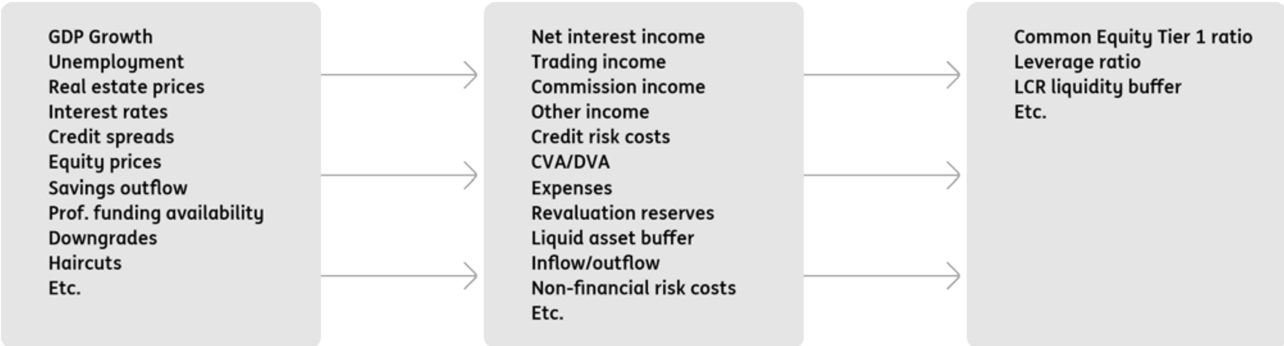
ING formally determines its main risks on an annual basis through the execution of a so called risk assessment. Senior management, business representatives and risk specialists are involved in this process which covers risks in the macroeconomic circumstances, political and regulatory developments as well as portfolio specific risks. Based on the risk assessment, scenarios are selected to be evaluated in the remainder of the year The results of the risk assessment and scenario selection are discussed and endorsed in the Stress Testing Steering Committee (STSC). All stakeholders are represented in the STSC, such as representatives of the different Corporate Risk departments, Capital Management, Finance and the Global Research organisation. The STSC submits the results of the risk assessment and scenario selection to the BF&RC for endorsement.

Step 2. Scenario parameter setting

After determination of the high level scenarios, further elaboration of them is necessary. Scope, assumptions and input parameters such as GDP growth, unemployment rates, interest rates and real estate price changes are defined for the countries involved in the exercise. The parameters are discussed and endorsed in the STSC and subsequently in the BF&RC.

Step 3. Data processing & proposal mitigating actions

When the scenario parameters have been finalised, the impact of the scenario on the solvency and liquidity position is determined. Based on the scenario values for the relevant macro-economic and financial market variables, the impact on amongst others P&L, revaluation reserves, RWA and liquidity buffers are calculated. These outcomes are subsequently used to calculate the evolution of relevant solvency and liquidity ratios, such as the common equity Tier-1 (CET1) capital ratio, the leverage ratio and the net liquidity position.



As for the previous steps, the calculated impacts of the scenario are first discussed and endorsed in the STSC followed by the BF&RC. Depending on the outcomes of the stress test and the likelihood of the scenario, mitigating actions may be proposed. Approval of these mitigating actions takes place in the MBB.

Step 4. Execution of mitigating actions
After the MBB has approved the mitigating actions, they need to be executed. Mitigating actions may include, but are not limited to, sales or transfers of assets, reductions of risk limits, intensification of our contacts with regulators or other authorities.

Methodology
For the calculation of the impact of the scenarios on P&L, RWA, revaluation reserves, etc., detailed and comprehensive models are used. In these models, statistical analysis is combined with expert opinion to make sure that the results adequately reflect the scenario assumptions. The methodologies are granular and portfolio-specific and use different macro-economic and market variables as input variables. The stress testing models are subject to a thorough review by the Model Validation department.

Economic and Regulatory Capital
Economic Capital (EC) and Regulatory Capital (RC) are the main sources of capital allocation within ING Bank. Both of these capital metrics are used to determine the amount of capital that a transaction or business unit requires to support the economic and regulatory-based risks it faces. The concept of EC differs from RC in the sense that RC is the mandatory amount of capital that is defined under Pillar I while EC is the best estimate of Pillar II capital that ING Bank uses internally to manage its own risk. EC is a non-accounting measure that is inherently subject to dynamic changes and updated as a result of ING Bank's portfolio mix and general market developments. ING Bank continuously recalibrates the underlying assumptions behind its economic capital model which may have an impact on the values of EC going forward.

EC is defined as the amount of capital that a transaction or business unit requires in order to support the economic risks it takes. In general, EC is measured as the unexpected loss above the expected loss at a given confidence level. This economic capital definition is in line with the net market value (or surplus) definition. The EC calculation is used as part of the CRR/CRD IV Pillar II Internal Capital Adequacy Assessment Process (ICAAP) and the Supervisory Review and Evaluation Process (SREP) that is performed regularly by the supervisor.

The following fundamental principles and definitions have been established for the model:
- ING Bank uses a one-sided confidence level of 99.95% and a one-year time horizon to calculate EC;
- It is assumed that all currently known measurable sources of risk are included;
- The best estimate risk assumptions are as objective as possible and based on proper analysis of statistical data.;
- The EC calculation is based on fair value principles. Where complete and efficient markets exist, fair value is equal to market value;
- The EC calculations reflect known embedded options and the influence of customer behaviour in banking products;
- The EC calculations are on a before tax basis and do not consider the effect of regulatory accounting and solvency requirements on capital levels; and
- The framework does not include any franchise value of the business, discretionary management intervention or future business volumes and margins.

Regulatory environment
After the turmoil in the financial markets and the subsequent need for governments to provide aid to financial institutions, financial institutions have been under more scrutiny from the public, supervisors and regulators. This has resulted in more stringent regulations intended to avoid future crises in the financial system and taxpayers' aid in the future.

Basel III revisions, CRR/CRD IV and upcoming regulations
On 23 November 2016, the European Commission published legislative proposals to amend and supplement certain provisions of the Capital Requirements Directive (CRD), the Capital Requirements Regulation (CRR), the Bank Recovery and Resolution Directive (BRRD) and the Single Resolution Mechanism Regulation (the SRM Regulation). The proposals are wide-ranging and may have significant effects on ING, including with regard to the total loss absorbing capacity (TLAC) or the minimum requirement own funds and eligible liabilities (MREL) it must maintain. It is uncertain when the proposals will come into effect, and if so, whether that will be in their current form.

On Basel III revisions (Basel 3.5), several changes to the regulatory framework are being considered by regulators. These may have an impact on the strategy of ING, especially as they often amplify each other. The proposals and their potential impact are monitored via semi-annual monitoring exercises in which ING Bank participates. As a result of such monitoring exercises and ongoing discussions within the regulatory environment, revisions have been made to the original Basel III proposals as was the case with the revised Liquidity Coverage Ratio in January 2013 and the revised Net Stable Funding Ratio and Leverage Ratio in January 2014. In January 2017, the BCBS announced that it expected to complete finalisation of all revisions to the Basel III framework, including the calibration of an aggregate capital floors framework and a leverage ratio minimum requirement.

Principles for Effective Risk Data Aggregation and Risk Reporting
In January 2013, the Basel Committee published Principles for Effective Risk Data Aggregation and Risk Reporting (also known as BCBS239). BCBS239 consists of fourteen principles to strengthen a bank's risk data aggregation and risk reporting practices. Collectively implementing these principles will enhance risk management and decision-making processes at banks. Banks indicated as G-SIBs – including ING Bank – were required to implement the principles by 2016.

The past years a dedicated team within the risk and finance functions, supported by the CFO and COO domain, has implemented BCBS239 across the key risk types. The implementation has covered all key BCBS239 principles, resulting in improvements across the data management and reporting chain. By incorporating the BCBS239 principles in ING's internal control Framework, the principles have become a key driver of ING's data aggregation and risk reporting practices. Also in today's continuously changing environment, ING will ensure that key risk data aggregation and reporting practices remain aligned with the BCBS239 principles.

Top and emerging risks
The risks listed below are defined as material existing and emerging risks that may have a potentially significant impact on our financial position or our business model. They may have a material impact on the reputation of the company, introduce volatility in future results of operations or impact ING's middle and long-term strategy including the ability to pay dividends, maintain appropriate levels of capital or meet capital and leverage ratio targets. An emerging risk is defined as a risk that has the potential to have a significant negative effect on our performance, but currently difficult to quantify the impact on the organisation than for other risk factors that are not identified as emerging risks.

The topics have emerged either as part of the annual Risk Assessment that is performed as part of the Stress Testing Framework or from the Risk Appetite Framework. The sequence in which the risks are presented below is not indicative of their likelihood of occurrence or the potential magnitude of their financial consequences.

During 2016, two changes to our top and emerging risks were made. 'Climate change risk' was added as a new emerging risk, reflecting the impact a deterioration of the climate may have for the reputation of ING. 'Business lending Benelux' was removed as the credit quality improved and the risk costs reduced following the gradual improvement of the economy. Further, 'Impact of low interest rate environment' moved into 'Macroeconomic developments'.

Macroeconomic developments
In 2016, ING Bank's operating environment was characterized by continuously challenging market conditions with amongst others the persistent low interest rates and geopolitical risks.

The sustained low interest rate environment in Europe, where central banks held their rates at very low and even negative levels in some countries, negatively impacted short-term as well as long-term market rates. The typical interest rate position at ING Bank is that the duration of the assets is slightly higher than the duration of the liabilities. Given this mismatch, decreasing interest rates are under normal circumstances favourable for the interest income of ING Bank: liabilities reprice more quickly than assets, and therefore the average interest rates paid on liabilities should adapt more quickly to lower market interest rates.

However, given the current unusual situation with persistent low interest rates, ING Bank actively manages its interest-rate risk exposure and successfully maintained the Net Interest Margin (NIM) on its core lending in 2016. On mortgages, ING is confronted with higher than expected prepayment rates because of the difference between the rates of the existing mortgage portfolio and the prevailing market rates. On savings, NII and NIM are decreasing due to a further decline in yields on assets, while room for further reduction of client rates on savings deposits has diminished.

In June 2016, the United Kingdom's intention to leave the European Union ('Brexit') was a major political and economic event that impacted sentiment. After the announcement, sovereign bond yields dropped as investors fled to safe haven assets due to increased uncertainty and the potential economic fall-out from Brexit. Therefore, the impact was primarily noticeable via a strong increase in volatility in a variety of asset classes, including currencies, equities and bonds. Although ING has activities in the UK through the Wholesale banking business line, no material asset quality deterioration following the Brexit referendum has appeared. But, as the terms of the exit are yet to be negotiated, ING will continuously monitor the developments.

Another element which can affect the real economy and gives rise to geopolitical risk is the instability in international relationships. In this perspective, ING Bank continued to carefully monitor the international developments.

Cybercrime

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

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

Climate change risk

The climate is changing and that is an unparalleled challenge for our world. The causes and the solutions to these challenges are complex, but we realise that it is attributed directly or indirectly to human activity that alters the composition of the global atmosphere, in addition to natural climate variability. As a financial institution, we too have a responsibility and it may ultimately affect our results if our customers are affected.

In general, ING has an impact on the environment and society directly through the consumption of natural resources and its relationship with stakeholders, and indirectly through our financing. Therefore, climate change as a risk continues to intensify, looking at the public, regulatory and political concerns around its integration into the financial sector's operations and strategy.

We can play a role in trying to find solutions. We have been climate neutral since 2007, adapting the organisation to the new world and taking effective measures to mitigate our impacts. We are aware that our greatest impact however, is through our financing portfolio. ING's decision to end financing new coal fired power plants and coal mines, and continued reduction of our coal portfolio, demonstrates climate change risk is part of our ESR framework and applies to all financial products and services offered by ING.

Finally, we also participate in a number of climate change initiatives. For instance, we currently participate within the Financial Stability Board (FSB) Task Force on Climate-related Financial Disclosures (TCFD), which is developing voluntary, consistent climate-related financial risk disclosures for use by companies in providing information to stakeholders.

Credit risk

Introduction

Credit risk is the risk of loss from the default and/or credit rating deterioration of counterparties. Credit risks arise in ING Bank's lending, financial market and investment activities. The credit risk section provides information on how ING Bank manages, measures and monitors credit risk and gives an insight into the ING Bank portfolio from a credit risk perspective.

Governance

Credit risk within ING Bank is part of the second line of defence (the front office being the first, internal audit the third) and is managed within the Credit & Trading Risk (C&TR) function. C&TR is responsible for reviewing and managing credit risk including environmental and social risk (ESR) for all types of counterparties. It consists of credit risk managers who are responsible for credit approvals and managing the specific credit risks in their portfolios and credit risk experts who provide support by means of credit risk systems, policies, models and reporting. To ensure the independence of the risk function, the C&TR general manager is functionally responsible for the global network of credit risk staff.

ING Bank's credit risk strategy is to maintain an internationally diversified loan and bond portfolio, avoiding large risk concentrations. The emphasis is on managing business developments within the business lines by means of a top-down risk appetite framework, which sets concentration limits for countries, individual counterparties, counterparty groups and investment activities. The aim is to support relationship-banking activities, while maintaining internal risk/reward guidelines and controls.

Credit analysis at portfolio level is monitored using metrics such as economic capital, regulatory capital, exposure at default (EAD), probability of default (PD) and loss given default (LGD). To ensure efficient use of ING Bank's capital, the risk appetite is monitored and managed at portfolio level by risk and finance together. Credit analysis at transactional level focuses on the risk amount, tenor, structure of the facility and profile of the borrower. ING Bank's credit risk managers make use of publicly available information, information provided by the counterparty, peer group comparisons, industry comparisons and quantitative techniques.

Within ING Bank, the ultimate approval authority for credit proposals resides with the MBB. The MBB has delegated authorities based on amounts, tenors and risk ratings to lower levels in the organisation. Transactions are approved via a dual signatory approval system that requires an individual sign-off from both front office and credit risk management. For larger and higher risk credits a committee structure exists whereby the credit risk chair takes the final decision with support of the respective committee members, thereby ensuring accountability. Retail business units have delegated authority to decide within policies and mandates approved by credit risk. Any decisions outside those policies or above the delegated mandate require a specific credit risk approval.

The credit risk role encompasses the following activities:
- Measuring, monitoring and managing credit risks in the Bank's portfolio;
- Challenging and approving new and modified transactions and borrower reviews;
- Managing the levels of provisioning and risk costs, and advising on impairments; and
- Providing consistent credit risk policies, systems and tools to manage the credit lifecycle of all activities.

The following committees are in place to review and approve transactions and policies from a credit risk point of view:
- The Global Credit Committee for Transaction Approval (GCC(TA)) is mandated to approve transactions with credit risks.
- The Global Credit & Trading Committee Policy (GCTP) which is authorised to approve policies, methodologies and procedures related to credit, trading, country and reputation risks on a high level for ING Bank. GTCP consists of MBB members.
- The Credit & Trading Risk Committee (CTRC) is authorised to approve policies, methodologies and procedures related to credit & trading risk on more detailed and operational level (with the exception of issues which are mandated to GCTP) within ING Bank. CTRC consists of MT members of C&TR, Risk Services and Wholesale Banking Lending Services.
- The Models Development Committee (MDC) serves as a technical advisor to CTRC and is a planning body for future model development. The MDC has a delegated mandate to approve credit risk models which cover smaller portfolios.
- The ING Bank Provisioning Committee (IPC) is the approval authority for loan loss provisions (LLP) for all ING Bank entities.

Credit risk categories

Credit risk uses risk categories to differentiate between the different types of credit risk. All products within ING Bank are aggregated to one of the following risk categories:
- **Pre-settlement (PS) risk**: arises when a counterparty defaults on a transaction before settlement and ING Bank has to replace the contract by a trade with another counterparty at the then prevailing (possibly unfavourable) market price. The pre-settlement risk is the (potential or expected risk) cost of ING Bank replacing a trade in the market. This credit risk category is associated with dealing room products such as options, swaps, and securities financing transactions. Where there is a mutual exchange of value, the amount of credit risk outstanding is generally based on the replacement value (mark-to-market) plus a potential future volatility concept, using a 3-7 year historical time horizon and a 97.5% confidence level.
- **Money market (MM) risk**: arises when ING Bank places short-term deposits with a counterparty in order to manage excess liquidity. As such, money market deposits tend to be short-term in nature. In the event of a counterparty default, ING Bank may lose the deposit placed. Money market risk is measured as the accounting value of the deposit, excluding any accrued and unpaid interest or the effect of any impairment.
- **Lending risk**: arises when ING Bank grants a loan to a counterparty, or issues guarantees on behalf of a counterparty. This includes term loans, mortgages, revolving credits, overdrafts, guarantees, letters of credit, etc. The risk is measured as the accounting value of the financial obligation that the counterparty has to repay to ING Bank, excluding any accrued and unpaid interest, discount/premium amortisations or impairments.
- **Investment risk**: is the credit default and risk rating migration risk that is associated with ING Bank's investments in bonds, commercial paper, securitisations, and other similar publicly traded securities. This can be viewed as the worst-case loss that ING Bank may incur as a result of holding a position in underlying securities whose Issuer's credit quality deteriorates or defaults. All investments in the banking book are classified in the investment risk category. The primary purpose of ING Bank's investments in the banking books is for liquidity management.
- **Settlement risk**: is the risk that arises when there is an exchange of value (funds or instruments) for the same value date or different value dates and receipt is not verified or expected until after ING has given irrevocable instructions to pay or has paid or delivered its side of the trade. The risk is that ING Bank delivers but does not receive delivery from its counterparty. ING manages settlement risk in the same way as other risks including a risk limit structure per borrower. Due to the short term nature (1 day), ING Bank does not hold provisions or capital for specific settlement risk. Although a relatively low risk, ING increasingly uses DVP (Delivery versus Payment) and FITO (First In Then Out) payment techniques to reduce settlement risk.

For the reconciliation between credit risk outstanding categories and financial assets we refer to the section 'Credit risk management classification' as included in Note 1 'Accounting policies'.

Credit Risk Appetite and Concentration Risk Framework

The credit risk appetite and concentration risk framework enables ING to prevent undesired high levels of credit risk and credit concentrations within various levels of the ING portfolio. Concentration risk is measured based on the credit risk exposure amount. Credit risk exposure is the total amount of outstanding plus the unused portion of commitments. It can be measured on various levels, such as customer, legal or economic one obligor group, product, portfolio, customer type, industry, and country. Where applicable a level is broken down from the consolidated ING Bank level to a local branch/unit level.

Credit risk appetite statements boundaries and concentration limits are set and reviewed on an annual basis. The bank-wide credit risk boundaries and concentration limits are approved by the Risk Committee of the Supervisory Board and GCTP, respectively.

Credit risk appetite statements

Credit risk appetite is the maximum level of credit risk ING Bank is willing to accept for growth and value creation. This credit risk appetite is linked to the overall Bank-wide risk appetite framework. The credit risk appetite is expressed in quantitative and qualitative measures. Having a credit risk appetite achieves:

- Clarity about the credit risks that ING Bank is prepared to assume, target setting and prudent risk management;
- Consistent communication to different stakeholders;
- Guidelines how to align reporting and monitoring tools with the organisational structure and strategy; and
- Alignment of business strategies and key performance indicators of business units with ING Bank's credit risk appetite by means of the MTP.

Credit risk appetite is present across different levels within ING Bank, at portfolio level as well as transaction level. The various credit risk appetite components at portfolio and transaction level together result in the credit risk appetite framework.

Credit risk appetite statements are defined top-down across the credit risk categories (pre-settlement, money market, lending, investment), and connected to ING Bank high-level risk appetite across all risk types (solvency, credit, liquidity and funding, market, and non-financial risk). They consist of a set of high-level credit risk metrics: expected loss, economic capital, risk-weighted assets (RWA) and exposure at default. For each credit risk metric a boundary is set that is cascaded down and monitored on a monthly basis. The adherence to the boundaries and the pro-active approach to manage the portfolio within the risk appetite boundaries are part of the key performance indicators of the business line managers.

Country risk concentration

Country risk is the risk that arises due to events in a specific country (or group of countries). Country risk is the risk of loss for ING Bank associated with lending, pre-settlement, money market and investment transactions as a result of country risk events. A country risk event can be described as economic, financial and political shocks and transfer or exchange restrictions, affecting all counterparties in a specific country. The occurrence of a country risk event may cause all counterparties in a country to be unable to ensure timely payments, despite their willingness to meet their contractual debt obligations. As such, country risk is an additional factor to be taken into account in the credit approval process of individual customers, as the country risk event probability may impact the default probability of individual counterparties.

For every country where ING has exposure, a country limit is set. Country limits are reviewed monthly and updated when needed. The country limit is a function of various factors including ING's risk appetite for the country, amount of capital consumption, GDP of the country, internal rating, and amount of funds entrusted generated. In case the limit utilisation is above 90%, the respective credit risk manager is expected to take action to bring the utilisation below 90% or to submit to the relevant approval mandate holders a country limit review requesting a higher limit to accommodate the increasing exposure. In case of countries with elevated levels of geo-political or severe economic cycle risk the monitoring is performed on a more frequent basis with strict pipeline and exposure management to protect ING Bank from adverse impacts.

Single name and sector concentration

ING Bank has established a concentration risk framework in order to identify, measure and monitor concentrations at country, portfolio and/or counterparty level. It consists of:

- Single name concentration: losses due to the unexpected default of a single counterparty. These single name concentrations are capped both at individual single name level and aggregated top-5 single name level. The LGD of a single name concentration is measured against a maximum LGD amount. Large Exposures monitoring and reporting is one of the components of the single name framework.
- Sector concentration (systemic risk): substantial increase of the ING Bank risk profile (expressed in risk-weighted assets at risk) due to the joint deterioration of a group of correlated counterparty/transactions, sensitive to the same external (macro-economic) factor(s) related to their geographic location and exposure class.

Scenarios and stress tests

Stress testing evaluates ING Bank's financial stability under severe but plausible stress scenarios and supports in decision-making that assures ING Bank remains a financially-healthy going concern even after a severe event occurs. In addition to the bank-wide stress test framework as described in the Risk Management - Risk profile section, the credit risk department performs stress tests on a monthly basis in order to continually assess the portfolio risks and concentrations. These monthly stress tests are consistent with the stress scenario as established in the ING Bank wide credit risk appetite framework. The monthly stress tests are reviewed in the Risk and Capital Integration team and potential management actions are proposed if necessary.

ING Bank performs periodical stress tests based on a standardised and pre-determined 1-in-10 year-stress event (i.e. at 90% confidence level and 1 year horizon) which is similar to the one applied in the solvency risk appetite. Based on this confidence level, a through the cycle rating migration for the entire portfolio is simulated. For this simulated portfolio, provisions, RWA and Economic Capital are recalculated to assess what the combined impact of such a year would be. The additional CRWA that ING should allocate in such an event is named CRWA-at-Risk.

Next to the periodical pre-determined stress test related to CRWA-at-Risk, credit risk performs ad-hoc stress tests based on severe but plausible scenarios. These stress tests can be for internal purposes or at the request of the regulators and are input for future Credit Risk Appetite setting. Stress testing is used as an additional safety net within credit risk. In addition to the Pillar I and Pillar II capital calculations, based on the results of various stress tests, ING Bank ensures that adequate levels of capital (and liquidity) are available to sustain such severe but plausible scenarios.

Product approvals

Across ING Bank a robust product approval and review process ensures effective management of risks associated with the introduction of new or modified products. It ensures that sound due diligence is performed by relevant stakeholders to ensure that all relevant risks (credit, operational, legal, etc.) are adequately mitigated in the Product Approval and Review Process (PARP).

Risk programs

Within ING Bank, risk programs are detailed analyses of defined products and/or industries that identify the major risk drivers and mitigants, the internal business mandate, and propose the minimum risk (including business) parameters – and potentially the maximum product and/or portfolio limit - to undertake that business. A risk program is always prepared by the front office responsible for the internal business mandate and requires an approval from an approval authority. Risk programs may carry various names and/or may have geographical and/or business limitations (e.g. local vs global).

Reference benchmarks

A reference benchmark is the maximum appetite for credit risk per legal one obligor group. It is expressed as a (benchmark) exposure at the concentration risk level, which corresponds to a (maximum) internal capital consumption for credit risk. It is used as a reference amount in the credit approval process and can be waived on the basis of proper arguments.

Credit approval process

The credit approval process ensures that individual transactions are assessed on a name-by-name basis. For each type of counterparty (corporates, banks/financial institutions, structured products clients) there is a dedicated process with credit risk managers specialised along the business lines of ING Bank. The credit approval process is supported by a risk rating system and exposure monitoring system. Ratings are used to indicate a counterparty's creditworthiness translated into a probability of default and is used as input to determine the maximum risk appetite that ING Bank has for a given type of counterparty (reference benchmark). The determination of the delegated authority (the amount that can be approved at various levels of the organisation) is a function of the risk rating of the client and ING's credit risk exposure on the client.

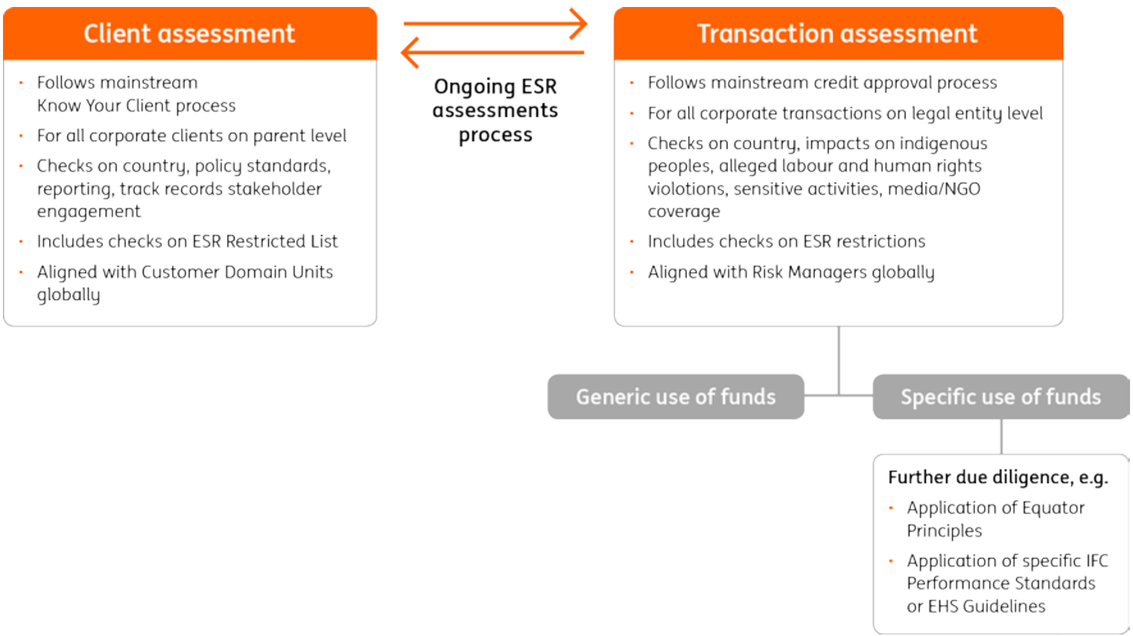
Given the nature of the retail business, roles and responsibilities of the local credit risk policy are delegated to the local retail credit risk management. However, the global head retail risk needs to be informed on all local retail risk policies so as to monitor that the local policies do not conflict with any C&TR policies. This framework serves to ensure more global alignment while preserving existing empowerment of local units. As such, approval authorities differ depending on the materiality of the deviation between the local policy and the global policy.

Environmental and Social Risk Framework

ING Bank makes a positive contribution to global economic growth and more sustainable development by promoting responsible lending and investment practices. The environmental and social risk (ESR) policy framework incorporates assessment tools that are used in ING's mainstream processes and systems. It is therefore fully integrated into regular client and transaction reviews.

The ESR policy framework is reviewed every three years on the basis of significant changes identified in the sectors that are more vulnerable to environmental and social risks and impacts. In addition, environmental and social risks for all lending transactions are reviewed on a yearly basis following annual credit reviews. ESR transactions where funds will be used for asset based finance may require enhanced ESR due diligence e.g. application of the Equator Principles. Such enhanced ESR evaluation is also required for any high-risk transaction, such as those that impact indigenous people etc.

The snapshot of ING's ESR Framework is as follows:



The ESR policy framework is fully embedded in ING mainstream approval processes and requires involvement of the following areas globally:

Client Assessment:
- Customer Domain Units (CDU): verify compliance with the applicable ESR policy. CDUs are responsible to assure that information in the Client ESR Assessment has been duly completed.

Transaction Assessment:
- Front Office: departments that originate transactions and have direct contact with the client or project sponsors;
- Risk Management: departments that provide control over front office activities and generally sign off on the environmental and social impacts for 'Low Risk' or 'Medium Risk' transactions;
- Environmental and social risk department within risk management fully dedicated to assessing environmental and social impacts associated with 'High Risk' transactions. Negative advice from the ESR department can only be waived by ING's highest credit committee or the Managing Board Banking (MBB). In practice such waivers are very exceptional.

ESR Policy Development and Governance:
- MBB/Global Credit Committee: Ultimate approval authority for approving new and updated ESR policies.

As the risk assessment processes are decentralized each front-office team must be highly familiar with ING's environmental and social framework. Hence, ING makes significant investment in internal training programs to help CDUs, front office and risk management staff in assessing the environmental and social risks. In 2016, 545 colleagues have been specifically trained on the ESR policy framework worldwide.

Credit risk capital and measurement

Credit risk capital

Regulatory capital is a law based prudent measure defined by regulators and serves as the minimum amount of common equity Tier-1, additional Tier-1 and Tier-2 capital required to absorb unexpected losses. Regulatory capital is the minimum amount of capital (based on 99.90% confidence level) that ING Bank must hold from a regulatory perspective as a cushion to be able to survive large unexpected losses.

RWA comparison

Comparison of RWA and risk weights across institutions is inherently challenging. Differences in RWA among banks have been classified by the Bank for International Settlements (BIS) in 3 categories:
1. Risk based drivers that stem from the differences in underlying risk at the exposure/portfolio level and in business models/ strategies including asset class mix;
2. Practice-based drivers including approaches to risk management and risk measurement; and
3. Regulatory environment such as supervisory practices, implementing laws and regulations including national discretion and accounting standards.

Risk based drivers

ING Bank's portfolio is dominated by secured lending especially in the areas of residential mortgages, leasing and commercial real estate. Secured lending tends to have a much lower LGD, given the collateral involved, which is a key driver of RWA calculation. Another important element of the ING business model is the focus on retail exposures collateralised by residential property. ING's retail portfolio is mainly comprised of residential mortgages. The regulatory formula for this exposure class tends to result in lower RWA, all other factors being equal.

Practice based drivers

ING Bank has a conservative approach to troubled exposures. Non-performing exposures are recognized early based on unlikely to pay triggers. ING typically classifies default based on a borrower rating and not a facility rating which means that a customer will only have one PD (probability of default) regardless of the type(s) of transactions done with ING Bank. As a consequence, if one facility is in default, usually all facilities of the client are in default. Non-performing clients which were granted forbearance measures need to stay non-performing for a minimum of one year starting from the moment they are classified as forborne. Eligibility for a migration back to performing is possible only after this probation period of one year.

Regulatory environment

ING Bank's primary supervising entity is the ECB, who is supported by many host supervisors. The ECB supervises adherence to the regulatory rules: the regulatory framework defined in CRR/CRDIV, European Bank Authority (EBA) standards and ECB guidance. The ECB requires all 'significant changes' in internal models (PD, LGD and EAD) and policies to be reviewed and approved by the ECB.

Comparing capital levels across banks is a challenging exercise because of different risk profiles, differences in risk based drivers, practice based drivers and regulatory environment (e.g. advanced internal rating based approach or the standardised approach). These factors have a substantial impact on the regulatory capital/RWA of a financial institution. ING Bank continues to work with industry groups and strives to adhere to the latest BCBS and EBA recommendations to improve the transparent reporting of our capital calculations.

Economic capital
Economic capital reflects ING Bank's own view on credit risk, which allows it to be used in decision making processes at transaction level, counterparty level and (sub) portfolio levels. Credit risk and transfer risk capital are calculated on all portfolios which contain credit or transfer risk, including investment portfolios. Economic capital is the minimum amount of capital required to cover unexpected losses within a 99.95% confidence level and a 12 months' time horizon. It is used throughout ING Bank in the decision making process (mainly wholesale banking), in risk adjusted counterparty and portfolio profitability measurement tools (wholesale and retail banking), in investment and divestment decisions, in the country risk framework and in concentration risk management such as risk appetite statements (RAS), single name concentration and the systemic risk reports (sector concentration report).

An important characteristic of the credit risk infrastructure and framework is that models are built for several purposes, including economic capital, regulatory capital and loan loss provision. These rating models are used throughout the ING Bank organisation which is compliant with the Basel Use Test requirement and ensures active feedback on the risk parameters by business units.

Economic capital is calculated using the economic values of rating models (PD, EAD and LGD). In line with regulatory requirements, so-called 'significant changes' to these rating models are communicated to the regulator for approval. Significant changes depend on the impact on credit RWA (Pillar I) or on the significance (size) of the model for the ING Bank portfolio.

Credit risk measurement
There are two ways to measure credit risk within ING Bank's portfolio, depending on whether the exposure is booked under an ING office which is permitted by the ECB to use the advanced internal rating based (AIRB) approach, or if it falls under the standardised approach (SA).

Standardised approach
The standardised approach applies a fixed risk weight to each asset as dictated by the CRR, and is based on the exposure class to which the exposure is assigned. As such, the Standardised Approach is the least sophisticated of the regulatory capital methodologies and is not as sensitive as the risk-based approach. Where external rating agency ratings are available, they may be used as a substitute to using the fixed risk weightings assigned by the Financial Supervisory Authorities. Because the underlying obligors are relatively small for exposures treated under SA, the underlying obligors tend not to have external ratings.

Advanced internal rating based approach
There are five main elements that drive the determination of risk-weighted assets under the AIRB approach.

- **Probability of Default (PD)**: The first is the counterparty's probability of default, which measures a counterparty's creditworthiness in terms of likelihood to go into default. It attempts to measure the senior, unsecured standalone creditworthiness of an organisation without consideration of structural elements of the underlying transactions, such as collateral, pricing, or maturity. Each borrower has a rating which translates into a specific PD.

- **Exposure at Default (EAD)**: The second element is the counterparty's exposure at default. EAD models are intended to estimate the outstanding amount or obligation at the moment of default in the future. Since the fact that a counterparty will go into default is not known, and the level of outstanding that may occur on that date is also not known, ING Bank uses a combination of statistical and hybrid models to estimate the EAD. With the exception of guarantees and letters of credit, the EAD is always equal to or higher than the associated credit risk outstanding, under the assumption that counterparties tend to absorb liquidity from available credit resources before financial problems become apparent to the counterparty's creditors. The EAD is largely a function of the type of credit facility (revolving, overdraft, term) offered to the borrower.

- **Loss Given Default (LGD)**: The third element is the loss given default. LGD models are intended to estimate the amount ING Bank would lose from liquidating collateral pledged in association with a given loan or financial obligation, or alternatively, from liquidating the company as a whole as part of a workout process. LGD models are based on cover types, estimated recovery rates given orderly liquidation, and (in)direct cost of liquidation.

- **Maturity (M)**: The fourth element is the time to the maturity of the underlying financial obligation. Regulatory requirements (CRR/CRDIV) floor the maturity element at one year and cap it at five years.

- **Exposure Class:** The fifth element is the exposure class (a regulatory prescribed grouping of a common obligor type or product type) which is a driver for the correlation factor. To calculate risk-weighted assets the default correlation between a transaction and all other transactions in the portfolio is taken into account. The correlation factor determines which portion of the standalone risk of a transaction is retained when the transaction is included in the portfolio and the portfolio diversification benefits are taken into consideration.

The expected loss (EL) provides a measure of the value of the credit losses that ING Bank may reasonably expect to incur on its portfolio. In its basic form, the expected loss can be represented as:

EL = PD * EAD * LGD

Securitisations

ING Bank has implemented the AIRB approach for credit risk. As a consequence, ING Bank uses the rating based approach (RBA) for investments in tranches of asset-backed securities (ABS) and mortgage-backed securities (MBS) which have been rated by external rating agencies. Rating agencies which are used by ING Bank under the RBA include: Standard & Poor's, Fitch and Moody's.

Under the RBA, the RWA are determined by multiplying the amount of the exposure by the appropriate regulatory risk weights, which depend on:

- The external rating or an available inferred rating;
- The seniority of the position; and
- The granularity of the position.

ING Bank uses the internal assessment approach for the support facilities it provides to asset backed commercial paper (ABCP) conduit Mont Blanc Capital Corp., based on externally published rating agency methodologies.

Credit risk models

Within ING Bank internal Basel compliant models are used to determine the PD, EAD and LGD for regulatory and economic capital. Bank wide, ING Bank has implemented over 80 models, including various sub models that may be applicable for a specific portfolio. There are two main types of modelling which form the foundation of these PD, EAD and LGD models used throughout the Bank:

- **Statistical models** are created where a large set of default or detailed loss data is available. They are characterised by a sufficient number of data points that facilitate meaningful statistical estimation of the model parameters. The model parameters are estimated with statistical techniques based on the data set available;
- **Hybrid models** contain characteristics of statistical models combined with knowledge and experience of experts from both risk management and front office staff and literature from rating agencies, supervisors and academics. These models are especially appropriate for 'Low Default Portfolios', where limited historical defaults exist.

Next to the model choice, the definition of default is an important starting point for model building. ING Bank uses a framework that integrates elements of the regulatory definition of 'Default' and the loan loss provisioning indicators under IAS 39. The rationale is that several indicators are very close to the indications of an obligor's 'unlikeliness to pay' under European regulation (CRR/CRDIV) and similar regulations. Integration of both frameworks further enhances ING Bank's compliance with the CRR/CRDIV 'use test'. Key differences between the parameters used for loan loss provisioning and regulatory capital calculations are that regulatory capital parameters are typically through the cycle while loan loss parameters are more point in time. Additionally, the LGD for regulatory capital calculations is based on a down-turn LGD and a Loss Emergence Period is applied on the 1 year Default Probability to obtain Incurred losses.

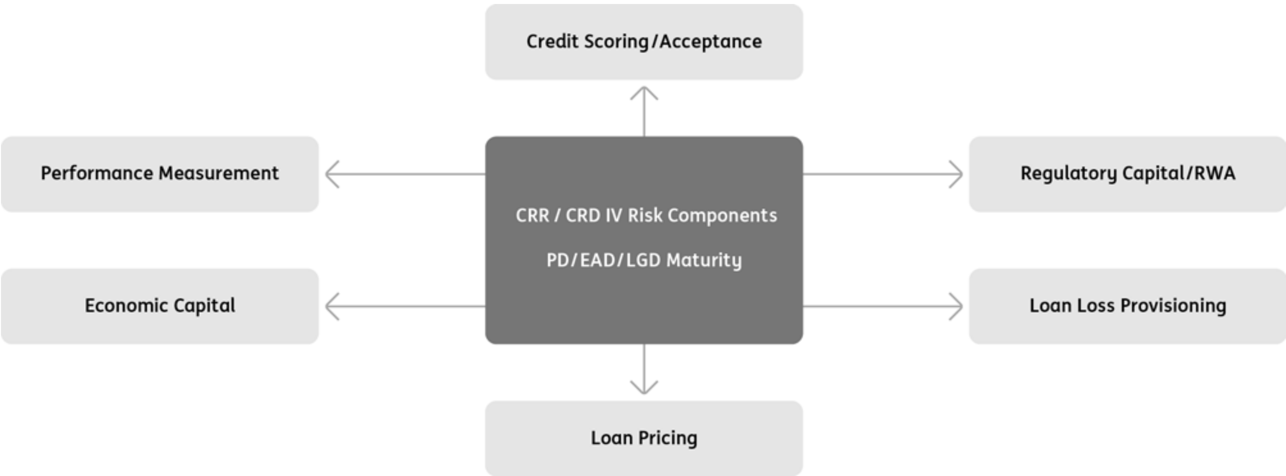
Pre-settlement measurement models

For regulatory capital the pre-settlement (PS) exposure is calculated using a marked to market (MtM) plus regulatory-based add-on. Depending on the location and relevant system capabilities, for internal capital purposes ING Bank uses one of the below mentioned methodologies to calculate its PS exposures:

- **MtM plus model based add-on approach**: In this approach, the PS risk is calculated as the sum of the MtM of the trade and a model-based add-on. The MtM fluctuates through the life of the contract. The model-based add-on is product-specific, and takes into account the remaining time to maturity, profiling per time-buckets etc. Add-ons are updated with a frequency that takes into account major market changes. This methodology is used for pre-deal exposure assessment of all ING Bank financial markets products. Furthermore, it is used for post-deal risk calculations in the case of financial markets portfolios that do not justify the computational efforts and costs associated with implementation of a Scenario Simulation approach; and
- **Scenario Simulation approach (Monte Carlo approach)**: Scenario Simulation approach is the most complex of the methods for PS risk calculations. This approach takes into account daily market conditions, including correlations between the risk factors and portfolio benefits. This Monte Carlo approach is currently used in ING Bank for the largest volume of derivative products such as FX and interest rate derivatives.

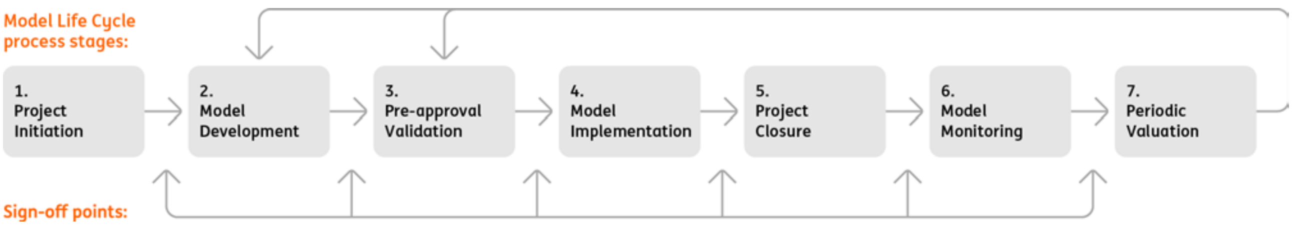
ING recognises that the above approaches are insufficiently accurate for certain trading products such as highly structured or exotic derivative transactions. For the assessment of risk exposures of such complex products a bespoke calculation is made.

The figure below provides a high level summary of the application of model outcomes (PD, EAD and LGD).



Credit risk model governance

All PD, EAD and LGD models are built according to ING Bank's internal credit risk modelling methodology standards and model life cycle. After thorough review of the documentation by the Model Development Committee (MDC) and Model Validation (MV), the Credit & Trading Risk Committee (CTRC) approves the models. For certain local models, the approval authority is delegated by the CTRC to the MDC. Each model has both a credit risk and a front office co-sponsor. Both the MDC and the CTRC have participation from credit risk officers as well as the front office to ensure maximum acceptance by the organisation. The capital impact from the implementation of approved models is reported to the ECB in a quarterly report. In addition, MV validates each model on an annual basis. During such periodical validation the model performance is analysed via amongst others back-testing and performance assessment. A five-grade colour footprint is assigned to each model during this periodical validation. If a model is considered insufficiently robust or if the back-testing indicates insufficient performance, then the model is re-calibrated or re-developed.



Credit risk rating process

In principle all risk ratings are based on a Risk Rating (PD) Model that complies with the minimum requirements detailed in the CRDIV, the ECB Supervisory Rules and EBA guidelines. This concerns all counterparty types and segments, including countries.
ING Bank's PD rating models are based on a 1-22 scale (1=highest rating; 22=lowest rating) referred to as the 'Master scale', which roughly corresponds to the same rating grades that are assigned by external rating agencies, such as Standard & Poor's, Moody's and Fitch. For example, an ING Bank rating of 1 corresponds to an S&P/Fitch rating of AAA and a Moody's rating of Aaa; an ING Bank rating of 2 corresponds to an S&P/Fitch rating of AA+ and a Moody's rating of Aa1, and so on.

The 22 grades are composed of the following categories:
- Investment grade (Risk Rating 1-10);
- Non-investment grade (Risk Rating 11-17);
- Sub-standard (Risk Rating 18-19); and
- Non-performing (Risk Rating 20-22).

The three first categories (1-19) are risk ratings for performing loans. They are calculated in ING Bank IT systems with internally developed models based on data either manually or automatically fed. Under certain conditions, the outcome of a manually fed model can be challenged through a clearly defined rating appeal process. Risk ratings for non-performing individually significant loans (20-22) are set by the global or regional restructuring. For securitisation portfolios, the external ratings of the tranche in which ING Bank has invested are leading.

Risk ratings assigned to counterparties are regularly, at least annually, reviewed, and the performance of the underlying models regularly monitored. Over 95% of ING Bank's credit risks have been rated using one of the in-house developed PD rating models. Within the AIRB Portfolio, the level of Regulatory compliant ratings exceeds 99% coverage by exposure. Some of these models are global in nature, such as models for Large Corporates, Commercial Banks, Insurance Companies, Central Governments, Local Governments, Funds, Fund Managers, Project Finance and Leveraged Companies. While other models are more regional or country specific, such as PD models for Small Medium Enterprise (SME) companies in Central Europe, the Netherlands, Belgium, Luxembourg, as well as residential mortgage and consumer loan models in the various retail markets.

Rating Models for retail counterparties are predominantly statistically driven and automated, such that ratings can be updated on a monthly or bi-monthly basis. Models for SME companies, and larger corporates, institutions and banks are manually updated, and are individually monitored on at least an annual basis.

Exposure classes

The BCBS (Basel Committee) has developed the concept of 'Exposure Classes' which has been transposed into CRR/CRDIV. These are essentially groupings of credit risks associated with a common counterparty type, product type and/or cover type. For the AIRB Approach, most of the exposure classes have subcategories. ING Bank has applied the following definitions to determine Exposure Classes:

- **Sovereigns** include Sovereign Government entities, Central Banks and recognised Local / Regional Authorities as well as Supranational Organisations;
- **Institutions** include Commercial Banks, non-Bank Financial Institutions, such as Funds and Fund Managers, and Insurance Companies, as well as local and regional government entities not classified as governments;
- **Corporates** includes all legal entities, that are not considered to be Governments, Institutions or Retail Other;
- **Retail** includes the following classes:
  - **Retail – Secured by immovable property non-SME** (hereafter **Residential Mortgages**) includes all retail loans which are covered by residential properties
  - **Retail - Secured by immovable property SME** (included in tables with **Other Retail**) includes all retail loans which are covered by commercial properties.
  - **Other Retail** includes all other credit obligations related to Retail SMEs (such as partnerships and one-man businesses) and private individuals (such as consumer loans, car loans and credit cards). Under these exposure class definitions, it is possible for a private individual to be included under both residential mortgages and retail other.
- **Securitisations** include securitisation programs for which ING Bank acts as an investor, sponsor or originator.

Models used for exposure classes

ING Bank has developed PD, EAD and LGD models for Wholesale Banking and Retail Banking portfolios. PD, EAD and LGD models are subject to CTRC (or in some delegated cases: MDC) approval and changes which significantly impact the results require approval from the regulator before implementation. By nature, the above described exposure classes have different, specific characteristics. To capture these specific characteristics and to have suitable valuations and analyses in place, credit risk department is continuously updating and developing models within each exposure class. In total, the credit risk department makes use of over 90 different internal models.

ING distinguishes four types of post default scenarios:

- *No Loss – Cure*: the borrower pays all overdue amounts (to the extent ING Bank is legally entitled to) and the asset becomes non-defaulted again. ING Bank does not experience any loss in the process. The relationship is not terminated and the borrower returns back to performing;
- *No Loss – Exit without loss*: ING Bank (or the borrower) liquidates collaterals and calls guarantees in order to recover the exposure or the borrower fully repays. Thereafter the relationship is terminated. ING Bank does not experience any loss in the process;
- *Loss – Exit with loss*: ING Bank (or the borrower) liquidates collaterals and calls guarantees in order to recover the exposure. Thereafter the relationship is terminated. ING Bank suffers loss in the process; and
- *Loss – Distressed Restructuring*: ING Bank restructures the loan agreement so as to recover the exposure after allowing some discount. The relationship with the borrower continues after the restructuring. ING Bank suffers (some) loss in the process.

Changes in 2016 to credit risk models

Model changes were in 2016 partly driven by regulatory guidance and thereby resulted in a EUR 13 billion increase of RWA. This increase resulted from several changes in different portfolios. An RWA add-on for the SME portfolios in the Netherlands and Belgium was implemented through LGD model updates which increased RWA by EUR 6.1 billion. Further, RWA add-ons were implemented on Belgian mortgages and Small Business Finance (SBF) portfolios through model updates, which increased RWA by EUR 1.9 billion. The RWA impact of all these add-ons were reported as an ONCOA item in 2015. For the Project Finance and ING Direct Spain mortgages LGD models risk-weight multipliers were added, increasing RWA by EUR 4.0 billion and EUR 0.7 billion, respectively. Next to these model updates, the model approach for the Dutch healthcare portfolio changed from AIRB to SA which increased RWA by EUR 1.0 billion.

Credit risk tools

Credit risk policies

ING Bank's credit risk policies provide for generic rules and roles and responsibilities that always prevail within the organisation. While allowance is given for discretionary variation to comply with local regulations, such variations must always comply with the content of a global ING Bank wide credit risk policy and approved by (local) credit risk. All credit risk policies are created according to the policy development standards and reviewed on a regular basis. Each policy has a credit risk sponsor and is created in close consultation with the various stakeholders within credit risk, front office and where applicable other corporate departments. All policies require approval by the Credit & Trading Risk Committee (CTRC) and where applicable by the Global Credit & Trading Policy Committee (GCTP).

Credit risk systems and data standards

The acceptance, maintenance, measurement, management and reporting of credit risks at all levels of ING Bank is accomplished through promotion of single, common credit risk data standards and the integration into common credit risk tools that support standardised and transparent credit risk practices. ING has chosen to develop the credit risk tools centrally. The philosophy is to re-use the same data for all purposes, in an integrated approach that overlaps the three key areas of ING Bank policy, the regulatory environment in which we operate, and the daily processes which are active throughout the group. Overlapping these three areas is the essential requirement to ensure data quality standards and discipline remains high.

The customer-centric data model conforms strongly to the three core business needs of ING Bank:
- To transact efficiently with our counterparties;
- To be compliant with our internal and external obligations; and
- To monitor the risks we undertake.

The customer-centric approach ensures that ING Bank can react quickly to changing regulations, business needs and best practices in our dealings with our clients and prospects.

Data Governance and Data Quality

ING Bank recognises that information and the underlying data are assets that are key (together with people, processes and IT systems) to become the next generation digital bank. Cooperation and mutual agreement on global data management roles and responsibilities in ING are critical success factors to meet this objective. As such ING Bank has embraced multiple data management and governance initiatives triggered by internal and external stakeholders (e.g. Principles for Effective Risk Data Aggregation and Risk Reporting). In the Credit Risk and Risk Services departments, these principles are embedded into the credit risk data management and enshrined within the Data Governance framework. The framework outlines roles and responsibilities relevant for the credit risk lifecycle and data quality assurance.

Credit risk data lifecycle

The credit risk data governance framework used by ING is based on the credit risk data lifecycle. The governance related to the data delivery and exchange is described in various data agreements between data users and data suppliers.
The scope of credit risk data is the data set determined and assigned for the Bank's external and internal reporting requirements and credit risk modelling requirements. Principally, data can be categorised into one of the two following types:
- **Atomic data**: the lowest level of detail and provides the base data for all data transformations. The guiding principles are that each data element is only input once, and have a clear data owner and 'home' system or database which is leading throughout all uses of that data element. From the data 'home', the data may then be redistributed to other systems or databases that may require that data in an automated Straight through Processing (STP) method. Depending on the need, the data may be transferred in real time, near real time, daily, weekly or monthly.
- **Derived data**: data derived from other data elements (atomic or derived) as a result of data transformations such as credit risk models, calculations and aggregation. Derived data is hosted in the central credit risk system (Vortex).

A key component of the credit risk data is that this data is continuously used throughout all the stages of the credit risk management cycle. By using and re-using data, there is, a continuous incentive for all data providers and users to assure up to standard data quality with regards to data delivery and data usage.

The credit risk data lifecycle describes the interlinked stages of the lifecycle from data definition to data usage as shown in the figure below:

- **Data Definitions**: this process step ensures that atomic and derived credit risk data terms have a single definition and definition owner throughout the organization. It also ensures that defined data is fit for the purpose it will be used for.
- **Capture:** ensures that atomic data is captured by business units and is available for exchange according to pre-agreed standards and specifications.
- **Exchange:** ensures data exchange is executed as agreed between data owner and data user.
- **Processing & Calculation:** processes delivered atomic data and uses it to calculate credit risk derived data. The outcome of this stage is used as input for credit risk data aggregation in for example risk reporting.
- **Data Usage:** ensures data aggregation and usage fit for multiple purposes for example modelling, regulatory and statutory reporting. Ensures that data usage or distribution is according to agreed purpose and data confidentiality, protection, security and retention rules.
- **Data Quality Assurance:** establishes data quality management with the primary focus how credit risk data quality is managed throughout the credit risk data lifecycle. It covers the data quality cycle, data quality criteria and relevant activities through the stages.
  The data quality cycle consists of four stages: define, implement, monitor and improve. During the data definitions step, data quality rules are determined. Having set the definitions, local data quality rules are implemented in the source systems, and both successively and simultaneously, data quality rules are implemented in the central credit risk system. The next stage consists of data validations, monitoring and control activities performed early in the data exchange and after data processing and calculations stage. The last stage is the continuous improvement of data quality which can be split into two categories:
  - One off issues and re-occurring issues that are identified, prioritised and subject to solution;
  - The periodical review of the data quality rules and improvements based on lessons learned from solving issues, audits and best practices.

After the last stage, the data quality cycle resumes from the start, ultimately leading to up to standard credit risk data quality.

Credit risk portfolio

ING Bank's credit exposure is mainly related to traditional lending to individuals and businesses followed by investments in bonds and securitised assets. Loans to individuals are mainly mortgage loans secured by residential property. Loans (including guarantees issued) to businesses are often collateralised, but can be unsecured based on internal analysis of the borrowers' creditworthiness. Bonds in the investment portfolio are generally unsecured. Securitised assets such as mortgage backed securities and asset backed securities are secured by the pro rata portion of the underlying diversified pool of assets (commercial or residential mortgages, car loans and/or other assets) held by the security's issuer. The last major credit risk source involves pre-settlement exposures which arise from trading activities, including derivatives, repurchase transactions and securities lending/borrowing and foreign exchange transactions.

The portfolio breakdown of ING Bank per exposure class and per risk category, based on regulatory Exposure at Default (READ) is shown below. The figures shown in the Credit Risk section are including loans to Group, unless stated otherwise:

Exposure classes ING Bank portfolio per risk category, as % of total regulatory EAD

	Lending		Investment		Money Market		Pre-Settlement		Total		Total (ALL)
2016	AIRB	SA	AIRB	SA	AIRB	SA	AIRB	SA	AIRB	SA	AIRB + SA
Sovereigns	2.2%	0.0%	7.9%	0.1%	1.7%	0.2%	0.2%	0.0%	12.0%	0.3%	12.3%
Institutions	3.1%	0.3%	1.8%	0.0%	0.4%	0.0%	4.9%	0.1%	10.2%	0.3%	10.5%
Corporate	32.8%	1.4%	0.4%	0.0%	0.1%	0.0%	1.7%	0.0%	35.0%	1.5%	36.5%
Residential mortgages	33.4%	0.9%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	33.4%	0.9%	34.3%
Other retail	4.2%	1.4%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	4.2%	1.4%	5.6%
Securitisation	0.1%	0.0%	0.6%	0.0%	0.0%	0.0%	0.1%	0.0%	0.8%	0.0%	0.8%
Total (ALL)	**75.8%**	**4.0%**	**10.8%**	**0.1%**	**2.1%**	**0.2%**	**6.9%**	**0.1%**	**95.6%**	**4.4%**	**100.0%**

Exposure classes ING Bank portfolio per risk category, as % of total regulatory EAD

	Lending		Investment		Money Market		Pre-Settlement		Total		Total (ALL)
2015	AIRB	SA	AIRB	SA	AIRB	SA	AIRB	SA	AIRB	SA	AIRB + SA
Sovereigns	3.5%	0.0%	8.3%	0.1%	1.6%	0.2%	0.3%	0.0%	13.7%	0.3%	14.1%
Institutions	4.1%	0.4%	2.2%	0.0%	0.3%	0.0%	5.6%	0.1%	12.3%	0.5%	12.8%
Corporate	29.5%	1.1%	0.2%	0.0%	0.1%	0.0%	1.3%	0.0%	31.1%	1.1%	32.2%
Residential mortgages	33.3%	0.8%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	33.3%	0.8%	34.1%
Other retail	4.5%	1.3%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	4.5%	1.3%	5.8%
Securitisation	0.2%	0.0%	0.8%	0.0%	0.0%	0.0%	0.1%	0.0%	1.0%	0.0%	1.0%
Total (ALL)	**75.1%**	**3.6%**	**11.5%**	**0.1%**	**2.0%**	**0.3%**	**7.3%**	**0.1%**	**95.9%**	**4.1%**	**100.0%**

The total ING Bank portfolio size increased by 1.0% to EUR 845 billion in terms of READ, which was driven by volume growth and FX changes. The increase related to FX changes was driven by the appreciation of the US Dollar and Australian Dollar against the Euro, and partly offset by the depreciation of the British Pound and Turkish Lira.

The total size of the residential mortgage portfolio grew which was mainly driven by Germany, Australia, Spain and Belgium, while the residential mortgage portfolio in the Netherlands decreased in size. The decrease was driven by the continued transfer of mortgages from WestlandUtrecht (WU) Bank to NN Bank, the run-off of the WU Bank mortgage book and mortgage prepayments.

A concentration increase in the exposure class corporates was mainly observed in the Wholesale Banking business lines: structured finance, corporate & financial institutions (C&FI) lending, trade finance services and real estate finance. This was driven by the implementation of the EU equivalence rule, which resulted in a shift from exposure class institutions to corporates, and by actual lending growth in these portfolios. The lower concentration in exposure class institutions was also driven by a decrease in covered bond investments and pre-settlement exposures. The EU equivalence rule applies to certain countries outside the EU that have supervisory and regulatory arrangements in place that are at least equivalent to those applied in the EU. Since 2016 the EU equivalence indicator, which determines the exposure class allocation and correlation, is based on the combination of country and customer type, while before it was only based on the country.

The lower concentration in sovereigns was caused by decreased deposits at central banks, nostros at the Japanese Central Bank and government bonds. The investment portfolio decreased in proportion as well as in absolute value and was observed in government bonds, covered bonds and securitisations (RMBS) in Germany, Italy and Spain. Along with fulfilling liquidity requirements the investment portfolio remains a source of supporting assets in Retail Challengers & Growth Markets with exposure primarily to European central governments and central banks. The shrinking securitisations portfolio within ING Bank comprised of Investor and sponsor securitisations.

Risk rating buckets per line of business and credit risk types

Risk rating buckets are defined based upon the quality of the exposures in terms of creditworthiness, varying from investment grade to non-performing loan expressed in S&P, Moody's and Fitch equivalents.

Risk classes ING Bank portfolio per line of business, as % of total outstandings[1,2]

	Wholesale Banking		Retail Benelux		Retail Challengers & Growth Markets		Corporate Line		Total ING Bank	
Rating class	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
1 (AAA)	7.1%	9.4%	0.2%	0.1%	7.3%	7.6%	42.7%	40.2%	5.5%	6.5%
2-4 (AA)	11.9%	10.0%	5.7%	5.3%	16.1%	16.9%	0.3%	0.4%	11.0%	10.3%
5-7 (A)	18.9%	22.1%	4.2%	4.4%	15.0%	15.5%	3.9%	11.9%	13.4%	14.8%
8-10 (BBB)	27.0%	25.1%	34.5%	31.0%	32.7%	35.0%	7.5%	6.3%	30.5%	29.3%
11-13 (BB)	26.5%	24.6%	43.2%	46.0%	21.5%	17.5%	42.2%	38.0%	30.3%	29.4%
14-16 (B)	5.5%	5.4%	7.5%	7.7%	5.6%	5.8%	0.0%	0.0%	6.1%	6.1%
17-22 (CCC & NPL)	3.0%	3.4%	4.7%	5.5%	1.8%	1.7%	3.5%	3.2%	3.2%	3.6%
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

1 Based on credit risk measurement contained in lending, pre-settlement, money market and investment activities.
2 Covered bonds are presented on the basis of the external credit rating of the issuer in question. Covered bond issues generally possess a better external credit rating than the issuer standalone, given structural features of such covered bonds.

The total ING Bank portfolio outstandings amounted to EUR 775 billion at the end of December 2016. The overall ING Bank exposure increase was concentrated in the BBB and BB rating classes. The risk rating distribution across business lines and credit risk types showed various shifts over the year.

Decreased central bank deposits and the country rating downgrade of Finland to AA+ were the drivers behind the decreased proportion of AAA-rated assets in Wholesale Banking and increased investment concentration in rating class AA. Additional concentration in the Wholesale Banking AA rating class was driven by increased exposures in US government bonds and positive rating migration of one US financial institution which shifted derivatives exposure from rating class A. Next to this, the concentration in the A rating bucket decreased due to lower lending exposures to the Japanese Central Bank and negative rating migration of one German financial institution to bucket BBB, which mainly impacted Wholesale Banking and Corporate Line.

Concentration in the BBB rating class in Retail Challengers & Growth Markets decreased due to reduced Italian government bond exposures, and the country rating downgrade of Turkey which shifted concentration to rating class BB across all risk categories. The risk profile for residential mortgages in Retail Benelux improved due to enhanced arrears management, stricter screening rules and forbearance clients reaching their 1-year minimum default period in the Netherlands. This led to a decreased concentration in the BB and CCC & NPL rating buckets and increased share for the BBB rated category. Additional decreased concentration in the 17-22 (CCC & NPL) bucket was due to write-offs combined with positive rating migration in the commercial property finance portfolio.

Risk classes ING Bank portfolio per credit risk type, as % of total outstandings[1]

	Lending		Investment		Money Market		Pre-settlement		Total ING Bank	
Rating class	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
1 (AAA)	1.9%	3.0%	28.3%	27.9%	14.5%	13.3%	3.4%	2.4%	5.5%	6.5%
2-4 (AA)	5.2%	4.9%	40.4%	36.6%	50.4%	50.9%	14.8%	11.4%	11.0%	10.3%
5-7 (A)	10.1%	11.1%	16.9%	17.8%	14.0%	5.1%	47.5%	52.7%	13.4%	14.8%
8-10 (BBB)	35.3%	33.1%	6.9%	10.5%	4.2%	24.1%	23.3%	23.8%	30.5%	29.3%
11-13 (BB)	36.0%	35.6%	7.2%	6.8%	15.4%	6.0%	9.1%	7.8%	30.3%	29.4%
14-16 (B)	7.5%	7.8%	0.2%	0.1%	1.5%	0.0%	1.5%	1.1%	6.1%	6.1%
17-22 (CCC & NPL)	4.0%	4.5%	0.1%	0.3%	0.0%	0.6%	0.4%	0.8%	3.2%	3.6%
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

1 Based on credit risk measurement contained in lending, pre-settlement, money market and investment activities. The ratings reflect probabilities of default and do not take collateral into consideration.

Risk industry concentration

ING Bank uses a common industry classification methodology based on the NAICS system (North American Industry Classification System). This methodology has over 1,500 detailed industry descriptions, which are aggregated into 22 industry classes at the highest level. Certain countries require ING Bank to report locally based on other industry classification methodologies, which are generally derived from the NAICS classifications presented here. Residential mortgages are generally only extended to private individuals.

Risk concentration: ING Bank portfolio per economic sector, as % of total outstandings[1]

	Wholesale Banking		Retail Benelux		Retail Challengers & Growth Markets		Corporate Line		Total ING Bank	
Industry	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**
Private Individuals	0.0%	0.1%	73.4%	74.0%	68.8%	62.9%	0.0%	0.0%	39.5%	39.4%
Commercial Banks	14.8%	14.3%	0.2%	0.3%	6.5%	7.8%	56.4%	54.6%	8.8%	8.8%
Natural Resources	15.0%	13.0%	0.4%	0.4%	0.7%	0.7%	0.0%	0.0%	6.8%	5.7%
Central Governments	9.9%	10.5%	0.9%	1.2%	5.6%	7.1%	36.3%	34.1%	6.5%	7.0%
Real Estate	10.2%	10.0%	4.7%	4.7%	0.9%	0.8%	0.0%	0.0%	6.0%	5.8%
Non-Bank Financial Institutions	10.4%	11.7%	0.9%	0.8%	3.2%	4.3%	7.3%	11.3%	5.7%	6.4%
Transportation & Logistics	8.0%	7.6%	1.1%	1.1%	0.4%	0.4%	0.0%	0.0%	3.9%	3.6%
Lower Public Administration	1.2%	0.9%	2.8%	2.4%	5.6%	7.0%	0.0%	0.0%	2.8%	3.0%
Central Banks	5.1%	8.4%	0.1%	0.1%	1.6%	1.6%	0.0%	0.0%	2.7%	4.0%
Services	3.2%	3.1%	3.6%	3.6%	0.6%	0.7%	0.0%	0.0%	2.6%	2.5%
Food, Beverages & Personal Care	3.7%	3.8%	2.1%	2.1%	1.3%	1.4%	0.0%	0.0%	2.6%	2.6%
General Industries	3.4%	3.3%	1.5%	1.5%	1.5%	1.7%	0.0%	0.0%	2.3%	2.3%
Chemicals, Health & Pharmaceuticals	2.4%	2.0%	2.8%	2.8%	0.7%	0.8%	0.0%	0.0%	2.1%	1.9%
Other	12.7%	11.3%	5.5%	5.0%	2.6%	2.8%	0.0%	0.0%	7.7%	7.0%
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

1 Based on the total amount of credit risk in the respective column using ING Bank's internal credit risk measurement methodologies. Economic sectors below 2% are not shown separately but grouped in Other.

During 2016, the overall portfolio continued to expand, which caused shifts in the concentration per economic sector. ING Bank's main concentration in Private Individuals was related to mortgage lending. Underlying, a decline in mortgage exposure in Retail Benelux was offset by growth in Retail Challengers & Growth Markets. The Central Banks concentration decreased mainly due to lower amount of deposits and the Central Governments concentration decreased due to reduced government bond exposures in Wholesale Banking and Retail Challengers & Growth Markets. Concentration in Natural Resources increased due to growth in structured finance exposure, but also due to the appreciation of the US Dollar. The risk concentration of Non-Bank Financial Institutions declined significantly in Wholesale Banking Belgium and Netherlands due to decreased exposures in interest rate derivatives, exchange traded equity products, nostros and covered bonds.

Country risk

The concentration increase in the portfolio was mainly observed in Germany, Americas, and Australia. The increase in Americas is explained by the continually positive structured finance business momentum. The portfolio growth was further strengthened by the expanded Australian and German mortgage and structured finance portfolios. The Netherlands showed a significant decrease in the Wholesale Banking portfolio due to lower central bank deposits. The decrease in the Netherlands retail portfolio was driven by the continued transfer of mortgages from WestlandUtrecht (WU) Bank to NN Bank, the run-off of the WU Bank mortgage book and mortgage prepayments.

Country risk exposures: ING Bank portfolio, by geographic area[1]

	Wholesale Banking		Retail Benelux		Retail Challengers & Growth Markets		Corporate Line		Total ING Bank	
Region	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**
Netherlands	14.2%	16.5%	65.5%	67.4%	0.5%	0.5%	50.6%	56.5%	25.7%	27.6%
Germany	5.4%	4.9%	0.2%	0.2%	44.4%	43.7%	0.1%	4.4%	13.3%	13.2%
Belgium	6.2%	7.1%	32.1%	30.4%	0.5%	0.6%	0.0%	0.0%	12.0%	12.0%
Rest of Europe[2]	40.8%	40.5%	2.0%	1.8%	35.5%	37.6%	0.2%	1.5%	28.2%	28.2%
Americas	19.5%	18.1%	0.1%	0.1%	1.5%	1.5%	0.1%	0.2%	9.5%	8.6%
Asia/Pacific	11.6%	11.2%	0.1%	0.1%	0.1%	0.2%	48.8%	37.1%	6.0%	5.6%
Australia	1.3%	0.9%	0.0%	0.0%	17.5%	15.9%	0.2%	0.3%	4.8%	4.4%
Rest of World	1.0%	0.8%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.5%	0.4%
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

1 Geographic areas are based on country of residence, except for private individuals for which the geographic areas are based on the primary country of risk.
2 The top 5 exposures within Rest of Europe are to United Kingdom (4.1%), France (3.4%), Poland (3.3%), Spain (3.2%) and Italy (2.4%).

Credit risk mitigation

ING Bank's lending and investment businesses are subject to credit risk. As such, the creditworthiness of our customers and investments is continually monitored for their ability to meet their financial obligations to ING Bank. In addition to determining the credit quality and creditworthiness of the customer, ING Bank uses various credit risk mitigation techniques and instruments to mitigate the credit risk associated with an exposure and to reduce the losses incurred subsequent to an event of default on an obligation a customer may have towards ING Bank. The most common terminology used in ING Bank for credit risk protection is 'cover'. While a cover can be an important mitigant of credit risk and an alternative source of repayment, generally it is ING Bank's practice to lend on the basis of the customer's creditworthiness rather than exclusively relying on the value of the cover. Within ING Bank, there are two distinct forms of covers: assets and third party obligations.

Cover forms

Assets

The asset that has been pledged to ING Bank as collateral or security gives ING Bank the right to liquidate it in cases where the customer is unable to fulfil its financial obligation. As such, the proceeds can be applied towards full or partial compensation of the customer's outstanding exposure. An asset can be tangible (such as cash, securities, receivables, inventory, plant & machinery and mortgages on real estate properties) or intangible (such as patents, trademarks, contract rights and licenses).

Third party obligation

Third Party Obligation, indemnification or undertaking (either by contract and/or by law) is a legally binding declaration by a third party that gives ING Bank the right to expect and claim from that third party to pay an amount, if the customer fails on its obligations to ING Bank. The most common examples are guarantees (such as parent guarantees and export credit insurances) and letters of comfort.

Cover valuation methodology

General guidelines for cover valuation are established to ensure consistency of the application within ING Bank. These general guidelines also require that the value of the cover needs to be monitored on a regular basis, in principle at least annually. Covers are revalued accordingly and whenever there is reason to believe that the market is subject to significant changes in conditions. The frequency of monitoring and revaluation depends on the type of covers.

The valuation method also depends on the type of covers. For asset collateral, the valuation sources can be the customer's balance sheet (e.g. inventory, machinery, and equipment), nominal value (e.g. cash, receivables), market value (e.g. securities and commodities), independent valuer (commercial real estate) and market indices (residential real estate). For third party obligations, the valuation is based on the value which is attributed to the contract between ING Bank and that third party.

Cover values

This section provides insight on the type of covers and to which extent a loan is collateralised. The cover disclosures are presented by risk category: Lending, Investment, Money-Market and Pre-settlement. The cover amounts are presented by the most relevant collateral forms, being mortgages and financial collateral (cash and securities), and the most relevant third party obligation being guarantees. ING Bank obtains covers which are eligible for credit risk mitigation under CRR/CRDIV, as well as those that are not eligible.

The cover values are presented for the total portfolio of ING Bank. Covers of both AIRB and SA portfolios are presented in detail reflecting ING Bank's complete portfolio. Next to that, detailed information is provided on the cover coverage for the performing and non-performing portfolio. The non-performing loan definition is explained in detail in the section 'Credit Restructuring'. To increase the understanding of the reader on the nature of the collateralised loans, insight is given in the industry and geography breakdown of ING Bank's portfolio as well. For comparability reasons with previous tables, outstandings are used to show ING Bank's portfolio.

Exposures are categorised into different Value to Loan (VTL) buckets that give insight in the level of collateralisation of ING Bank's portfolio. VTL is calculated as the cover value divided by the outstandings at the balance sheet date. The cover values are indexed and exclude any cost of liquidation. Covers can either be valid for all limits, sub-limits or a particular outstanding of a borrower, the latter being the most common. For the purpose of aggregation, the coverage of all outstanding is capped at 100%. Over-collateralisation is ignored in this overview. Each limit is subsequently assigned to one of the six defined VTL buckets: no cover, >0% to 25%, >25% to 50%, >50% to 75%, >75% to <100%, and ≥ 100%. As the nature of the Pre-settlement portfolio determines that collateral is netted, these VTL buckets are not shown.

The first two tables give an overview of the collateralisation of the total portfolio of ING Bank.

Cover values including guarantees received - Total ING Bank – 2016[1,2]

		Cover type					Value to Loan		
	Outstan-dings	Mortgages	Eligible Financial Collateral	Other CRR/CRDIV eligible	Guaran-tees	Non CRR/CRD IV eligible	No Cover	Partially covered	Fully covered
Consumer Lending	304,448	486,156	3,494	391	25,846	34,839	5.6%	14.3%	80.1%
Business Lending	310,395	128,578	17,004	89,204	98,559	132,672	33.6%	28.1%	38.3%
Investment and Money Market	110,218	0	0	0	989	0	99.1%	0.3%	0.6%
Total Lending, Investment and Money Market	**725,061**	**614,734**	**20,498**	**89,595**	**125,395**	**167,511**	**31.8%**	**18.1%**	**50.1%**
Pre-settlement[3]	50,003								
Total Bank	**775,065**	**614,734**	**20,498**	**89,595**	**125,395**	**167,511**	**31.8%**	**18.1%**	**50.1%**

1 Including loans to ING Group.
2 Excluding intercompany positions.
3 More information on the credit risk mitigants of the Pre-settlement exposure can be found in the Pre-settlement section.

Cover values including guarantees received - Total ING Bank – 2015[1,2]

		Cover type					Value to Loan		
	Outstan-dings	Mortgages	Eligible Financial Collateral	Other CRR/CRDIV eligible	Guaran-tees	Non CRR/CRD IV eligible	No Cover	Partially covered	Fully covered
Consumer Lending	297,866	460,892	3,363	475	26,283	35,017	5.3%	18.0%	76.7%
Business Lending	295,987	119,583	16,736	81,729	90,158	130,344	36.8%	27.5%	35.7%
Investment and Money Market	114,116		6		3,113	35	97.5%	1.2%	1.3%
Total Lending, Investment and Money Market	**707,970**	**580,474**	**20,105**	**82,204**	**119,554**	**165,396**	**33.3%**	**19.3%**	**47.4%**
Pre-settlement[3]	52,574								
Total Bank	**760,543**	**580,474**	**20,105**	**82,204**	**119,554**	**165,396**	**33.3%**	**19.3%**	**47.4%**

1 Including loans to ING Group.
2 Excluding intercompany positions.
3 More information on the credit risk mitigants of the Pre-settlement exposure can be found in the Pre-settlement section.

Over the year, the collateralisation level of ING Bank's total portfolio improved. Excluding the pre-settlement portfolio for which covers are netted to derive the outstandings at risk, 50.1% of the total ING Bank's outstandings (from 47.4% as of 2015) were fully collateralised in 2016. Investments decreased in 2016 by EUR 5.3 billion, mainly in Italian government bonds and Spanish covered bonds and securitisations. Since investments traditionally do not require covers, the no covers ratio in this portfolio is close to 100%. However, 93% of the investment outstandings are investment grade. In the Lending portfolio, coverage within consumer lending increased influenced by an improvement in the house price index in the Netherlands. The risk profile of the Real Estate portfolio improved as well, which also positively contributed to the coverage.

The increase in business lending for cover Other CRR/CRDIV eligible was mainly situated in UK and America, while the increase in Guarantees was seen in structured finance and C&FI lending.

Consumer lending portfolio
The consumer lending portfolio comprises of residential mortgage loans (93.4% in 2016 versus 93.9% in 2015) and other consumer lending loans, which mainly comprise credit cards, term loans and revolvers to consumers. As a result, most of the collateral consists of mortgages. The mortgage values are maintained in ING Bank's central database (Vortex) and in most cases external data is used to index the market value. On a quarterly basis, the mortgages value is updated in Vortex using the relevant house price index (the NVM Index in the Netherlands, Level Housing Index in Australia, Crif Real Estate Appraisal Company in Italy and Ministerio de Fomento in Spain).

A significant, but decreasing part of ING Bank's residential mortgage portfolio related to mortgage loans provided in the Netherlands (43.2% in 2016 versus 45.8% in 2015), followed by other main markets such as Germany (23.9%), and Belgium (11.8%). Given the size of the Dutch mortgage portfolio, the valuation methodology employed to determine the cover values for the Dutch residential mortgages is provided below.

Dutch mortgages valuation
When a mortgage loan is granted in the Netherlands, the policy dictates maximum loan to market value (LTMV) for an existing property and for construction property financing of 102% (in 2015: 103%). In 2017 the LMTV will reduce further to 101% and will be 100% in 2018. The cover values are captured in the local systems which are subsequently fed into a central data system (Vortex). All valuations are performed by certified valuators that are registered at one of the ING Bank-accepted organisations. In addition, the valuator must be a member of the NVM (Nederlandse Vereniging van Makelaars – Dutch Association of Real Estate Agents), VBO (Vereniging Bemiddeling Onroerend Goed – Association of Real Estate Brokers), VastgoedPRO (Association of Real Estate Professionals) or NVR (Nederlandse Vereniging van Rentmeesters).

The below tables show the values of different covers and the VTL split between performing and non-performing loans.

Cover values including guarantees received - Consumer lending portfolio – 2016[1]

		Cover type					Value to Loan					
	Out-standings	Mort-gages	Eligible Financial Colla-teral	Other CRR/CRD IV eligible	Guaran-tees	Non CRR/CRD IV eligible	No Cover	>0% - 25%	>25%-50%	>50% - 75%	>75% - <100%	≥ 100%
Performing												
Residential Mortgages (Private Individuals)	276,412	473,271	2,754	136	24,664	29,421	0.0%	0.1%	0.1%	1.4%	13.4%	85.0%
Residential Mortgages (SME)	4,439	6,911	62	70	145	827	0.0%	0.4%	0.4%	1.3%	8.6%	89.3%
Other Consumer Lending	19,448	1,599	647	167	761	3,939	83.6%	0.3%	0.2%	0.3%	1.0%	14.6%
Total Performing	**300,299**	**481,781**	**3,463**	**373**	**25,570**	**34,187**	**5.4%**	**0.1%**	**0.1%**	**1.3%**	**12.5%**	**80.6%**
Non-performing												
Residential Mortgages (Private Individuals)	3,197	4,097	29	5	255	567	0.5%	0.3%	0.8%	6.1%	27.4%	64.9%
Residential Mortgages (SME)	176	265	1	10	10	25	0.8%	0.3%	1.1%	2.1%	13.4%	82.3%
Other Consumer Lending	776	13	1	3	11	60	94.1%	0.4%	0.2%	0.3%	1.1%	3.9%
Total Non-performing	**4,149**	**4,375**	**31**	**18**	**276**	**652**	**18.0%**	**0.3%**	**0.7%**	**4.8%**	**21.9%**	**54.3%**
Total Consumer Lending	**304,448**	**486,156**	**3,494**	**391**	**25,846**	**34,839**	**5.6%**	**0.1%**	**0.1%**	**1.4%**	**12.7%**	**80.1%**

1 Excluding intercompany positions.

Cover values including guarantees received - Consumer lending portfolio – 2015[1]

		Cover type					Value to Loan					
	Out-standings	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)	270,966	447,613	2,716	154	25,271	29,406	0.1%	0.1%	0.1%	1.5%	17.1%	81.1%
Residential Mortgages (SME)	4,230	6,522	49	98	164	752	0.0%	0.6%	0.6%	1.5%	8.5%	88.8%
Other Consumer Lending	17,357	1,332	554	201	418	4,110	84.9%	0.3%	0.2%	0.3%	1.0%	13.3%
Total Performing	**292,553**	**455,467**	**3,319**	**453**	**25,853**	**34,268**	**5.1%**	**0.1%**	**0.2%**	**1.4%**	**16.0%**	**77.2%**
Non-performing												
Residential Mortgages (Private Individuals)	4,323	5,148	40	5	403	649	0.9%	0.3%	0.9%	7.4%	33.9%	56.6%
Residential Mortgages (SME)	187	274	2	12	13	33	0.4%	0.2%	1.1%	1.5%	16.1%	80.7%
Other Consumer Lending	803	3	2	5	14	67	93.8%	0.3%	0.3%	0.4%	1.4%	3.8%
Total Non-performing	**5,313**	**5,425**	**44**	**22**	**430**	**749**	**14.9%**	**0.3%**	**0.8%**	**6.2%**	**28.4%**	**49.4%**
Total Consumer Lending	**297,866**	**460,892**	**3,363**	**475**	**26,283**	**35,017**	**5.3%**	**0.1%**	**0.2%**	**1.5%**	**16.2%**	**76.7%**

1 Excluding intercompany positions.

The collateralisation of the consumer lending portfolio continued to improve over the year 2016. The rise in collateralisation levels was due to improved housing prices, seen over different mortgage markets, including the Netherlands as main market. In addition, due to stringent policies there has been a reduction in mortgages granted with low VTL's (high loan-to-values).

House prices in the Netherlands continued to show an improvement in 2016. This helped to increase the total residential mortgages cover values whilst overall mortgage outstandings increased, mainly in Germany and Australia, where the coverage ratio is nearly 100%. As the Netherlands is the biggest market for mortgages for ING Bank, this also had a significant impact on the coverage quality of the portfolio. Mortgage portfolio in the Netherlands reduced in outstandings due to run-off and transfer of WestlandUtrecht Bank mortgages to NN Bank. NPLs have shown a big improvement, especially in the Netherlands.

The numbers shown are conservative as the savings pledged to the mortgage product, 'Spaarhypotheek' (or mortgage with external saving account) present in the Dutch mortgage portfolio are not taken into account in the table above. For the residential mortgages portfolio, the guarantees relate to mortgages covered by governmental insurers under the Nationale Hypotheek Garantie (NHG) in the Netherlands. The NHG guarantees the repayment of a loan in case of a forced property sale.

Business lending portfolio

Business lending is an important business of ING Bank, accounting for 40.0% of ING Bank's total outstandings. In line with our objective to give stakeholders insight into the portfolio, we present the business lending portfolio per Industry breakdown in accordance with the NAICS definition and per Region and main market. Business Lending presented in this section does not include Pre-settlement and Investment & Money Market exposures, which are separately exhibited in the next sections.

Business lending per economic sector

Notes to the Consolidated annual accounts of ING Bank - continued

Cover values including guarantees received - Business lending portfolio – 2016[1,2]

		Cover type					Value to Loan					
Industry	Out-standings	Mort-gages	Eligible Financial Colla-teral	Other CRR/CRD IV eligible	Guaran-tees	Non CRR/CRD IV eligible	No Cover	>0% - 25%	>25%- 50%	>50% - 75%	>75% - <100%	≥ 100%
Natural Resources	50,402	3,810	3,399	19,543	20,014	23,022	22.2%	8.7%	15.3%	15.1%	15.5%	23.2%
Real Estate	45,974	72,471	1,685	1,166	7,610	8,534	5.7%	1.5%	1.4%	4.8%	12.5%	74.1%
Transportation & Logistics	28,168	3,336	405	22,486	9,125	8,475	19.0%	3.7%	3.2%	5.6%	14.6%	53.9%
Commercial Banks	22,025	336	220	1,622	1,732	1,039	86.7%	1.9%	1.3%	0.7%	1.4%	8.0%
Services	19,252	9,010	1,389	5,420	6,034	10,369	32.4%	3.4%	5.0%	7.5%	10.9%	40.8%
Food, Beverages & Personal Care	18,158	6,942	611	7,459	6,813	15,678	26.9%	3.4%	5.8%	11.1%	13.3%	39.5%
Non-Bank Financial Institutions	17,211	1,885	6,060	5,338	7,268	9,075	35.5%	8.7%	6.0%	7.0%	6.1%	36.7%
General Industries	17,082	4,988	278	5,852	6,658	11,781	31.5%	3.8%	7.3%	6.8%	9.6%	41.0%
Chemicals, Health & Pharmaceuticals	14,732	7,636	227	3,458	3,342	7,233	34.7%	3.1%	5.6%	10.6%	12.5%	33.5%
Utilities	13,160	1,359	1,167	3,309	4,306	7,354	40.9%	5.8%	2.9%	3.4%	6.1%	40.9%
Others[3]	64,231	16,805	1,563	13,551	25,657	30,112	51.3%	2.5%	5.2%	5.5%	8.3%	27.2%
Total Business Lending	**310,395**	**128,578**	**17,004**	**89,204**	**98,559**	**132,672**	**33.6%**	**4.1%**	**5.9%**	**7.4%**	**10.6%**	**38.3%**
of which Total Non-performing	***9,438***	***4,352***	***293***	***3,210***	***3,961***	***3,705***	***24.1%***	***4.4%***	***6.4%***	***14.2%***	***13.8%***	***37.2%***

1 Including loans to ING Group.
2 Excluding intercompany positions.
3 'Others' comprises industries with outstandings below EUR 13 billion.

Cover values including guarantees received - Business lending portfolio – 2015[1,2]

		Cover type					Value to Loan					
Industry	Out-standings	Mort-gages	Eligible Financial Colla-teral	Other CRR/CRD IV eligible	Guaran-tees	Non CRR/CRD IV eligible	No Cover	>0% - 25%	>25%- 50%	>50% - 75%	>75% - <100%	≥ 100%
Real Estate	43,129	66,819	1,602	1,080	7,072	6,550	6.8%	1.1%	2.0%	6.8%	17.8%	65.5%
Natural Resources	41,967	4,080	3,927	15,497	21,793	23,362	23.6%	9.4%	11.5%	13.5%	14.1%	27.9%
Transportation & Logistics	24,877	3,575	468	22,224	8,258	8,601	16.0%	5.2%	3.0%	6.2%	11.4%	58.2%
Commercial Banks	22,367	14	267	619	1,195	1,200	89.3%	3.7%	1.4%	0.6%	1.3%	3.7%
Central Banks	21,714	0	1	0	5	0	100.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Services	18,477	8,197	1,282	4,450	5,586	10,287	30.0%	4.6%	4.1%	9.4%	10.0%	41.9%
Non-Bank Financial Institutions	16,702	2,288	5,022	4,401	4,668	9,370	37.5%	7.6%	5.5%	8.7%	7.1%	33.6%
General Industries	16,661	4,673	671	6,211	5,432	11,913	31.5%	3.4%	8.1%	10.7%	10.2%	36.1%
Food, Beverages & Personal Care	16,458	6,239	550	6,909	7,177	18,213	26.9%	4.5%	7.0%	11.6%	11.5%	38.5%
Chemicals, Health & Pharmaceuticals	13,300	6,937	357	4,803	2,782	6,160	32.5%	4.3%	3.9%	11.8%	14.0%	33.5%
Others[3]	60,335	16,761	2,589	15,535	26,190	34,688	40.5%	5.8%	4.0%	6.6%	9.4%	33.7%
Total Business Lending	**295,987**	**119,583**	**16,736**	**81,729**	**90,158**	**130,344**	**36.8%**	**4.8%**	**4.7%**	**7.7%**	**10.3%**	**35.7%**
of which Total Non-performing	***9,841***	***5,171***	***287***	***2,993***	***3,521***	***4,180***	***24.2%***	***2.9%***	***8.1%***	***15.8%***	***16.2%***	***32.8%***

1 Including loans to ING Group.
2 Excluding intercompany positions.
3 'Others' comprises industries with outstandings below EUR 13 billion in 2015.

Total business lending outstandings increased by EUR 14.4 billion, of which EUR 1.2 billion was FX driven. Largest outstandings increase was seen in the industry Natural Resources (20.1%, mainly in the oil sector. The increase was driven by growth in structured finance trade and commodity financing and the appreciation of the US Dollar. Increases in outstandings were also observed in the lending portfolios of Transportation & Logistics (13.2%) and Real Estate (6.6%).

Similar to the retail lending portfolio, the risk profile of the business lending portfolio continued improving in 2016. Lower NPLs and increased levels of collateralisation contributed to this improvement. The cover values of Real Estate (traditionally a well collateralised sector) improved over 2016. New transactions were done on more conservative collateral terms and improved valuations in real estate markets further helped to boost the total coverage in Real Estate.

The coverage of the non-performing part improved and an overall decrease was seen in the non-performing outstandings. The majority of this was in the Real Estate industry while some increases were observed in Transportation & Logistics and the Telecom sectors.

Business lending per region

Cover values including guarantees received - Business lending portfolio – 2016[1,2]

			Cover type					Value to Loan					
Region		Out-standings	Mort-gages	Eligible Financial Colla-teral	Other CRR/CRD IV eligible	Guaran-tees	Non CRR/CRD IV eligible	No Cover	>0% - 25%	>25%-50%	>50% - 75%	>75% - <100%	≥ 100%
Africa		2,533	14	158	922	2,142	645	17.5%	10.7%	5.2%	10.8%	22.6%	33.2%
America		40,096	5,484	4,416	21,080	10,090	21,611	35.8%	4.8%	4.8%	6.7%	12.6%	35.3%
Asia		39,455	1,087	1,395	12,182	17,381	9,643	37.2%	7.2%	10.1%	7.9%	9.9%	27.7%
Australia		5,394	3,603	11	947	885	769	24.3%	9.4%	5.6%	1.0%	8.2%	51.5%
Europe	Belgium	44,815	30,807	1,655	6,287	18,249	27,038	28.7%	2.2%	2.9%	4.2%	7.2%	54.8%
	Germany	8,777	1,587	300	688	1,402	3,191	51.8%	2.7%	2.5%	5.2%	1.1%	36.7%
	Netherlands	63,597	47,941	3,007	23,451	7,990	14,849	26.5%	2.2%	4.5%	11.7%	18.0%	37.1%
	Rest of Europe	105,728	38,055	6,062	23,647	40,420	54,926	37.2%	4.3%	7.2%	6.6%	8.0%	36.7%
Total Business Lending		**310,395**	**128,578**	**17,004**	**89,204**	**98,559**	**132,672**	**33.6%**	**4.1%**	**5.9%**	**7.4%**	**10.7%**	**38.3%**
of which Non-performing		***9,438***	***4,352***	***293***	***3,210***	***3,961***	***3,705***	***24.1%***	***4.4%***	***6.4%***	***14.2%***	***13.8%***	***37.1%***

1 Including loans to ING Group.
2 Excluding intercompany positions.

Cover values including guarantees received - Business lending portfolio – 2015[1,2]

			Cover type					Value to Loan					
Region		Out-standings	Mort-gages	Eligible Financial Colla-teral	Other CRR/CRD IV eligible	Guaran-tees	Non CRR/CRD IV eligible	No Cover	>0% - 25%	>25%-50%	>50% - 75%	>75% - <100%	≥ 100%
Africa		1,898	21	123	620	1,338	793	26.0%	6.6%	7.1%	14.7%	22.0%	23.7%
America		35,127	4,836	4,567	19,050	11,990	23,815	28.3%	5.9%	6.9%	9.8%	10.9%	38.2%
Asia		37,439	1,004	1,174	10,593	15,841	8,321	46.4%	5.9%	5.5%	8.7%	6.4%	27.1%
Australia		3,925	3,225	74	861	592	954	12.7%	18.8%	5.5%	3.6%	8.9%	50.5%
Europe	Belgium	41,378	29,161	1,405	6,348	17,227	30,063	29.6%	2.3%	2.6%	4.6%	7.0%	53.9%
	Germany	8,365	1,651	314	602	1,273	2,535	55.9%	1.7%	1.7%	4.3%	2.6%	33.8%
	Netherlands	71,146	45,085	3,092	24,330	6,865	14,251	35.8%	2.3%	3.3%	10.7%	17.9%	30.0%
	Rest of Europe	96,709	34,600	5,987	19,325	35,032	49,612	39.4%	6.4%	5.6%	5.9%	8.3%	34.4%
Total Business Lending		**295,987**	**119,583**	**16,736**	**81,729**	**90,158**	**130,344**	**36.8%**	**4.8%**	**4.7%**	**7.7%**	**10.3%**	**35.7%**
of which Non-performing		***9,841***	***5,171***	***287***	***2,993***	***3,521***	***4,180***	***24.2%***	***2.9%***	***8.1%***	***15.8%***	***16.2%***	***32.8%***

1 Including loans to ING Group.
2 Excluding intercompany positions.

The two tables above provide the collateralisation of ING Bank's business lending portfolio with a breakdown per geographical region or main market, which are defined based on the residence of the borrowers. The total increase in the business lending portfolio is in line with the increase in covers. This increase in collateralisation is observed in most regions and main countries. The large increase in America was mainly due to growth in the structured finance portfolio and the appreciated US Dollar.

The increase in Belgium was mainly due to growth in the C&FI Lending. The decrease in the Netherlands was due to a large decline in central bank deposits. As these deposits are not collateralised this decline had no influence on the total cover amounts. The increase in the Rest of Europe was mainly observed in the United Kingdom, Luxembourg and Italy.

Investment and Money Market portfolio

Cover values including guarantees received – Investment and Money Market portfolio[1,2]

Region		2016 Out-standings	2016 Cover type: Eligible Financial Colla-teral	2016 Cover type: Guaran-tees	2016 Cover type: Non CRR/CRD IV eligible	2015 Out-standings	2015 Cover type: Eligible Financial Colla-teral	2015 Cover type: Guaran-tees	2015 Cover type: Non CRR/CRD IV eligible
Africa						0			
America		10,296		44		8,860	6	23	35
Asia		8,065				6,079			
Australia		3,695				3,865			
Europe	Belgium	9,282				9,677			
Europe	Germany	20,481				20,914			
Europe	Netherlands	11,586				11,295			
Europe	Rest of Europe	46,813		945		53,426		3,090	
Total Investment and Money Market		**110,218**		**989**		**114,116**	**6**	**3,113**	**35**
of which Non-performing		***10***				***171***			

1 Including loans to ING Group.
2 Excluding intercompany positions.

A key characteristic of the investment and money market business is that typically little cover is given to support these exposures. 99.7% of Money Market and 99.0% of Investment exposure receives no covers. The guarantees listed under Rest of Europe comprised of cedulas and were booked in Spain. The decrease in the guarantees was related to the decreased outstandings in cedulas.

Pre-settlement portfolio

ING Bank uses various market pricing and measurement techniques to determine the amount of credit risk on pre-settlement activities. These techniques estimate ING Bank's potential future exposure on individual and portfolios of trades. Master agreements and collateral agreements are frequently entered into to reduce these credit risks.

ING Bank matches trades with similar characteristics to determine their eligibility for offsetting. This offsetting effect is called 'compensation'. Subsequently, ING Bank reduces the amount by any legal netting that may be permitted under various types of Master Agreements, such as ISDA Master Agreements, Global Master Repurchase Agreements (GMRA), Global Master Securities Lending Agreements (GMSLA), etc. Lastly, the amount is further reduced by any collateral that is held by ING Bank under Credit Support Annexes (CSAs) or other similar agreements.

The use of Central Clearing Parties (CCPs) is becoming more important for the derivatives business and as a consequence the credit risk is shifting from Counterparties to CCPs. In 2016, the notional Pre-Settlement exposure that was cleared via CCPs formed 55.5% of the total notional (51.2% in 2015).

As part of its securities financing business, ING Bank entities actively enter into agreements to sell and buy back marketable securities. These transactions can take many legal forms. Repurchase and reverse repurchase agreements, buy/sell-back and sell/buyback agreements, and securities borrowing and lending agreements are the most common. As a general rule, the marketable securities that have been received under these transactions are eligible to be resold or re-pledged in other (similar) transactions. ING Bank is obliged to return equivalent securities in such cases.

The table below represents the different types of outstandings in 2016 and 2015.

- The 'Gross MtM before netting and collateral' is the exposure calculated in accordance with the Current Exposure Method (CEM, which in the EU regulation is referred to as the Mark-to-Market method) without accounting for any netting or collateral benefit;
- The 'MtM after netting' is the exposure, according to the CEM, taking into account the benefit of legally enforceable netting agreements (e.g. ISDAs), but without considering the benefit of margin collateral (e.g. CSAs);
- The 'MtM after netting and collateral' is the exposure according to the CEM, taking into account both the benefit of netting and marginal collateral. In other words, the gap between the 'MtM after netting' and 'MtM after netting and collateral' is the liquid collateral (cash and securities); and
- The outstandings column represents CEM exposure (MtM after netting and collateral) plus the Potential Future Exposure (PFE) at a 97.5% confidence level for derivatives and securities.

Pre-settlement portfolio[1,2]

		2016				2015			
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		84	49	47	89	71	48	46	55
America		20,866	10,891	6,549	9,241	18,648	10,237	7,127	8,734
Asia		8,318	4,743	3,558	3,918	6,598	3,455	2,823	3,242
Australia		537	303	228	492	470	259	236	344
Europe	Belgium	5,463	3,368	2,871	2,455	5,343	3,875	3,360	2,507
	Germany	5,300	2,757	1,842	3,479	7,216	3,783	2,486	5,038
	Netherlands	9,146	5,859	3,741	4,848	10,256	5,842	4,385	5,138
	Rest of Europe	124,173	31,656	26,648	25,481	118,920	34,762	28,212	27,504
Total Pre-settlement		**173,887**	**59,626**	**45,484**	**50,003**	**167,522**	**62,261**	**48,675**	**52,562**
of which Non-performing		***37***	***36***	***36***	***36***	***52***	***52***	***52***	***55***

1 Including transactions with ING Group.
2 Excluding intercompany positions.

During 2016 the pre-settlement portfolio decreased when expressed in outstandings. The MtM before and after netting and collateral increases were observed, especially in Rest of Europe due to increases from exposures to commercial banks and to central clearing houses. Rest of Europe forms majority of the pre-settlement portfolio which was mainly concentrated in UK and where the portfolio consisted of mostly derivatives.

Credit quality

Following, the somewhat higher credit risk levels seen as a result of the financial crisis and economic downturn, the credit quality has been improving since 2014 and also continued the improving trend in 2016.

Credit risk categories

	Regular	Watch List	Restructuring[1]	Non-performing[1]
Possible ratings	1–19	1–19	11–20	20-22
Typical ratings	1–14	15–17	18–20	20-22
Deterioration in risk	Not significant	Significant	Significant	Significant
Significant intervention	Not required	Not required	Required	Required
Includes impairments	No	No	Yes	Yes
Account Ownership	Front Office	Front Office	Front Office	Front Office
Credit Risk Management	Regular	Regular	Credit Restructuring	Credit Restructuring
Primary Manager	Front Office	Front Office	Credit Restructuring	Credit Restructuring
Accounting provisioning	IBNR	IBNR	IBNR/INSFA/ISFA	INSFA/ISFA

1 More information on the Restructuring and Non-performing categories can be found in the Credit restructuring section.

Credit quality: ING Bank portfolio, outstandings	2016	2015
Neither past due nor non-performing	757,498	740,890
Consumer lending past due but performing (1–90 days)	3,970	4,328
Non-performing[1]	13,597	15,325
Total	**775,065**	**760,543**

1 Based on lending and investment activities.

The total ING Bank portfolio increase was driven by both asset origination and FX movements. The credit quality of the ING Bank portfolio improved with lower past due and non-performing assets. Both developments were mainly observed in Dutch mortgages and the commercial property finance portfolio. The improvement in the past due but performing portfolio was largely driven by Retail Benelux resulting from better arrears management. The reduction in the non-performing portfolio was due to write-offs combined with positive rating migration to the performing portfolio and it was partly offset by an increase in non-performing loans in structured finance.

Past-due obligations

Retail Banking continuously measures its portfolio in terms of payment arrears. The retail portfolios are closely monitored on a monthly basis to determine if there are any significant changes in the level of arrears. The methodology is principally extended to loans to private individuals, such as residential mortgage loans, car loans, and other consumer loans. An obligation is considered 'past-due' if a payment of interest or principal is more than one day late. In practice, the first 5-7 days after an obligation becomes past due are frequently operational in nature for retail loans and small businesses portfolios. After this period, letters are sent to the obligor reminding the obligor of its (past due) payment obligations. If the arrears continue to exist, the obligor is transferred to a restructuring unit. The obligor is downgraded to risk rating 20 (non-performing) when the arrears exceed 90 days. The table below captures all past due exposures starting from day 1.

Aging analysis (past due but performing): ING Bank consumer lending portfolio, outstandings[1]	2016	2015
Past due for 1–30 days	3,368	3,593
Past due for 31–60 days	532	652
Past due for 61–90 days	70	83
Total	**3,970**	**4,328**

1 Based on consumer lending. The amount of past due but performing financial assets in respect of non-lending activities was not significant.

The improvement in past due obligations was mainly seen in Retail Benelux, underlying a solid base for ING's primary market. The improved economy and revival of the housing market in the Netherlands were the main drivers. At the same time, local risk management actions targeted at lowering arrears and enhancing the early warning methodology clearly helped to improve the overall portfolio quality.

Wholesale Banking: for business loans (governments, institutions, corporates), ING Bank classifies the relevant obligors as non-performing when any of the below listed default triggers occurs:

- Bankruptcy or financial reorganisation: The borrower has sought or has been placed (or is likely to seek or be placed) in bankruptcy or similar protection, where this would avoid or delay repayment of the financial asset;
- The borrower has failed in the payment of principal or interest/fees and such payment failure has remained unresolved for the following period:
  - Corporates: more than 90 days; and
  - Financial Institutions and Governments: from day 1, however, a research period of 14 calendar days will be observed in order for ING Bank to establish whether the payment default was due to non-operational reasons (i.e. the deteriorated credit quality of the financial institution) or due to operational reasons. The latter does not trigger default.
- ING Bank thinks the borrower is unlikely to pay: The borrower has evidenced significant financial difficulty, to the extent that it will have a negative impact on the future cash flows of the financial asset. The following events could be seen as examples of financial difficulty indicators:
  (1) The borrower (or 3rd party) has started insolvency proceedings.
  (2) NPL status of a group company/co-borrower.
  (3) Significant fraud (affecting the company's ability to service its debt)
  (4) There is doubt as to the borrowers' ability to generate stable and sufficient cash flows to service its debt.
  (5) Restructuring of debt includes a partial (debt waiver) or debt-equity conversion
- ING Bank has granted concessions relating to the borrower's financial difficulty, the effect of which is a reduction in expected future cash flows of the financial asset below current carrying amount.

Wholesale Banking has an individual name approach, using Early Warnings indicators to signal possible future issues in debt service.

Credit restructuring

Global Credit Restructuring (GCR) is the dedicated and independent corporate department that deals with non-performing loans and loans that hold a reasonable probability that ING will end up with a loss, if no specific action is taken. GCR deals with accounts or portfolios requiring an active approach, which may include renegotiation of terms & conditions and business or financial restructuring. The loans are managed by GCR or by the regional restructuring units in the various regions and business units.

ING uses three distinct statuses in categorizing the management of clients with (perceived) deteriorating credit risk profile, i.e. there is doubt as to the performance and the collectability of the client's contractual obligations:

- **Watch List**: Usually, a client is first classified as Watch List when there are concerns of any (potential or material) deterioration in the credit risk profile that might affect the ability of the client to adhere to its debt service obligations or to refinance its existing loans. The Watch List status requires more than usual attention, increased monitoring and quarterly reviews. Some clients with a Watch List status may develop into a Restructuring status or even a Recovery status.
- **Restructuring**: A client is classified as Restructuring when there are concerns about the client's financial stability, credit worthiness and/or its ability to repay, but where the situation does not call for recalling or acceleration of facilities or liquidating the collateral. ING's actions aim to maintain the going concern status of the client by:
  - Restoring the client's financial stability;
  - Supporting the client's turnaround;
  - Restoring the tension between debt and equity; and
  - Restructuring the debt to a sustainable situation.
- **Recovery:** A client is classified as Recovery when ING and/or the client concludes that the client's financial situation cannot be restored and a decision is made to end the (credit) relationship or even to enter into bankruptcy. ING will prefer an amicable exit, but will enforce and liquidate collateral or claim on the guarantees if deemed necessary.

Additionally, ING uses three distinct reporting signs in identifying exposures for clients facing financial difficulties with the notion of:

- **Forbearance**: For clients facing financial difficulties, ING might enter into a forbearance agreement with these clients in order to ease the contractual debt service obligation. All ING Business Units/Lines are required to review the clients with Early Warning Signals, Watch List, Restructuring and Recovery classification, to determine whether Forbearance is applicable. For further details on forbearance we refer to the Forbearance section.
- **Default:** For clients with non-performing loan(s) in accordance with the definition of the regulator (CRR/CRDIV; EBA; ECB); and
- **Impairment**: For clients with impaired loan(s) in accordance with the definition of accounting (IFRS/IAS).

Watch List, Restructuring and Recovery are discussed at least on a quarterly basis between Front Office, respective Credit Risk Management executives and GCR, at which time it may be decided to change the status of an account from Watch List to Restructuring or Recovery or vice versa.

Non-performing loans

The ING Bank loan portfolio is under constant review. Loans with past due financial obligations of more than 90 days are reclassified as non-performing. For the commercial lending portfolios, there generally are reasons for declaring a loan non-performing prior to being 90 days past due. These include, but are not limited to, ING Bank's assessment of the customer's perceived inability to meet its financial obligations, or the customer filing for bankruptcy or bankruptcy protection.

The table below represents the economic sector breakdown of credit risk outstandings for loans and positions that have been classified as non-performing loans.

Non-performing Loans: ING Bank portfolio, outstandings by economic sector[1]

	2016	2015
Private Individuals	4,382	5,580
Real Estate	1,808	2,562
Natural Resources	1,387	1,352
Transportation & Logistics	1,056	793
Builders & Contractors	955	1,037
General Industries	710	694
Food, Beverages & Personal Care	705	710
Services	689	796
Other	1,905	1,801
Total	**13,597**	**15,325**

1 Economic sectors not specified in above overview are grouped in Other.

The overall amount of NPLs decreased in 2016, mainly thanks to Private Individuals and improvements in the Real Estate sectors. The decrease in NPLs for the Private Individuals segment was mainly due to the improved credit quality in the Dutch mortgage portfolio as a result of the improved economic conditions in the Netherlands. The decline in NPLs in the Real Estate sector was observed in Wholesale Banking Netherlands and Spain/ Portugal Real Estate Finance and was driven by both cures and file resolutions or sales. The total decrease in the NPL portfolio outstandings was partly offset by an increase in Shipping Netherlands and UK (part of Transportation & Logistics).

Provisioning

Loan Loss Provisions (LLP) are calculated and accounted for in accordance with IFRS. LLP are reported for financial assets that are measured against amortised costs (loans and receivables, held-to-maturity investments). There are three types of LLP:

- Individually Significant Financial Asset (ISFA) provisions: when there is objective evidence that a financial asset is defaulted as result of one or more prescribed default trigger events. In such cases, ING assigns a risk rating 20, 21 or 22. Specific provisions are calculated if the exposure to a borrower exceeds the threshold amount. The threshold amount varies per business unit, but generally is EUR 1 million. Provisions are calculated based on discounted future cash flows under 1 or more likely scenarios to arrive at a best estimate of future recoveries. Provisions are made on a quarterly basis.
- Individually Not Significant Financial Asset (INSFA) provisions: are made for non-performing loans (ratings 20-22), if the exposure to a borrower is below the threshold amount. A collective model based approach is taken to determine these provisions; and
- Incurred But Not Recognised (IBNR) provisions: are made for the 'performing' loan portfolio as an estimate or proxy for the losses/defaults that may have already occurred in the portfolio. The PD time horizon used in the calculation of IBNR provisions refers to the period during which an asset is impaired (in default), but not yet recognised as such - due to lack of objective evidence – and the moment that objective evidence of impairment occurs and becomes available to ING ('loss emergence period').

ISFA, INSFA and IBNR provisions are reported and calculated by using common standards across ING Bank. In case there is objective evidence that one of the default triggers is applicable, ISFA or INSFA provisions are calculated. An analysis takes place on a quarterly basis in order to determine the appropriate level of LLP and Risk Costs. The ING Bank Provisioning Committee (IPC) discusses and approves the LLP for ING Bank, on the basis of proposals originating from ING Business Units.

At the end of 2016, ING Bank held specific (ISFA) and collective provisions (INSFA) of EUR 3,044 million and EUR 1,443 million, respectively (2015: EUR 3,331 million and EUR 1,686 million respectively), representing the difference between the amortised cost of the portfolio and the estimated recoverable amount discounted at the effective rate of interest. In addition, there is EUR 821 million (2015: EUR 769 million) in provisions (IBNR) against the performing portfolio.

Provisions: ING Bank portfolio[1,2]

	Wholesale Banking		Retail Benelux		Retail Challengers & Growth Markets		Total ING Bank	
	2016	2015	2016	2015	2016	2015	2016	2015
Opening Balance	2,371	2,259	2,199	2,529	1,216	1,207	5,786	5,995
Changes in the composition of the group	0	0	0	0	0	0	0	0
Write-offs	-625	-520	-681	-956	-188	-242	-1,494	-1,718
Recoveries	49	32	38	50	7	9	94	91
Increase/(decrease) in loan loss provision	367	478	347	602	260	267	974	1,347
Exchange rate or other movements	-15	122	-19	-26	-18	-25	-52	71
Closing Balance	**2,147**	**2,371**	**1,884**	**2,199**	**1,277**	**1,216**	**5,308**	**5,786**

1 At the end of 2016, the stock of provisions included provisions for amounts due from banks: EUR 11 million (2015: EUR 14 million).
2 Includes EUR 119 million provisions for contingent liabilities.

The favourable trend in risk costs continued over the year 2016. Compared to 2015-end, risk costs have trended down to 31 basis points (2015: 44 basis points) of average RWA which is below the through-the-cycle range of 40-45 basis points. The improving risk trend caused average quarterly risk costs to remain well below EUR 300 million, causing the total stock of provisions to decline from EUR 5.8 billion to EUR 5.3 billion.

Portfolios in Retail Benelux continued to improve, Wholesale Banking corporate lending was also relatively strong with a few incidental defaults. Challenges continued in industries like Oil & Gas, Shipping and Telecom while on the other hand, improved risk profiles were witnessed in other portfolios of the bank such as in residential mortgages and in commercial property finance. Encouraging signs in the Dutch housing market have helped to reduce the risk costs due to improved house prices and risk profiles. Risk costs in Turkey and Ukraine have trended downwards in 2016.

There was an improvement in the bank coverage ratio to 39.0% (2015: 38.5%) due to improved non-performing loan levels and a comparatively lesser decrease in stock provision level

Large parts of the Investment portfolio are not accounted for at amortised costs (loans & receivables or held-to-maturity) and therefore out of scope for LLP. Instead, these assets are evaluated for impairment. The ING Bank Impairment Meeting is a quarterly process that reviews all assets that are subject to an IFRS-EU impairment test.

Forbearance

Forbearance occurs when a client is considered to be unable to meet its financial commitments under the contract due to financial difficulties and ING decides to grant concessions towards the client. Forborne exposures are exposures in respect of which forbearance measures have been granted. Forbearance measures can be either modifications to existing contractual terms and conditions or total or partial refinancing. Examples include reduction of loan principal and/or interest payments, extended payment terms, debt consolidations and deferral of foreclosures.

To identify forbearance, ING assesses clients with Early Warning Signals, Watch List, Restructuring, Default or Recovery status. ING Bank reviews the performance of forborne exposures at least quarterly, either on a case-by-case (business) or on a portfolio (retail) basis.

For corporate customers, ING Bank applies forbearance measures to support clients with fundamentally sound business models that are experiencing temporary difficulties. The aim is to maximise the repayment ability of the clients.

For ING Bank retail units, clear criteria have been established to determine whether a client is eligible for forbearance – generally as part of an automated process. Specific approval mandates are in place to approve the measures, as well as procedures to manage, monitor and report the forbearance activities.

Exposures with forbearance measures can be either performing (Risk Ratings 1-19) or non-performing (Risk Ratings 20-22). ING applies criteria to move forborne exposures from non-performing to performing as well as criteria to remove the forbearance status that are consistent with the corresponding EBA standards. An exposure is reported as forborne for a minimum of two years, plus a probation period observed for forborne exposures to move from non-performing back to performing.

ING Bank implemented its forbearance policy in 2014. In the course of 2016 based on a detailed re-assessment of the relevant standards set by EBA and subsequent regulatory guidance, ING Bank tightened the definitions under its forbearance policy. Key policy revisions that led to an increase in the scope of forbearance relate to the inclusion of concessions where the risk is significantly mitigated by the client and waivers or modifications of key financial covenants. As a result of these revisions in definition and scope, performing forborne exposure recognised by ING Bank increased significantly as measures taken (in previous periods) were now recognized as forbearance.

ING Bank: Summary Forborne assets[1]

	2016				2015			
Business Line	Forborne assets	Of which: Performing	Of which: Non-Performing	% of total portfolio	Forborne assets	Of which: Performing	Of which: Non-Performing	% of total portfolio
Wholesale Banking	7,776	3,978	3,799	2.7%	3,655	881	2,774	1.4%
Retail Banking	7,104	3,944	3,159	1.7%	6,982	3,241	3,742	1.6%
Total	**14,880**	**7,922**	**6,958**	**2.1%**	**10,637**	**4,122**	**6,516**	**1.5%**

1 Undrawn commitments are excluded.

ING Bank's forborne assets increased by EUR 4.2 billion (40%) to EUR 14.9 billion per December 2016, mainly driven by Wholesale Banking.

Wholesale Banking

As per December 2016, Wholesale Banking forborne assets amounted to a total of EUR 7.8 billion, which represented 2.7% of the total Wholesale Banking portfolio.

Wholesale Banking: Forborne assets by Geographical Region[1]

Region		2016 Forborne assets	2016 Of which: Performing	2016 Of which: Non-Performing	2015 Forborne assets	2015 Of which: Performing	2015 Of which: Non-Performing
Europe	Netherlands	2,200	1,100	1,100	1,229	406	823
	Belgium	245	103	142	63	17	46
	Germany	41	13	28	5	5	0
	Rest of Europe	3,016	1,496	1,521	1,949	428	1,521
Africa		197	112	85	92	0	92
America		1,387	709	678	237	7	230
Asia		663	445	218	80	18	62
Australia		27	0	27			
Total		**7,776**	**3,978**	**3,799**	**3,655**	**881**	**2,774**

1 Undrawn commitments are excluded.

Wholesale Banking: Forborne assets by Industry[1]

Industry	2016 Forborne assets	2016 Of which: Performing	2016 Of which: Non-Performing	2015 Forborne assets	2015 Of which: Performing	2015 Of which: Non-Performing
Natural Resources	2,385	1,232	1,152	960	26	934
Real Estate	1,775	1,015	759	1,327	383	944
Transportation & Logistics	1,319	685	634	208	55	153
Builders & Contractors	429	269	160	182	113	70
Services	414	198	216	213	125	88
General Industries	411	112	299	316	105	211
Utilities	259	58	201	186	2	184
Food, Beverages & Personal Care	207	141	66	68	37	32
Telecom	152	39	114	38	9	29
Media	120	39	81	27	9	18
Technology	108	87	22	3	3	0
Chemicals, Health & Pharmaceuticals	76	65	11	26	3	22
Other	121	38	84	101	11	89
Total	**7,776**	**3,978**	**3,799**	**3,655**	**881**	**2,774**

1 Undrawn commitments are excluded.

Wholesale Banking forborne assets were mainly concentrated in Natural Resources, Real Estate and Transportation & Logistics. Together they accounted for 70% (2015: 68%) of the total forborne assets and 67% (2015: 73%) of the total non-performing forborne assets.

Wholesale Banking forborne assets increased by EUR 4.1 billion compared to 2015. This was largely driven by the revision of the forbearance policy which resulted in increased forborne assets of EUR 3.1 billion, of which EUR 2.1 billion in the performing portfolio and EUR 1.0 billion in the non-performing portfolio. The main countries impacted were the Netherlands and the United States.

Excluding the policy revision, the forborne assets increased by EUR 1.0 billion mainly visible in Natural Resources (EUR 0.4 billion) and Transportation & Logistics (EUR 0.3 billion), driven by the respective Oil & Gas and Shipping portfolios. The non-performing portfolio in Natural Resources mainly decreased due to the bankruptcy of a large client. The performing Real Estate portfolio increased due to new inflow of clients, while the non-performing Real Estate portfolio mainly decreased due to repayments and write-offs.

Retail Banking

As per end of December, Retail Banking forborne assets amounted to a total of EUR 7.1 billion, which represented 1.7% of the total Retail Banking portfolio.

Retail Banking: Forborne assets by Geographical Region[1]

		2016			2015		
Region		Forborne assets	Of which: Performing	Of which: Non-Performing	Forborne assets	Of which: Performing	Of which: Non-Performing
Europe	Netherlands	4,301	2,395	1,906	4,262	1,719	2,543
	Belgium	1,139	418	721	1,096	412	684
	Germany	644	511	132	696	547	149
	Rest of Europe	651	335	317	527	259	269
Africa		1	0	1	1	0	1
America		3	0	2	2	0	1
Asia		1	0	1	1	0	1
Australia		364	285	79	397	304	94
Total		**7,104**	**3,944**	**3,159**	**6,982**	**3,241**	**3,742**

1 Undrawn commitments are excluded.

The main concentration of forborne assets was in the Netherlands with 61% of the total forborne assets (2015: 61%) and 60% of the non-performing forborne assets (2015: 68%). Retail Banking forborne assets only increased slightly by EUR 0.1 billion compared to 2015. The policy revision impacted the Retail Banking portfolio to a much lesser extent (increase of EUR 0.4 billion) and was primarily seen in the Dutch business portfolio.

Excluding the policy revision, the forborne assets decreased by EUR 0.3 billion. As the business lending portfolio remained stable, this decrease was attributable to the consumer portfolio and mainly driven by the Dutch residential mortgage portfolio. Additionally, a EUR 0.7 billion move of non-performing to performing forborne assets was observed in the Netherlands, due to clients reaching the one year probation period. Both were the result of a continued improved economic environment, visible by the increasing house prices and improved credit worthiness of our clients.

Securitisations

ING Bank primarily plays three roles in its exposure to securitisations programs which are:

ING Bank as Investor

ING Bank's goal is to maintain a portfolio of high quality liquid assets that meets the regulatory requirements of CRR/CRD IV and the Delegated Act of October 2014 regarding liquidity. ING invests in high quality residential mortgage backed securities (RMBS) and asset backed securities (ABS) keeping close track of the securitisation investment positions via monthly monitoring reports and weekly update calls. Additionally, ING may invest in securitisation positions in order to facilitate client business from its Global Capital Markets Unit

ING Bank as Originator

ING Bank occasionally originates own securitisation transactions for economic and regulatory capital purposes, as well as liquidity and funding purposes. Securitisations originated by a company may only be considered for balance sheet de-recognition when the requirements for significant credit risk transfer have been fulfilled. However, for a securitisation transaction to be recognised as for RWA reduction, risk transfer alone may be insufficient due to the increasing impact of the maturity mismatch formula. As a consequence, the RWA of the retained tranches for one of the transactions would be higher than the total RWA of the underlying pool before securitisation. In such cases the RWA calculation for the transaction is performed as if it was not securitised. ING Bank has done a very limited number of external transactions as originator.

ING Bank as Sponsor

In the normal course of business, ING Bank structures financing transactions for its clients by assisting them in obtaining sources of liquidity by selling the clients' receivables or other financial assets to a special purpose vehicle (SPV). Senior positions in these transactions are often funded by the ING Bank administered multi-seller asset backed commercial paper (ABCP) conduit Mont Blanc Capital Corp. (rated A-1/P-1). Mont Blanc Capital Corp. funds itself externally in the ABCP markets. In its role as administrative agent, ING Bank facilitates these transactions by providing structuring, accounting, funding and operations services. ING Bank also provides support facilities (liquidity facilities) backing the transactions funded by the conduit. Mont Blanc is fully consolidated into the ING Bank financial accounts.

Market risk

Introduction

Market risk is the risk that movements in market variables, such as interest rates, equity prices, foreign exchange rates, credit spreads and real estate prices negatively impact the bank's earnings, capital, market value or liquidity position. Market risk either arises through positions in banking books or trading books. The banking book positions are intended to be held in the long-term (or until maturity) or for the purpose of hedging other banking book positions. The trading book positions are typically held with a short-term trading intent or in order to hedge other positions in the trading book. This means that financial instruments in the trading books should be free of restrictions on their tradability. Policies and processes are in place to monitor inclusion of positions into either a trading or a banking book and transfer of risk from trading to banking book and vice versa.

ING Bank recognises the importance of sound market risk management and follows the approach to identify, assess, control and manage market risks. The approach consists of a cycle of five recurrent activities: risk identification, risk assessment, risk control, risk monitoring and risk reporting.

- Risk identification is a joint effort of the 1st and 2nd line of defence (the 'three lines of defence governance' model is explained in the risk governance paragraph of the general risk management section). Its goal is to detect potential new risks and changes in known risks;
- Identified risks are assessed to determine the importance of the risk for ING Bank and subsequently to identify the control measures needed;
- Control measures used by ING Bank include policies, procedures, minimum standards, limit frameworks, buffers and stress tests;
- An important element of risk management is to continuously check if the implemented risk controls are executed and complied with and monitor that the controls are effective; and
- Results and findings are reported to the governing departments and approval bodies.

Governance

A governance framework has been established defining specific roles and responsibilities of business management, market risk management and internal approval bodies per activity.

Within ING Bank, the overall risk appetite is set by the Supervisory Board. Market risk falls under the supervision of the MBB and is delegated to the ALCO function, where ALCO Bank is the highest approval authority. ALCO Bank monitors adherence to the risk appetite for market risk and sets additional limits where appropriate. These limits are cascaded through the organisation through lower level ALCO's. This ALCO structure within ING Bank facilitates top-down risk management, limit setting and the monitoring and control of market risk.

The Balance Sheet Risk (BSR) department and the Credit & Trading Risk (C&TR) department are the designated independent departments that are responsible for the design and execution of the bank's market risk and counterparty credit risk management functions in support of the ALCO function. Balance Sheet Risk focuses on the market risks in the banking books, Capital Management department and the Bank Treasury department, whereas Credit & Trading Risk is responsible for counterparty credit risk and market risks resulting from the Financial Markets trading books. The organisational structure recognises that risk taking and risk management to a large extent occur at the regional/local level. Bottom-up reporting allows each management level to fully assess the market risk relevant at the respective levels.

BSR and C&TR are responsible for determining adequate policies and procedures for actively managing market risk in banking and trading books and for monitoring the compliance with these guidelines. An important element of the risk management function is the assessment of market risk in new products and businesses. Furthermore the two departments maintain an adequate limit framework in line with ING Bank's Risk Appetite Framework. The businesses are responsible for adhering to limits that ultimately are approved by ALCO Bank. Limit excesses are reported to senior management on a timely basis and the business is required to take appropriate actions to reduce the risk position.

This market risk paragraph elaborates on the various elements of the risk management approach for:
- Market risk economic capital for trading and banking books;
- Market risks in the banking books; and
- Market risks in the trading books.

Economic capital for market risk

Economic capital for market risk is the economic capital necessary to withstand unexpected value movements due to changes in market variables and model risk.

Model disclosure

Economic Capital for market risk is calculated for exposures both in trading portfolios and banking portfolios and includes interest rate risk, equity price risk, foreign exchange rate risk, real estate risk and model risks. Economic capital for market risk is calculated using internally developed methodologies with a 99.95% confidence interval and a horizon of one year.

For the trading books, the linear interest rate risk in the banking books and equity investments, the Value at Risk (VaR) is taken as a starting point for the economic capital calculations for market risk. The VaR is measured at a 99% confidence interval, a one day holding period and under the assumption of an expected value of zero.

To arrive at the economic capital for market risk, a simulation based model is used which includes scaling to the required confidence interval and holding period. In determining this scaling factor, several other factors are also taken into account like the occurrence of large market movements (events) and management interventions.

Embedded options, e.g. the prepayment option and offered rate option in mortgages in the banking books, result in non-linear interest rate risk in the banking books. The embedded options are economically hedged using a delta-hedging methodology, leaving the mortgage portfolio exposed to convexity and volatility risk. For the calculation of economic capital for this non-linear interest rate risk ING Bank performs a Monte Carlo simulation.

Real estate price risk includes the market risks in both the real estate investment and the development portfolio of ING Wholesale Banking. The economic capital for real estate price risk is calculated by stressing the underlying market variables.

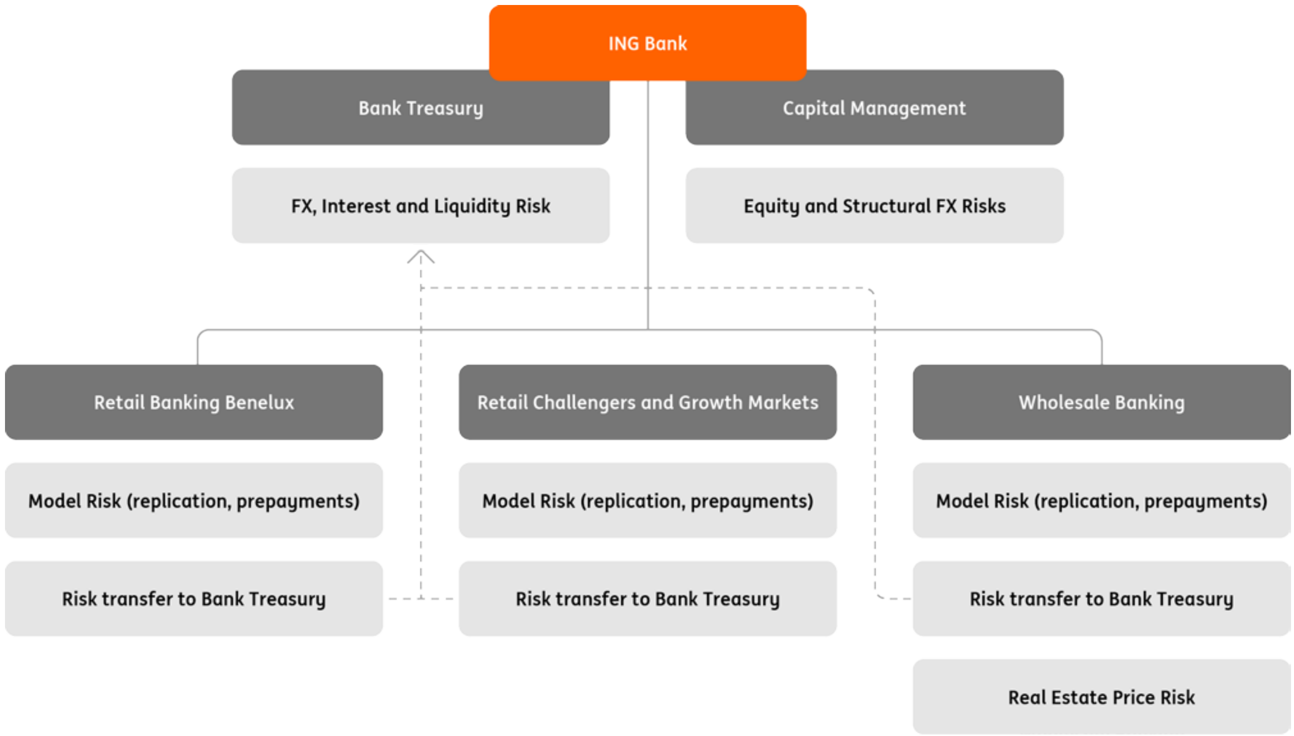
While aggregating the different economic capital market risk figures for the different portfolios, diversification benefits (based on stressed correlations) are taken into account as it is not expected that all extreme market movements will appear at the same moment.

Market risk in banking books

ING Bank makes a distinction between trading and banking (non-trading) books. Positions in banking books originate from the market risks inherent in commercial products that are sold to clients, the Bank Treasury exposures and from the investment of own funds (core capital). Both the commercial products, and the products used to hedge market risk exposures in these products are intended to be held until maturity, or at least for the long-term.

Risk transfer

An important element of the management of market risks in the banking books is the process of risk transfer. In this process the interest rate, FX, funding and liquidity risks are transferred from the commercial books through matched funding to Bank Treasury, where it is centrally managed. The scheme below presents the transfer and management process of market risks in the banking books:



Risk measurement

The main concepts and metrics used for measuring market risk in the banking books are described below per risk type.

Interest rate risk in banking book

Interest rate risk in the banking books is defined as the exposure of a bank's earnings, capital and market value to adverse movements in interest rates originated from positions in the banking books.

Governance

The management of interest rate risk follows the interest rate risk in the banking book framework as approved by ALCO Bank. This framework describes roles and responsibilities, risk metrics, and it defines the policies and procedures related to interest rate risk management. Furthermore, on an overall level, ALCO Bank sets the risk appetite for interest rate risk, which is translated into limits for interest rate risk metrics.

The ING Bank approach to interest rate risk management, as set forth in this framework, is centralisation of risks from commercial books (that capture the products sold to clients) to central interest rate risk books. This enables a clear demarcation between commercial business results and results on unhedged interest rate positions.

ING Bank distinguishes three types of activities that generate interest rate risk in the banking books:
- Investment of own funds (by Capital Management)
- Commercial business (e.g. retail business)
- The strategic interest rate position (Bank Treasury)

Below the three activities are described in more detail:

Capital Management is responsible for managing the investment of own funds (core capital), more information can be found in the Capital Management section. Capital is invested for longer periods, targeting to maximise return, while keeping earnings stable.

The commercial activities can result in linear interest rate risk, for example when re-pricing tenors of assets differ from those of liabilities. Also interest rate risk can arise from customer behaviour depending on the nature of the underlying product characteristics. Customer behaviour risk is defined as the potential future value loss due to deviations in the actual behaviour of clients versus the modelled behaviour towards the embedded options in commercial products. General sources of customer behaviour risk include the state of the economy, competition, changes in regulation, legislation and tax regime, and developments in the housing market. Since these risk factors cannot be (fully) mitigated, ING holds capital to be able to absorb possible losses as a result of changed customer behaviour.

From an interest rate risk perspective the commercial activities can typically be divided into three main product types: savings and demand deposits, mortgages and loans.
- Savings and demand deposits are generally invested with the goal to hedge their value and minimize the sensitivity of the margin to market interest rates. Interest rate risk can arise when there is a lag between savings rate adjustments versus adjustments experienced through market rates.The interest rate risk is modelled based on the stability of the deposit and the pass through rate. This takes into account different elements, such as pricing strategies, volume developments and the level and shape of the yield curve. Savings volumes are typically assumed not to be sensitive to interest rate shocks.
- Interests rate risk for mortgages arises through prepayment behaviour. Interest rate dependent prepayment behaviour is taken into account in the models. Next to dependence on interest rates, modelled prepayment may include other effects such as loan to value, seasonality and age of the loan. In addition, the interest sensitivity of embedded offered rate options is considered.
- Loans are typically hedged from an interest rate risk perspective and consequently do not bear any material remaining interest rate risk as no interest rate dependent prepayment behaviour is observed.

The customer behaviour in relation to mortgages, loans, savings and demand deposits is modelled, based on extensive research. Per business unit and product type, exposures are typically segmented into different portfolios based on expected client behaviour. For each of the segments, model parameters for example for the pass through rate and customer behaviour are determined based on historical data and expert opinion. Models are typically back tested at least semi-annually and updated when deemed necessary. Model parameters and the resulting risk measures are approved by (local) ALCO.

Linear interest rate risk is transferred from the commercial business to the treasury books (Bank Treasury), if necessary using estimations of customer behaviour. The originating commercial business is ultimately responsible for estimating customer behaviour, leaving convexity risk and (unexpected) customer behaviour risk with the commercial business. Risk measurement and the risk transfer process take place on a monthly basis, but more often if deemed necessary, for instance in volatile markets.

The commercial business manages the convexity risk that is the result of products that contain embedded options, like mortgages. Here the convexity risk is defined as the optionality effects in the value due to interest rate changes, excluding the first-order effects. In some cases, convexity risk is transferred from the commercial books to treasury books using cap/floor contracts.

Bank Treasury manages the strategic interest rate position excluding capital investments. The main objective is to maximise the economic value of the book and to generate adequate and stable annual earnings within the risk appetite boundaries set by ALCO Bank.

Risk profile
In the following sections, the interest rate risk exposures in the banking books are presented. ING Bank uses risk measures based on both an earnings and a value perspective. Earnings Sensitivity (ES) is used to provide the earnings perspective and the Net Present Value (NPV)-at-Risk and Basis Point Value (BPV) figures provide the value perspective. Also corrective management actions are not taken into account in these figures.

For Earnings Sensitivity (ES) and Net Present Value (NPV)-at-Risk the downward interest rate scenario contains a floor of 0% on the interest rates, in line with regulatory guidelines. This means that interest rates will not drop below 0% when applying the decreasing rate scenario. In case interest rates were already below zero, they remain at that negative level under this scenario.

Earnings Sensitivity (ES)
Earnings sensitivity is modelled as described above and measures the impact of changing interest rates on (before tax) net interest income of the banking books, this excludes credit spread sensitivity. The Earnings Sensitivity figures in the tables below reflect an instantaneous interest rate shock of 1% and a time horizon of one year. The Earnings Sensitivity asymmetry between the downward floored scenario and a +100 bps shock is primarily caused by the applying the regulatory 0% floor in this scenario.

Earnings Sensitivity banking book per currency (instantaneous parallel shock)

	2016		2015	
	downward floored scenario	+100 bps	downward floored scenario	+100 bps
By currency				
Euro	-54	186	39	173
US Dollar	-14	19	–33	28
Other	8	19	–28	39
Total	**-60**	**224**	**–22**	**240**

Earnings Sensitivity banking books per business (instantaneous parallel shock)

	2016		2015	
	downward floored scenario	+100 bps	downward floored scenario	+100 bps
By business				
Wholesale Banking	-15	138	-2	165
Retail Banking Benelux	-73	-88	9	5
Retail Challengers & Growth Markets	20	58	30	-10
Corporate Line Banking	8	116	–59	80
Total	**-60**	**224**	**–22**	**240**

The Earnings sensitivity is mainly influenced by the sensitivity of savings to interest rate movements due to pass through rate differences between savings rates and investment yields and is partially offset by the sensitivity of mortgages. The investment of own funds only impacts the Earnings sensitivity marginally, as only a relatively small part has to be (re)invested within the 1-year horizon.

Year-on-year variance analysis

In line with previous year, the earnings with a one year horizon as per 2016 year end are relatively insensitive to rate changes, if compared to the net interest income. The earnings sensitivity for an upward shock has a positive impact. Positive earnings sensitivity implies that when rates increase, the positive impact on interest received on assets including hedging derivatives is larger than the negative impact of interest paid on liabilities. The change of the Earnings sensitivity for Retail Banking Benelux is mainly driven by changes to the savings model parameters as a result from changing customer behaviour. The Earnings sensitivity of the +100 bps scenario within Wholesale Banking is mainly the result of investments done by the Bank Treasury function, which is reported under Wholesale Banking. The change of the Earnings sensitivity within Corporate Line Banking is mainly driven by the investments of own funds which were not all re-invested long term.

Net Present Value (NPV) at Risk

NPV-at-Risk measures the impact of changing interest rates on value. For NPV-at-Risk calculations, an instantaneous shock of 1% is applied. The NPV-at-Risk asymmetry between the downward floored scenario and a +100 bps shock is primarily caused by the applying the regulatory 0% floor in this scenario.

The full value impact cannot be directly linked to the balance sheet or profit and loss account, as fair value movements in banking books are not necessarily reported through the profit and loss account or through equity. The value mutations are expected to materialise over time in the profit and loss account, if interest rates develop according to forward rates throughout the remaining maturity of the portfolio.

NPV-at-Risk banking books per currency (instantaneous parallel shock)

	2016		2015	
	downward floored scenario	+100 bps	downward floored scenario	+100 bps
By currency				
Euro	-55	-1,739	-583	-1,855
US Dollar	65	-62	-12	42
Other	51	-125	-58	36
Total	**61**	**-1,926**	**-653**	**-1,777**

NPV-at-Risk banking books per business (instantaneous parallel shock)

	2016		2015	
	downward floored scenario	+100 bps	downward floored scenario	+100 bps
By business				
Wholesale Banking	-157	-19	–76	53
Retail Banking Benelux	-224	-287	–159	–270
Retail Challengers & Growth Markets	328	-435	–640	–274
Corporate Line Banking	115	-1,186	222	–1,286
Total	**61**	**-1,926**	**–653**	**–1,777**

NPV-at-Risk banking books per accounting category (instantaneous parallel shock)

	2016		2015	
	downward floored scenario	+100 bps	downward floored scenario	+100 bps
By accounting category				
Loans and Receivables & Held to Maturity	114	248	-1,019	210
Available for Sale	115	-2,153	800	-2,248
Fair value through profit and loss	-168	-21	-434	261
Total	**61**	**-1,926**	**-653**	**-1,777**

The NPV-at-Risk is dominated by the interest rate sensitive long-term investments of own funds, as the equity itself is not modelled and hence is not presented as an offset for the investments of own funds. The value of these investments is impacted significantly if interest rates move up by 1%. The asymmetry between the NPV-at-Risk for a downward floored scenario and a +100 bps shock is primarily caused by the flooring of interest rates for this scenario. Due to applying this flooring, negative convexity impacts do not materialize significantly in the risk figures of the downward scenario.

Year-on-year variance analysis

NPV-at-Risk for the downward floored scenario changed by EUR 714 million during 2016. The sensitivity for the downward floored scenario has mainly changed as a result of lower rates and is additionally impacted by the regulatory requirement that interest rates on savings have to be floored at zero. NPV-at-Risk for the total +100 bps shock changed during 2016 showing an increase of EUR 149 million. The NPV-at-risk for the +100 bps shock of the Corporate Line decreased due to a lower duration of the long-term investments of own funds. The change in the NPV-at-Risk for the Retail Challengers & Growth Markets is due to changes made to the model as a result of changing customer behaviour.

Basis Point Value (BPV)

BPV measures the impact of a one basis point increase in interest rates on value. To a large extent the BPV and NPV-at-Risk reflect the same risk - the difference being that BPV does not reflect convexity risk, given the small shift in interest rates.

BPV banking books per currency

in EUR thousand	2016	2015
By currency		
Euro	-13,043	–16,563
US Dollar	-550	424
Other	-1,303	357
Total	**-14,896**	**–15,782**

BPV banking books per business

in EUR thousand	2016	2015
By business		
Wholesale Banking	-246	277
Retail Banking Benelux	-345	–448
Retail Challengers & Growth Markets	-2,149	–2,417
Corporate Line	-12,156	–13,194
Total	**-14,896**	**–15,782**

BPV banking books per accounting category

in EUR thousand	2016	2015
By accounting category		
Loans and Receivables & Held to Maturity	1,907	4,691
Available for Sale	-21,666	-22,798
Fair value through profit and loss	4,863	2,325
Total	**-14,896**	**–15,782**

In line with NPV-at-Risk, the bank's overall BPV position is dominated by the long-term investment of own funds, as the present value of this position is significantly impacted if interest rates move up by one basis point.

Year-on-year variance analysis

The overall BPV decreased in 2016 by EUR 0.9 million. This mainly results from a lower duration of capital investments. The changes in BPV in Retail Banking Benelux and Retail Challengers and Growth Markets reflect volume and duration changes of originating assets and liabilities. Cash flow hedges were executed at the Bank Treasury function to mitigate these changes. The Bank Treasury function for Retail Challengers and Growth Markets is reported under Wholesale Banking business. Besides the change of the overall BPV exposure there is a change in the exposure per accounting category. This is mainly the result of increased volume of both savings and mortgages. This move was mitigated by cash flow hedges, which revaluate through equity, and the lower duration of capital investments.

Foreign exchange (FX) risk in banking books

FX exposures in banking books result from core banking business activities (business units doing business in other currencies than their base currency), foreign currency investments in subsidiaries (including realised net profit and loss) and strategic equity stakes in foreign currencies. The policy regarding these exposures is briefly explained below.

Governance – Core banking business

Every business unit hedges the FX risk resulting from core banking business activities into its base currency. Consequently, assets and liabilities are matched in terms of currency.

Governance – FX translation result

ING Bank's strategy is to keep the target CET1 ratio within a certain range when FX rates fluctuate, whilst limiting the volatility in the profit and loss account. Therefore, hedges are only done to the extent that they can be hedge accounted for against equity. Taking this into account, the CET1 ratio hedge can be achieved by deliberately taking foreign currency positions equal to certain target positions, such that the target CET1 capital and risk-weighted assets are equally sensitive in relative terms to changing FX rates. A selection of emerging market currencies that meet specific requirements do not have a target position, but are allowed to remain open under the policy.

Risk profile – FX translation result
The following table presents the currency exposures in the banking books for the most important currencies for FX translation result. Positive figures indicate long positions in the respective currency. As a result of the strategy to hedge the CET1 ratio a net foreign currency exposure exists.

Net banking currency exposures banking books

	Foreign Investments		Hedges		Net exposures	
	2016	2015	2016	2015	2016	2015
US Dollar	2,852	2,869	280	65	3,133	2,935
Pound Sterling	701	992	-128	–179	573	812
Polish Zloty	1,927	1,881	-584	–854	1,344	1,027
Australian Dollar	3,856	3,662	-3,324	–3,329	532	332
Turkish Lira	2,066	2,186	-3	–3	2,063	2,183
Chinese Yuan	3,012	2,817	-161	–168	2,851	2,649
Korean Won	958	838	-779	–662	179	176
Indian Rupee	714	1,172	-	-	714	1,172
Brazilian Real	253	211	-	-	253	211
Russian Rouble	589	429	-224	–181	364	248
Other currency	2,863	2,615	-1,472	–1,385	1,391	1,230
Total	19,792	19,672	-6,396	–6,696	13,396	12,977

In order to measure the remaining sensitivity of the target CET1 ratio against FX rate fluctuations, the CET1 at Risk (cTaR) measure is used. It measures the drop in the CET1 ratio from the target when stressing a certain FX rate. A negative sign in the stress scenario thus indicates that a depreciation of the corresponding currency against the Euro will result in a drop of the CET1 ratio.

CET1 ratio sensitivity ING Bank

	cTaR		Stress Scenario	
	2016	2015	2016	2015
Currency				
US Dollar	0.18%	0.13%	15%	15%
Pound Sterling	0.01%	0.01%	15%	–15%
Polish Zloty	0.00%	0.00%	-15%	15%
Australian Dollar	0.00%	0.00%	20%	20%
Turkish Lira	0.07%	0.07%	-25%	–25%
Chinese Yuan	0.09%	0.09%	-15%	–15%
Korean Won	0.01%	0.01%	-15%	–15%
Indian Rupee	0.03%	0.05%	-20%	–20%
Brazilian Real	0.01%	0.01%	-25%	–25%
Russian Rouble	0.02%	0.01%	-20%	–20%

The US Dollar is the main currency in terms of Net Exposure as the risk-weighted assets position in US Dollar is most significant besides the Euro.

Year-on-year variance analysis
The INR Foreign Investments have decrease by EUR 458 million to EUR 714 million (vs 2015) as a result of sale of Kotak shares. The increase in US Dollar cTaR is mainly due to appreciation of the US Dollar and an increase in US Dollar RWA.

Equity price risk in banking books

Governance
ING Bank maintains a strategic portfolio with substantial equity exposure in its banking books. Local offices are responsible for the management of the equity investments positions. Market risk is responsible for monitoring and reporting the regulatory capital for Equity Investments on a monthly basis. Market risk acts independently from the management of the equity investments in monitoring and reporting of the equity investments risk.

Risk Profile
Equity price risk arises from the possibility that equity security prices will fluctuate, affecting the value of equity securities and other instruments whose value reacts similarly to a particular security, a defined basket of securities, or a securities index. ING Bank equity exposure mainly consists of the investments in associates and joint ventures of EUR 1,003 million (2015: EUR 842 million) and equity securities held in the available-for-sale (AFS) portfolio of EUR 4,024 million (2015: EUR 4,434 million). The value of equity securities held in the available-for-sale portfolio is directly linked to equity security prices with increases/decreases being recognised in the revaluation reserve, except in the case of impairment. Investments in associates and joint ventures are measured in accordance with the equity method of accounting and the balance sheet value and therefore not directly linked to equity security prices.

Equities Unrealised Gains and Losses in the AFS portfolio

	2016	2015
Gross unrealised gains	2,675	2,662
Gross unrealised losses	-19	-29
Total	**2,656**	**2,633**

Year-on-year variance analysis
During the year ended 31 December 2016 the revaluation reserve relating to equity securities held in the available-for-sale portfolio fluctuated between a month-end low amount of EUR 2,201 million (2015: EUR 1,931 million) and a high amount of EUR 2,787 million (2015: EUR 2,709 million). The AFS portfolio decreased from EUR 4.4 billion in 2015 to EUR 4.0 billion in 2016, mainly due to the derecognition of Visa Europe shares and the reduction of the stake in Kotak Mahindra Bank, partly offset by an increase in the value of the investment in Bank of Beijing.

Real Estate price risk in banking books
Real Estate price risk arises from the possibility that real estate prices fluctuate. This affects both the value of real estate assets and earnings related to real estate activities.

Governance
Real Estate is a run-off business consisting of Real Estate Development and Real Estate Investment Management activities which are being wound down by sale of assets, strict execution of contract maturity or through portfolio sales.

Risk profile
ING Bank has two main different categories of real estate exposure on its banking books: first, the own buildings ING Bank occupies, and second, development assets, which mostly consists of former Real Estate Development and Real Estate Investment Management activities. The total real estate exposure amounts to EUR 1.1 billion (excluding property from foreclosures and third party interest). ING Bank has EUR 0.1 billion recognised at fair value through profit and loss and EUR 1.0 billion is recognised at cost or revalued through equity (with impairments going through profit and loss). A split on the real estate exposure per continent and sector based on the risk management view is shown below.

Real Estate market risk exposure in banking books (by geographic area and sector type)

	2016	2015		2016	2015
Continent			**Sector**		
Europe	968	1,136	Residential	104	115
Americas	36	45	Office	895	1,045
Australia	0	0	Retail	19	68
Asia	0	35	Industrial	18	16
Other	104	118	Other	72	91
Total	**1,108**	**1,334**	**Total**	**1,108**	**1,334**

Main exposure arises from office buildings in own use located in Netherlands and Belgium (EUR 0.7 billion), as well as retail and residential exposures in Europe (EUR 0.1 billion).

Year-on-year variance analysis
In total, real estate market risk exposure in the banking books decreased by EUR 0.2 billion mainly as a result of divestments. The remainder is due to impairments and fair value changes.

Market risk in trading books
Within the trading portfolios, positions are maintained in the professional financial markets. These positions are often a result of transactions with clients and may serve to benefit from short-term price movements.

Governance

The Financial Markets Risk Committee (FMRC) is the market risk committee that, within the risk appetite set by ALCO Bank, sets market risk limits both on an aggregated level and on a desk level, and approves new products. Credit & Trading Risk advises both the FMRC and ALCO Bank on the market risk appetite of trading activities.

With respect to the trading portfolios, Credit & Trading Risk focuses on the management of market risks of Wholesale Banking (mainly Financial Markets) as this is the only business line within ING Bank where trading activities take place. Trading activities include facilitation of client business and market making. Credit & Trading Risk is responsible for the development and implementation of trading risk policies and risk measurement methodologies, the reporting and monitoring of risk exposures against approved trading limits and the validation of pricing models. Credit & Trading Risk also reviews trading mandates and limits, and performs the gatekeeper role in the product review process. The management of trading market risk is performed at various organisational levels, from Credit & Trading Risk overall down to specific business areas and trading offices.

Fair values of financial assets and liabilities

ING Bank aligns the pricing sources it uses with the Fair Value Hierarchy. The best evidence of Fair value are published price quotations in active markets. Where quoted prices are not available, other pricing sources and valuation techniques are used to determine fair value.

Examples of other pricing sources can be independent market vendors, brokers or market makers, or recent transactions. The range of prices obtained from these pricing sources can diverge. The choice for one or the other pricing source can therefore result in different estimates of fair value. Selecting the most appropriate price within this range requires expertise and judgement. The selection of the pricing sources used is subject to internal approval and review in the Market Data Committee.

Valuation techniques range from discounting of cash flows to valuation models. Such models are based on relevant risk factors such as the market price of underlying reference instruments, market parameters (volatilities, correlations and credit ratings) and customer behaviour. Some of these price factors require assumptions which imply that valuation models are subjective by nature. Depending on what valuation technique is used and what assumptions are made, the obtained fair value can be different, hence the implied downward and/or upward uncertainty of the accounting value may vary. For a classification of fair valued exposure to products in accordance with their degree of valuation uncertainty, refer to the section 'Financial instruments at fair value' of Note 33 'Fair value of assets and liabilities'.

All valuation models used are subject to a model governance framework. Model governance refers to a set of policies and procedures that have to be strictly followed and that cover the complete lifecycle of a model, i.e. its development, validation, approval, implementation and maintenance. The pillars of model governance are independent validation and periodic review. Such a review aims to determine whether a model is still appropriate for its intended use. Where models are used for valuation, there can be uncertainty on the assumptions of the underlying models and/or parameters. In those cases where significant uncertainty on assumptions arises, a model risk valuation adjustment is applied.

In general, positions are valued taking the bid price for a long position and the offer price for a short position. In cases where positions are marked at mid-market prices, a fair value adjustment is calculated.

ING Bank has aligned existing fair valuation adjustments with the regulatory standards for fair valued instruments issued by EBA, hence where possible it follows a unified valuation framework which meets both IFRS and CRR requirements. This approach is supported by a bank-wide valuation policy framework. Detailed methodologies for fair valued instruments per product and degree of liquidity are available. These cover among others close out costs and mid-price uncertainty. Benefits of this framework and chosen approach are a significant increase in consistency and transparency of the fair valuation of financial instruments across different locations and books. For compliance with EBA regulatory standards an additional valuation adjustment through capital on the concentrated positions (the Concentration AVA) of EUR 21 million after tax is booked for ING Bank in 2016. On a quarterly basis all valuation adjustments are discussed in the Global Pricing and Impairment Committee (GP&IC). This committee oversees the valuation framework and Independent price verification.

To include credit risk in the fair valuation, ING Bank applies both credit and debit valuation adjustments (hereafter referred to as respectively, CVA and DVA). Own issued debt and structured notes that are valued at fair value are adjusted for credit risk by means of an own credit adjustment. Additionally, derivatives valued at fair value are adjusted for credit risk by a credit valuation adjustment. This credit valuation adjustment is of a bilateral nature; both the credit risks on the counterparty as well as on ING Bank are included in the adjustment. All market data that is used in the determination of the CVA is based on market implied data. Additionally, wrong-way risk (when exposure to a counterparty is increasing and the credit quality of that counterparty decreases) and right way risk (when exposure to a counterparty is decreasing and the credit quality of that counterparty decreases) are included in the adjustment. ING Bank applies CVA also for pricing credit risk into new external trades with counterparties. Risk limits and controls are in place to monitor and anticipate CVA risk on a daily basis. The CVA is managed by global risk governance, where the risk limits and controls for CVA are managed and monitored on a global level. Our approach on CVA risk management is driven by increased control, cost efficiency and the global scope of CVA.

ING applies a Funding Valuation Adjustment ('FVA') to address the funding costs associated with the collateral funding asymmetry on uncollateralized or partially collateralized OTC derivatives in the portfolio. This adjustment is based on the expected exposure profiles of the uncollateralized or partially collateralized OTC derivatives and market-based funding spreads.

Credit & Trading Risk has the role to challenge the valuation and pricing sources used in the valuation models by the Front Office. Credit and Trading risk performs independent price verification to ensure that valuations are correct. The independent price verification and valuation adjustments are confirmed in the Local parameter committee. To ensure segregation of duties between Front Office and Credit & Trading Risk, the systems for pricing and price testing are secured in order to prevent unauthorised access.

Risk measurement

ING Bank uses a comprehensive set of methodologies and techniques to measure market risk in trading books.

Basel Committee/CRD IV

ING Bank follows the regulatory framework set out in the Capital Requirements Regulation (CRR/CRD IV) for its regulatory capital calculations. The Basel Committee is performing a Fundamental Review of the Trading Book, which may have a significant impact on the Pillar I calculations. The final guidelines were published in January 2016 and full implementation is not expected before 2019.

Value at Risk

Credit & Trading Risk uses the historical simulation Value at Risk (VaR) methodology as its primary risk measure. The VaR for market risk quantifies, with a one-sided confidence level of 99%, the maximum overnight loss that could occur due to changes in risk factors (e.g. interest rates, equity prices, foreign exchange rates, credit spreads, implied volatilities) if positions remain unchanged for a time period of one day. Next to general market movements in these risk factors, VaR also takes into account market data movements for specific moves in e.g. the underlying issuer of securities. The impact of historical market movements on today's portfolio is estimated, based on equally weighted observed market movements of the previous year. ING Bank uses VaR with a 1-day horizon for internal risk measurement, control and backtesting, and VaR with a 10-day horizon for determining regulatory capital.

Limitations

VaR has some limitations, such as the following: VaR uses historical data to forecast future price behaviour. Future price behaviour could differ substantially from past behaviour. Moreover, the use of a one-day holding period (or ten days for regulatory capital calculations) assumes that all positions in the portfolio can be liquidated or hedged in one day. In periods of illiquidity or market events, this assumption may not hold. Also, the use of 99% confidence level means that VaR does not take into account any losses that occur beyond this confidence level.

Backtesting

Backtesting is a technique for the ongoing monitoring of the plausibility of the VaR model in use. Although VaR models estimate potential future trading results, estimates are based on historical market data. In a backtest, the actual daily trading result (excluding fees and commissions) is compared with the 1-day VaR. In addition to using actual results for backtesting, ING Bank also uses hypothetical results, which measure results excluding the effect of intraday trading, fees and commissions. When the actual or hypothetical loss exceeds the VaR an 'outlier' occurs. Based on ING Bank's one-sided confidence level of 99% an outlier is expected once in every 100 business days. In 2016 there were three occurrences where a hypothetical daily trading loss exceeded the daily consolidated VaR of ING Bank. The three outliers were caused by market movements for modelled risk factors. ING Bank reports the backtesting results on a quarterly basis to ECB.

Stressed VaR

The Stressed VaR (SVaR) is intended to replicate a VaR calculation that would be generated on the bank's current portfolio with inputs calibrated to the historical data from a continuous 12-month period of significant financial stress relevant to the bank's portfolio. To calculate SVaR, ING Bank uses the same model that is used for VaR (historical simulation). The historical data period used includes the height of the credit crisis around the fall of Lehman Brothers, and is reviewed regularly.

Incremental Risk Charge
With the Incremental Risk Charge (IRC) ING Bank calculates an estimate of the default and migration risks for unsecuritised credit products in the trading book over a one-year capital horizon, with a 99.9% confidence level. For the calculation of IRC ING Bank performs a Monte-Carlo simulation based on a Gaussian copula model. The rating change is simulated for all issuers over the different liquidity horizons (i.e. time required to liquidate the position or hedge all significant risks) within one year. The financial impact is then determined for the simulated migration to default, or for the simulated migration to a different rating category, based on LGD or credit spread changes, respectively.

The liquidity horizon has been set to the regulatory minimum of three months for all positions in scope. ING Bank reviews the liquidity horizons regularly based on a structured assessment of the time it takes to liquidate the positions in the trading portfolio.

ING Bank periodically assesses the compliance of the IRC model with the regulatory requirements by performing gap analyses, substantiating the modelling choices and quantifying the impact of alternative approaches.

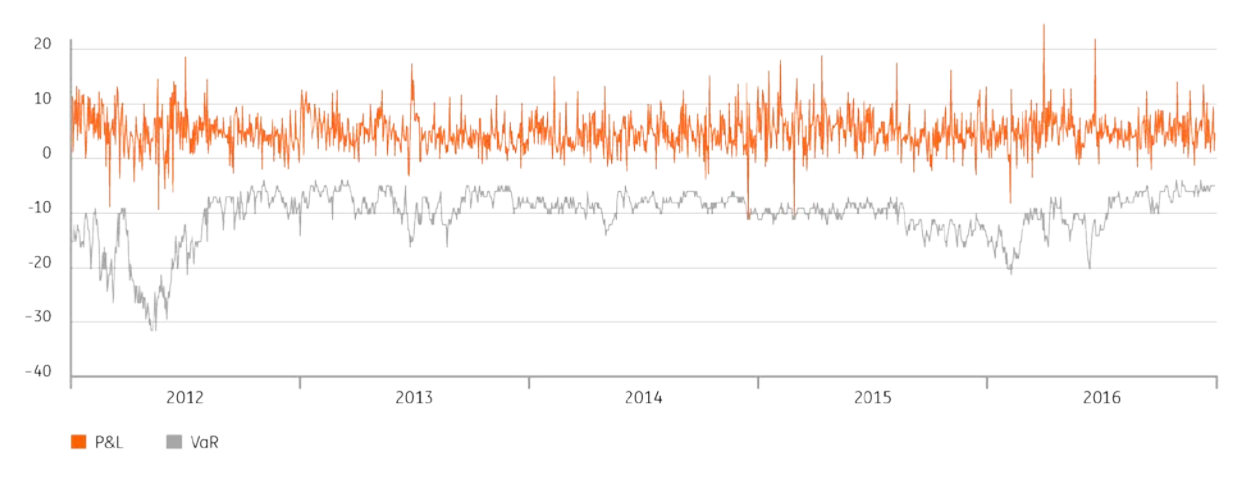
Event Risk
Event Risk is a valuable risk management tool. Event Risk evaluates the bank's financial stability under severe but plausible stress scenarios and assists in decision-making that assures the bank to remain a financially healthy going concern institution after a severe event occurs. In addition to the bank-wide stress test framework as described in the ING Bank risk profile section, Credit & Trading Risk performs separate stressed scenario tests to monitor market risks under extreme market conditions. Since VaR in general does not produce an estimate of the potential losses that can occur as a result of extreme market movements, ING Bank uses structured stressed scenario tests to calculate Event Risk for monitoring the market risk under these extreme conditions. Event Risk is based on historical as well as hypothetical extreme scenarios. The result is an estimate of the profit and loss caused by a potential event and its world-wide impact for ING Bank. The Event Risk number for the ING Bank trading activity is generated on a weekly basis. Like VaR, Event Risk is limited by ALCO Bank.

ING Bank's Event Risk policy is based on a large set of possible stress scenarios per risk type (fixed income, equity, foreign exchange, credit and related derivative markets). For example, for equity products we assume both a crisis scenario (prices decreasing) as well as a bull scenario (prices increasing). Stress parameters are set per country. Scenarios are calculated based on events happening independently, jointly by region, or in all countries simultaneously. This way, for each risk type, a large set of scenarios is calculated. The worst scenarios per market are combined across markets by assessing both independent events per market, and worst events happening in all markets at the same time.

Other trading controls
VaR and Event Risk limits are the most important limits to control the trading portfolios. Additionally, limits have been set on SVaR and IRC. Furthermore, ING Bank uses a variety of other controls to supplement these limits. Position and sensitivity limits are used to prevent large concentrations in specific issuers, sectors or countries. In addition to this, other risk limits are set with respect to the activities in complex derivatives trading. The market risk of these products is controlled by product specific limits and constraints.

Risk profile
The following chart shows the development of the overnight VaR under a 99% confidence interval and a 1-day horizon versus daily trading profits and losses. The overnight VaR is presented for the ING Bank trading portfolio from 2012 to 2016.

Consolidated trading VaR ING Bank 2012 – 2016 [1]



1 CVA risk is not included in VaR.

In 2016 there were two cases with large positive trading results. The first large positive trading result was driven by a combination of position changes; the second large positive result was driven by volatile market moves on the day of Brexit.

The risk figures in the table below only relate to the trading books for which the internal model approach is applied.

1d VaR for Internal Model Approach trading Portfolios[1]

	Minimum		Maximum		Average		Year end	
amounts in millions of euros	2016	2015	2016	2015	2016	2015	2016	2015
Interest rate	3	3	10	8	5	5	5	4
Equity and commodity	2	4	11	10	5	6	4	6
Foreign exchange	1	1	5	4	2	2	2	1
Credit spread	4	7	11	10	6	8	7	9
Diversification[2]					-7	-9	-12	-6
Total VaR	**5**	**8**	**22**	**17**	**11**	**12**	**6**	**14**

1 CVA risk is not included in VaR.
2 The total VaR for the columns Minimum and Maximum cannot be calculated by taking the sum of the individual components since the observations for both the individual markets as well as total VaR may occur on different dates.

In 2016, the average VaR was at a similar level as last year, as notable also in different risk types. The VaR was volatile during the year driven by position changes. Position changes decreased VaR by the end of the year in a response to increased market volatility.

EU MR3: Internal Model Approach values for CAD2 trading portfolios

amounts in millions of euros		2016	2015
VaR (10 day 99%)			
1	Maximum value	64	64
2	Average value	33	44
3	Minimum value	9	29
4	Period end	36	43
Stressed VaR (10 day 99%)			
5	Maximum value	131	110
6	Average value	72	71
7	Minimum value	40	41
8	Period end	84	78
Incremental Risk Charge (99.9%)			
9	Maximum value	292	482
10	Average value	207	380
11	Minimum value	120	249
12	Period end	120	267
Comprehensive Risk capital charge (99.9%)			
13	Maximum value	n/a	n/a
14	Average value	n/a	n/a
15	Minimum value	n/a	n/a
16	Period end	n/a	n/a

Risk position changes were also reflected in the 10 day VaR and 10 day Stressed VaR statistics. Compared to 10 day VaR in 2015, in 2016 position changes led to lower average, the wider range between a maximum and a minimum and a lower 10 day VaR at year-end. For 10 day Stressed VaR the average was stable compared to the previous year, while maximum and year-end values increased. The overall decrease in IRC in 2016 was largely caused by decreased debt exposures to a number of sovereigns.

Regulatory capital

According to the Capital Requirements Regulation (CRR/CRD IV), regulatory capital for trading portfolios can be calculated using the standardised approach or an internal model approach. ING Bank received regulatory approval to use an internal model to determine the regulatory capital for the market risk in all trading books of ING Bank. Market risk capital of CAD2 trading books is calculated according to the CRR, using internal VaR, Stressed VaR and Incremental Risk Charge models, where diversification is taken into account. On the other hand, market risk capital of CAD1 books is calculated using Standardised Approach with fixed risk weights. In 2016, capital calculations for all trading books are made under the Internal Model Approach. Mismatches in FX risk from the banking books are incorporated under the Standardised Approach. ING Bank does not have a Correlation Trading Portfolio or any other securitisations in the trading book.

Standardised Approach

EU MR1: Market risk under Standardised Approach

		2016		2015	
amounts in EUR millions		RWA	Capital requirements	RWA	Capital requirements
Outright products					
1	Interest rate risk (general and specific)				
2	Equity risk (general and specific)				
3	Foreign exchange risk	1,081	87	1,328	106
4	Commodity risk				
Options					
5	Simplified approach				
6	Delta-plus method				
7	Scenario approach				
8	Securitisation (specific risk)				
9	**Total**	1,081	87	1,328	106

The Market risk regulatory capital under Standardized Approach is fully driven by the foreign exchange risk in the non-trading portfolio. The decrease in foreign exchange risk in 2016 mainly relates to the decrease in INR (Indian Rupee) currency exposure, caused by the sale of shares in Kotak Mahindra Bank.

Internal Model Approach

EU MR2-A: Market risk under Internal Model Approach

amounts in EUR millions		2016 RWA	2016 Capital requirements	2015 RWA	2015 Capital requirements
1	**VaR (higher of values a and b)**	**1,123**	**90**	**1,797**	**144**
(a)	Previous day's VaR (Article 365(1) (VaRt-1))	449	36	535	43
(b)	Average of the daily VaR (Article 365(1)) on each of the preceding sixty business days (VaRavg) x multiplication factor ((mc) in accordance with Article 366)	1,123	90	1,797	144
2	**SVaR (higher of values a and b)**	**2,546**	**204**	**2,931**	**235**
(a)	Latest SVaR (Article 365(2) (sVaRt-1))	1,054	84	969	78
(b)	Average of the SVaR (Article 365(2) during the preceding sixty business days (sVaRavg) x multiplication factor (ms) (Article 366)	2,546	204	2,931	235
3	**Incremental risk charge -IRC (higher of values a and b)**	**1,910**	**153**	**3,579**	**286**
(a)	Most recent IRC value (incremental default and migration risks section 3 calculated in accordance with Section 3 articles 370/371)	1,500	120	3,339	267
(b)	Average of the IRC number over the preceding 12 weeks	1,910	153	3,579	286
4	**Comprehensive Risk Measure – CRM** (higher of values a, b and c)				
(a)	Most recent risk number for the correlation trading portfolio (article 377)				
(b)	Average of the risk number for the correlation trading portfolio over the preceding 12-weeks				
(c)	8 % of the own funds requirement in SA on most recent risk number for the correlation trading portfolio (Article 338(4))				
5	**Total**	**5,579**	**446**	**8,307**	**665**

The decrease in market risk Regulatory Capital for Trading as of 2015 is mainly due to decrease in exposures to sovereign issuers and as a result a decrease in IRC, and a change in risk positions during 2016 that resulted in decreases in VaR and Stressed VaR. The main changes in risk positions throughout the year were in equity derivatives portfolio and CVA hedge portfolio. The CVA hedges are capitalized under market risk framework, while CVA is capitalized under credit risk framework according to Basel rules.

Sensitivities

As part of the risk monitoring framework, Credit & Trading Risk actively monitors the daily changes of sensitivities of our trading portfolios. The following tables show the five largest trading foreign exchange positions and interest rate and credit spread sensitivities. The credit spread sensitivities are furthermore split in different risk classes and sectors. Due to the nature of the trading portfolios, positions change from day to day.

Most important foreign exchange year-end trading positions

Deltacash amounts in EUR millions	2016		2015
Foreign exchange		Foreign exchange	
US Dollar	201	US Dollar	160
Romanian New Leu	45	Romanian New Leu	57
Chinese Yuan	-40	Chinese Yuan	–42
South Korean Won	-22	South Korean Won	–46
Czech Koruna	21	Swiss Franc	18

Most important interest rate and credit spread sensitivities at year-end

amounts in EUR thousands	2016		2015
Interest Rate (BPV[1])		**Interest Rate (BPV[1])**	
Euro	-119	Euro	–414
South Korean Won	-44	South Korean Won	–52
Polish Zloty	-32	British Pound	45
Indian Rupee	-23	US Dollar	43
Romanian New Leu	22	Japanese Yen	18
Credit Spread (CS01[2])		**Credit Spread (CS01[2])**	
United States	333	Netherlands	–289
Germany	173	Germany	–154
Belgium	74	Norway	–110
India	-38	United States	99
Poland	-38	Spain	–89

1 Basis Point Value (BPV) measures the impact on value of a 1 basis point increase in interest rates. The figures Include commodity risk in banking books.
2 Credit Spread Sensitivity (CS01) measures the impact on value of a 1 basis point increase in credit spreads. Exposures to supranational institutions are not assigned to a specific country.

Credit spread sensitivities per risk class and sector at year-end

		2016		2015	
amounts in EUR thousands		Corporate	Financial Institutions	Corporate	Financial Institutions
Credit Spread (CS01[1])					
Risk classes					
1	(AAA)	-3	-48	0	–60
2–4	(AA)	-21	26	13	–108
5–7	(A)	13	-9	12	–207
8–10	(BBB)	-126	-154	–61	–180
11–13	(BB)	-104	-88	–88	–64
14–16	(B)	0	-9	–3	–2
17–22	(CCC and NPL)	-1	-2	–12	–11
Not rated		1	1	3	1
Total		**-241**	**-283**	**–136**	**–631**

1 Credit Spread Sensitivity (CS01) measures the impact on value of a 1 basis point increase in credit spreads.

According to the Capital Requirements Regulation (CRR/CRD IV) ING Bank monitors and controls its large exposures, including exposures in the trading books. In the course of 2016 there were no exposures in the trading book exceeding the regulatory large exposure limits.

Funding and liquidity risk

Introduction

Funding and liquidity risk is the risk that ING Bank or one of its subsidiaries cannot meet its financial liabilities when they come due, at reasonable cost and in a timely manner. Liquidity risk can materialise both through trading and non-trading positions.

ING Bank incorporates funding and liquidity management in its business strategy. In order to optimise its funding and liquidity risk management, ING Bank has developed a funding and liquidity risk framework aimed at maximising liquidity access and minimising funding risks and costs. The main objective of ING's funding and liquidity risk management is to maintain sufficient liquidity to ensure safe and sound operations under normal market circumstances and in times of stress.

Governance

Within ING Bank, the MBB, staff departments from the CRO and CFO domain, Capital Management and Bank Treasury have oversight of and are responsible for managing funding and liquidity risk. The MBB defines the funding and liquidity strategy, target funding and liquidity position and the risk appetite based on recommendations from Bank Treasury, Capital Management, Balance Sheet Risk and Finance.

Liquidity risk management within ING Bank falls under the supervision of the ALCO function, with ALCO Bank as the highest approval authority overseeing the execution of the overall strategy set by the MBB.

ALCO Bank determines the liquidity risk (limit) framework and appetite after which this is cascaded down in the organisation under the responsibility of the lower level ALCOs. ING Bank's liquidity risk framework is based on the three lines of defence concept, whereby risk principles are implemented, monitored and controlled in conjunction with both first and second line functions within the Bank.

Bank Treasury is a 1st line of defence function. Its main funding and liquidity responsibilities are to manage ING's funding gap and ING's (regulatory) liquidity position. Bank Treasury is ING's primary contact to the market for long and short term funding, with exception of capital transactions which are under the responsibility of the Capital Management function and the execution of some specific structured funding products which are executed by Financial Markets under a mandate that provides strict guidance around pricing, volumes, optionalities and tenors.

The 2nd line Balance Sheet Risk function is responsible for defining the governance with regard to funding and liquidity management and facilitates the decision making processes for ALCO Bank regarding this. Next to this, Balance Sheet Risk sets the standards for the funding and liquidity risk approach (identify, assess, control, monitor and report). Furthermore, it determines adequate policies and procedures for managing and monitoring liquidity risk and checks compliance with guidelines and limits.

Management

Framework

ING's liquidity risk management framework incorporates all relevant risk principles with regard to the daily and on-going management of funding and liquidity risk. The framework contains the following key elements:

- *Liquidity risk appetite*: This is set by ALCO Bank (which includes all MBB members) in line with ING's complexity, business mix and liquidity risk profile. The risk appetite is reviewed on an annual basis and forms part of the input of business units in their medium term business plans. The defined risk appetite is allocated to the lower level ALCO's;
- *Funding*: The Bank Treasury function sets and updates the funding strategy and funding planning, taking into account diversification in sources and tenor of funding;
- *Intraday Liquidity Management*: Bank Treasury actively manages its short term liquidity positions and risks to meet payment and settlement obligations on a timely basis under both normal and stressed conditions;
- *Collateral Position Management*: Bank Treasury actively manages the liquidity risk of its collateral positions to meet ING's collateral needs, and resources, under both normal and stressed conditions and in accordance with all internal and regulatory rules;
- *Liquidity buffers*: ALCO Bank ensures that sufficient liquidity is maintained, in accordance with Bank- and regulatory rules and standards, including a buffer of unencumbered, high quality liquid assets, to withstand stress events, such as those involving the loss or impairment of both unsecured and secured funding sources;
- *Liquidity risk transfer and pricing*: ALCO Bank sets and maintains a Funds Transfer Pricing (FTP) framework that optimises Bank-wide funding and liquidity risk management, whereby all business units must transfer their structural funding and liquidity risks to Bank Treasury whilst managing their own customer behaviour liquidity risk costs. Any negative carry resulting from necessity to keep a buffer of liquid assets as contingent liquidity is not captured in FTP, this negative carry is captured and allocated through a separate contingent liquidity charging (CLC) mechanism;
- *Stress testing*: ALCO ensures that liquidity stress tests are planned, designed, conducted and reviewed, to identify sources of potential liquidity strain, to determine how these can and will be addressed and to ensure that current exposures remain within the established liquidity risk tolerance; and
- *Contingency Funding Plan*: ALCO ensures the design, regular test and maintenance of formal Contingency Funding planning, setting out the strategies for addressing liquidity shortfalls in emergency situations, outlining procedures to manage these situations, establishing clear lines of responsibility, and articulating clear implementation and escalation procedures.

Liquidity risk appetite

ING's liquidity risk appetite expresses the level of liquidity risk ING is willing to take in pursuit of its strategic objectives. The Liquidity Risk Appetite Statements (RAS) are aligned with the ING strategy and are allocated to the ING entities by way of limits, where needed per ING entity. ING's Liquidity RAS is build up of three levels:

- RAS Level 1 are considered in conjunction with each other for the purpose of steering the ING Bank liquidity positions as they differ in assumptions, horizon and scope. The level 1 risk appetite statements (i) assure compliance with regulatory requirements (LCR and NSFR) and (ii) set adequate buffers related to internally defined stress scenarios;
- RAS Level 2 are additional principles that allow assessing different aspects of ING consolidated liquidity position and/or balance sheet (ratios). They can ultimately affect RAS Level 1, or they can be complementary to RAS Level 1 (where the differences lie in either the metrics, the assumption, the data source or both). The level 2 risk appetite statements focus on (i) ING Bank's cash & collateral position, (ii) the asset encumbrance ratio, (iii) assure sufficient levels of funding diversification; and
- RAS Level 3 are additional principles that allow assessing aspects of the consolidated liquidity position that concern certain parts of on- and off- balance sheet items, or represent a further specification of RAS Level 1 or Level 2.

This RAS hierarchy is applied consistently for all currencies and for USD for both the consolidated ING scope and ING Bank N.V. solo. Where relevant the RAS are cascaded down to specific regional and local levels.

Based on the above, ING Bank has defined the following funding and liquidity risk management risk appetite statements:
- Home/host regulatory liquidity limits must be pro-actively complied with;
- The time-to-survive in a funding stress situation must extend over defined period, depending on the level of stress applied;
- Funding of longer-term assets and investments must be done by stable and longer-term liabilities;
- Geographical dependencies with respect to intra-group funding are to be limited; and
- Diversification must be in place of funding profile, across funds providers, instrument types, geographic markets, tenors and currencies.

Funding
In detailing the activities of the bank regarding utilisation of professional market funding sources, the following key principles apply:
- Maintaining adequate market access in both normal and stressed but operable market conditions;
- Managing risk by adhering to internally and externally imposed risk limits and balance sheet ratios; and
- Optimising the cost of funding under the principles above.

With respect to funding sources, ING Bank manages its balance sheet prudently, whereby short-term funding is primarily utilised for funding short-term assets. The bank aims to fund longer term assets and investments by stable and longer term liabilities. Next to this, ING Bank monitors exposures in major currencies such as the USD. Monitoring and control of the USD funding is effectuated through a dedicated USD funding and liquidity risk framework.

ING Bank reviews its funding plan on at least a quarterly basis, assessing market developments and funding requirements.

Intraday liquidity management
The objective of managing intraday liquidity and its risks at ING is twofold: it is focused on preventing damage to the institution's own liquidity position, and, in light of its role in global financial markets, ING also takes into account the potential damage to other parties which can arise through chain effects in payment and securities transactions. Intraday liquidity management is managed through the intraday risk appetite statement, by setting amongst others monitoring metrics and triggers on daily net negative liquidity positions and levels of payments outflows.

Collateral position management
The objective of the Collateral Management is to ascertain that ING Bank can meet collateral requirements for ING's collateral needs. ING Bank maintains a liquidity buffer existing of cash, cash equivalents and other highly liquid unencumbered assets to facilitate this. Tactical (short term) management of the liquidity buffer is performed, by increasing or decreasing the liquidity coverage with collateral transformation by execution of repos, in order to meet internal and regulatory requirements. Reporting and analysis is performed, providing availability of collateral for emergency financing, its eligibility and its route to cash in an efficient manner.

Liquidity buffers
The liquidity buffer ING Bank holds can be seen as the short-term part of the counterbalancing capacity, i.e. the total of available sources and measures within ING to generate liquidity (including also stopping professional lending), and serves as a cushion for liquidity needs under normal and stressed conditions.

The size and composition of the Liquidity buffer depends on ING's risk appetite and regulatory liquidity standards. In the buffer, only assets that are included that are 'unencumbered' and freely available for liquidity purposes. Bank Treasury ensures functional management of all liquidity buffers within ING Bank, both buffers at Bank level and buffers at local business unit level.

The liquidity buffer is held as an insurance against a range of stress scenarios, covering the additional need for liquidity that may arise over a defined short period of time under stress conditions. ING's minimum standards for liquidity buffers are described below:
- When local regulatory rules require so, local liquidity buffers can be established. Although locally established, these buffers must be centrally functionally managed by the Bank Treasury function;
- The buffer must be aligned in relation to the contractual and expected expiry calendars and other expected or planned developments;
- The size of the buffers is supported by estimates of liquidity needs performed under the Bank's or business entity's stress testing and be aligned with the liquidity risk appetite;
- The liquidity buffer is composed of cash and core assets that are eligible for the Liquidity Coverage Ratio (LCR) and/or highly marketable, which are not pledged to payment systems or clearing houses. For longer term buffer purposes, a broader set of liquid assets might be appropriate, subject to the Bank's or entity's ability to generate liquidity from them under stress, within the specified period of time; and
- The location and size of liquidity buffers reflects the Bank's or entity's structure (e.g. legal and geographical) and business activities.

Liquidity risk transfer and pricing

Funds Transfer Pricing (FTP) is an internal measurement and allocation system that assigns a profit contribution to funds raised, lent, or invested. FTP is the pricing mechanism used within ING to transfer interest rate risk, basis risk and liquidity risk positions from commercial units to Bank Treasury. The FTP framework enables local ALCOs to set their local FTP levels and manage these risks for all internal transfers at local level. This means that these risks are transferred from the business to a separate Bank Treasury book where they can be monitored and managed more efficiently and effectively. Any negative carry resulting from necessity to keep a buffer of liquid assets as contingent liquidity is not captured in FTP. This negative carry is captured and allocated through a separate contingent liquidity charging (CLC) mechanism. The liquidity costs, benefits and risks are considered in the product pricing, design and offering and in the Product Approval and Review Process (PARP) or deal approval and other related processes for commercial products by the business units.

Stress testing

Stress testing allows ING to examine the effect of exceptional but plausible future events on the liquidity position of the bank and provides insight into which entities, business lines or portfolios are vulnerable to which type of risks and/or in which type of scenarios. Liquidity stress testing is an important tool in identifying, assessing, measuring and controlling funding and liquidity risks, providing a complementary and forward-looking perspective to other liquidity and funding risk management tools.

In line with SREP and EBA guidance, ING's liquidity position is stress tested on a monthly basis under a particular scenario that is a mix between a market event and an ING specific event. The outcome of stress tests are evaluated and provide input to any follow-up on the need for additional contingency measures.

In addition to the bank-wide stress test framework as described in the ING Bank risk profile section, stress test reports are produced with respect to the funding and liquidity position on a regular basis. Some of these stress tests are regulatory driven, and others are based on internal scenarios. On a weekly basis ING reports an internal net liquidity position metric, this is reported on a consolidated (bank) level for the main entities and split in Euro and US Dollar. On a monthly basis ING Bank reports the Liquidity Coverage Ratio (LCR) and a internally defined stress scenario related to the time-to-survive period. Additionally, on a quarterly basis, ING Bank reports a number of internally defined stress scenarios related to time-to-survive periods.

On ad-hoc basis ING Bank performs additional stress tests related to the funding and liquidity position. Overall, stress testing is an integral part of the liquidity and funding risk management framework and also serves as input for the contingency funding plan. From a currency perspective, stress tests are applied on Euro and US Dollar whilst other currencies are monitored. This aligns with the Basel III and CRR approach with regard to major currencies.

Contingency funding plan

In the contingency funding plan, contingency liquidity risk is addressed which specifically relates to the organisation and planning of liquidity management in time of stress. Within ING Bank, for contingency purposes, a dedicated crisis team – consisting of key MBB members and senior management representatives from e.g. Risk, Finance, Capital Management and Bank Treasury – is responsible for liquidity management in times of crisis. Throughout the organisation contingency funding plans are in place to enable senior management to act effectively and efficiently in times of crisis. The contingency funding plans are developed in line with the ING Recovery Plan and are tested on a regular basis, both centrally and at business unit level.

Funding and Liquidity profile

Funding sources

In 2016, ING Bank had readily access to a large variety of funding sources, both short term and long term. In the table below, the various funding sources are presented in the funding mix:

ING Bank Funding Mix

	2016	2015
Funding type		
Retail deposits	51%	48%
Corporate & other deposits	21%	22%
Interbank (incl. central bank)	5%	5%
Lending/repurchase agreement	5%	5%
Public debt	16%	18%
Subordinated debt	2%	2%
Total	**100%**	**100%**

The funding mix remained well diversified. Retail deposits remained ING Bank's primary sources of funds and slightly increased to 51% of the total funding mix per year end 2016. The Loan-to-Deposit ratio (excluding securities at amortised costs) increased from 1.04 per 2015 year-end to 1.06 per year end 2016.

Regulatory developments
Based on the Delegated Act on the LCR issued by the European Commission in October 2014, the EBA issued Implementing Technical Standards with regard to the reporting of the LCR as per 1 October 2015. The LCR is currently calculated and reported based on this Delegated Act and the corresponding Implementation Technical Standards. A Corrigendum for the LCR Delegated Act is in the making and is expected to be issued later in 2017.

The current implemented additional monitoring metrics will be extended with a maturity ladder template, which was out of scope in the initial implementation.

In November 2016, the EC has submitted a legislative proposal on NSFR to the European Parliament and Council. It is expected that the NSFR will come into force two years after its approval by the European Parliament and Council, with an indicative date of 2019. The NSFR ratio is currently reported on a quarterly basis based on BCBS and EBA guidance.

The European Commission proposal also contains guidance on disclosure. This means that disclosure requirements will come into force after the approval by the European Parliament and Council.

Non-Financial Risk
Introduction
The Non-Financial Risk (NFR) function encompasses the operational and compliance risk management functions. It ensures appropriate risk controls in these functional areas by implementing clear policies and minimum standards which are embedded in ING Bank business processes in all divisions. The necessary infrastructure is in place to enable management to track events and non-financial risk issues. A comprehensive system of internal controls that are reviewed and updated as necessary creates an environment of continuous improvement in managing non-financial risk.

ING Bank believes that fully embedding controls preserves and enhances the trust of its customers, staff and shareholders and is essential to build sustainable businesses. The Orange Code sets the foundation for the high ethical standards ING Bank expects from all its business activities. The Orange Code requires all staff to conduct themselves, not only within the spirit and letter of laws and regulations, but above all, with integrity, whilst being honest, prudent and responsible.

Governance
Non-Financial Risk Committees (NFRCs) and Management Teams (MTs) manage, measure and monitor operational and compliance risks. NFRCs exist at Bank level and at other relevant levels. They are chaired by the first line of defence and steer the risk management activities of the first and second lines of defence in their scope. Non-financial risk topics are an integral part of the agenda of regular MTs at all levels in the organisation. The Bank NFRC is the primary approval and oversight committee for non-financial risk matters.

The Head of Corporate Operational Risk Management (CORM) and the Chief Compliance Officer report to the Chief Risk Officer (CRO) and are jointly responsible for developing the framework of non-financial risk policies and standards within ING Bank and for monitoring the quality of non-financial risk management in the divisions.

The Chief Compliance Officer (CCO) is the general manager of the Bank Compliance Risk Management department and the Head of the Compliance Risk Management function within the Bank. This is an independent function responsible for developing and establishing the Bank-wide policies and minimum standards for managing compliance risks. The CCO assists and supports the MBB in managing ING Bank's compliance risks and control framework. The CCO is a permanent participant of the Risk Committee of the Supervisory Board and meets regularly with its Chairman.

The NFR function uses a layered functional approach within divisions to ensure systematic and consistent implementation of the framework of policies and minimum standards within ING Bank. To avoid potential conflicts of interests, it is imperative that staff in this function are independent and objective when advising business management on non-financial risk matters in their business unit or business line. To facilitate this, a strong functional reporting line to the next higher level within Operational Risk Management (ORM) and Compliance is in place. The functional reporting line has clear accountabilities with regard to objectives setting, remuneration, performance management and appointment of new staff as well as obligations to veto and escalate.

Framework
Non-financial risk is the risk of financial loss, legal or regulatory sanctions, or reputational damage due to inadequate or failing internal processes, people and systems; a failure to comply with laws, regulations and standards; or external events. ING Bank has a comprehensive framework for non-financial risks that supports and governs the process of identifying, measuring, mitigating, monitoring and reporting non-financial risks. It reflects the stages described in the Enterprise Risk Management model of COSO (Committee of Sponsoring Organisations of the Treadway Commission).

Processes are in place to identify key threats, vulnerabilities and the associated risks which might cause adverse events. Event identification is performed proactively and precedes a risk assessment. Different techniques for event identification exist within ING Bank, e.g. Risk & Control Self-Assessments, scenario analysis, external events inventories, internal events analyses (e.g. lessons learned based on information from event reporting), key risk indicators and threat scans.

Risk & Control Self-Assessment
Identification and assessment of non-financial risks inherent to ING Bank products, activities, people, processes and systems provide management with an understanding of the operational risk profile. Based on the identification and assessment, internal controls are designed for mitigation of risks to remain within the risk appetite.

Business Environment Assessment
The Business Environment Assessment (BEA) assesses all internal control factors and external factors that could influence the internal and external operating environment and may lead to unacceptable operational risk exposure.

Scenario analysis
Scenario analysis is a process used to consider the impact of rare, significant, yet plausible future events, taking into consideration alternative possible outcomes for those events, their severity and frequency. Input for scenario analysis includes the results of various internal and external assessments such as the BEA. Scenario analysis is an important component in the calculation of operational risk capital.

Internal events analyses
Analysis of internal non-financial loss data assists in identifying, quantifying, mitigating and monitoring operational risk exposure. It provides insight into causes and effectiveness of associated controls.

External events inventories
External non-financial loss data provides valuable information about the losses experienced by other businesses, and assists ING Bank to quantify its exposure to risk events that have not been experienced internally.

Business units and departments perform regular BEAs and Risk & Control Self-Assessments (RCSAs) to identify and assess risks. These are conducted with involvement of the business and their ORM, Compliance and Legal departments. Based on the results of the risk assessment, response measures must be determined for the identified risks beyond the risk appetite. Risk response actions balance the expected cost for implementing these measures with the expected benefits regarding the risk reduction.

Risk response can be achieved through several combinations of mitigation strategies, for example reducing likelihood of occurrence, reducing impact, risk avoidance, risk acceptance or through the transfer of risk. Tracking takes place through ING Bank's central risk management system.

The risk appetite (defined as the acceptable and authorised maximum level of risk) is set by the Bank NFRC. Adherence to this risk appetite is monitored quarterly through the NFR Dashboard which reports the key non-financial risk exposures. The NFR Dashboard provides management at country, divisional and bank level with an overview of key risks within the non-financial risk areas including compliance risks, information security risks, continuity risks, control risks, fraud and unauthorised activities risks and personal and physical security risks, enabling management to focus and set priorities.

The yearly objective setting process for both business management and NFR professionals aims to keep improving the management of non-financial risk throughout ING Bank to ensure that ING Bank stays in control of its current and future non-financial risks.

Advanced Measurement Approach (AMA)
ING Bank has an Operational Risk Capital model in place in which the risk profile is closely tailored to the internal risk profile of ING Bank and its divisions, by using scenario data for capturing severe risks and internal loss and RCSA data for capturing day-to-day risks. The business has a strong role in assessing scenario severities and the ORM function in validating the results. The internal data are combined with external loss data (ORX) in the AMA capital calculation. Since April 2013 ING is allowed to use its AMA model for regulatory supervision purposes. ING Bank reports the regulatory capital numbers on a quarterly basis. The AMA capital requirement per the end of 2016 amounts to EUR 3,242 million, compared to EUR 3,451 million per 2015 year-end.

Risk mitigations
ING Bank is currently not using any insurance or risk transfer mechanisms for the mitigation of risk in the context of the AMA capital calculation.

Operational risk

Definition

Operational risk is defined as the risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems or from external events.

Risk categories

ING Bank categorises operational risks in a number of risk areas:

- *Information (Technology) risk* is the risk of financial loss, regulatory sanctions or reputational damage due to breaches of confidentiality, integrity or availability within business processes or information or lack of information quality;
- *Continuity risk* is the risk of financial loss, regulatory sanctions or reputational damage due to business disruptions (loss of people, processes, systems, data, premises);
- *Control risk* is the risk of financial loss, regulatory sanctions or reputational damage due to ineffective organisation structures and governance procedures (including unclear roles and responsibilities and inadequate reporting structure); monitoring and enforcement of risk mitigating measures; and risk culture;
- *Internal fraud risk* is the risk of financial loss, regulatory sanctions or reputational damage due to deliberate abuse of procedures, systems, assets, products and/or services of ING by employees (incl. temporary workers, third party contractors, internships and consultants) who intend to deceitfully or unlawfully benefit themselves or others;
- *External fraud risk* is the risk of financial loss, regulatory sanctions or reputational damage due to deliberate abuse of procedures, systems, assets, products and/or services of ING by external parties (clients, potential clients or other third parties, including vendors and outside agencies) who intend to deceitfully or unlawfully benefit themselves or others;
- *Unauthorised activity risk* is the risk of financial loss, regulatory sanctions or reputational damage due to employees performing outside the normal course of their business, intentionally giving unauthorised approvals or overstepping of their authority;
- *Personal and physical security risk* is the risk of financial loss, regulatory sanctions or reputational damage due to criminal and environmental threats that might endanger the security or safety of ING personnel at work, people in ING locations, ING assets or assets entrusted to ING, people at ING event locations, or might have an impact on ING organisation's confidentiality, integrity or availability;
- *Processing risk* is the risk of financial loss, regulatory sanctions or reputational damage due to failed (transaction) processing (input, execution, output) or failing process management; and
- *Employment practice risk* is the risk of financial loss, regulatory sanctions or reputational damage due to acts inconsistent with employment, health and/or safety laws, regulations or agreements, from payment of personal injury claims, or from diversity /discrimination events.

Operational risk includes the related risk of reputation loss, as well as legal risk but strategic risks are not included.
Reputational risk is defined as the potential that adverse publicity regarding ING Bank's business practices and associations, whether accurate or not, will cause a loss of confidence in the integrity of ING Bank. Reputational risk is multidimensional and reflects the perception of other market participants, like customers, counterparties, shareholders, investors or regulators that can adversely affect ING Bank's ability to maintain existing, or establish new, business relationships and continued access to sources of funding (e.g. through the interbank or securitisation markets).

Legal risk is defined as the risk related to (i) a failure (or perceived failure) to adhere to applicable laws, regulations and standards, (ii) contractual liabilities or contractual obligations that are defaulted or cannot be enforced as intended, or are enforced in an unexpected or adverse way, and (iii) liability (tort) towards third parties due to an act or omission contributable to ING Bank (potentially) resulting in impairment of ING Bank's integrity, leading to damage to ING Bank's reputation, legal or regulatory sanctions, or financial loss.

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

Main developments in 2016

Internal and external fraud

The risk of clients and ING Bank staff being targeted by fraudsters using social engineering techniques to execute payments is still increasing and CxO impersonation fraud (criminals investigate the senior management structure of an organisation and target key positions) remains a significant threat. Efforts are undertaken to mitigate the risk such as creating awareness for customers and staff. ING Bank stringently monitors both this type of fraud and new emerging fraud methodologies.

ING Bank continues working on strengthening its global fraud resilience and to strengthen its control environment as fraudsters turn their interest to the end-user. Exploring and combining automated fraud detection tools that can be used for monitoring or early detection of fraudulent incoming and outgoing payments remains important in fraud prevention. These are used to further enhance an effective set of organisational controls.

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

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

Compliance risk

Definition

Compliance risk is defined as the risk of impairment of ING Bank's integrity, leading to damage to ING's reputation, legal or regulatory sanctions, or financial loss, due to a failure (or perceived failure) to comply with applicable laws, regulations and standards and the ING Values as part of the Orange Code. We aim to effectively manage compliance risks that could expose ING Bank to reputational damage, fines, civil and criminal penalties, payment of damages, court orders and suspension or revocation of licenses that would adversely impact our customers, staff, shareholders and other stakeholders.

The Bank Compliance Risk Management function established a compliance control framework in which controls are defined based on laws, regulations and standards that are part of the internal control framework of ING Bank applicable to non-financial risks. To support management in mitigating compliance risks, the Bank Compliance Risk Management function educates and supports the business in managing compliance risks related to e.g. money laundering, terrorist financing, sanction and export control compliance, conflicts of interests, mis-selling, corruption and protection of customers' interests.

Risk categories

ING Bank categorises compliance risk into four conduct-related integrity risk areas:
- *Client conduct* refers to the compliance risks arising from the relationship with or generated by the conduct of our clients and/or business partners, like money laundering or terrorist financing. Those risks are generally defined within ING Bank as Financial Economic Crimes (FEC);
- *Personal conduct* refers to the compliance risks arising from the conduct of ING employees;
- *Financial Services conduct* refers to the compliance risks arising from or generated by the conduct of ING Bank when developing, marketing and/or selling products and services to its clients;
- *Organisational conduct* refers to the compliance risks arising from the way the Bank is organising itself to develop its activities. This category covers for instance the licences required to perform its regulated banking activities or the operating effectiveness of its information barriers.

The controls to mitigate the compliance risks associated with the above mentioned risk areas are designed and embedded in the ING business units. The effectiveness of the controls as designed is tested periodically, and senior management is aware about their responsibility to ensure their processes are compliant with applicable laws and regulations, ING Bank's internal policies and the Orange Code.

In cases where an employee from ING Bank suspects a breach of external laws and regulations, internal policies and minimum standards and/or the Orange Code they are encouraged to (anonymously) speak up in line with the Whistleblower policy using the most appropriate channel, e.g. the (external) ethics line.

Financial Economic Crime (FEC) Policy and Minimum Standards
The ING Bank FEC Policy and Minimum Standards directly reflect relevant national and international laws, regulations and industry standards. The ING Bank FEC Policy is mandatory and applies to all ING banking entities, majority owned ING business, businesses under management control, staff departments, product lines and to all client engagements and transactions.

Management of ING Bank entities maintain local procedures aiming to enable them to comply with local laws, regulations and the ING Bank FEC Policy and Minimum Standards. Where local laws and regulations are more stringent, the local laws and regulations are applied. Likewise the FEC Policy and Minimum Standards prevail when the standards therein are stricter than stipulated in local laws and regulations and if not specifically forbidden (data privacy or bank secrecy).

The ING Bank FEC Policy and Minimum Standards set the requirements for all ING Bank entities with respect to guard against any involvement in criminal activity, and to participate in international efforts to combat money laundering and the funding of terrorist and criminal activities. The requirements in the ING Bank FEC Policy cover minimum standards and controls related to: money laundering, terrorist financing, export trade controls, proliferation financing, sanctions (economic, financial and trade) and countries designated by ING Bank as Ultra High Risk Countries (UHRC). The effectiveness of those controls is reviewed periodically.

As a result of frequent evaluation of all businesses from economic, strategic and risk perspective ING Bank continues to believe that for business reasons doing business involving certain specified countries should be discontinued. In that respect, ING has a policy not to enter into new relationships with clients from these countries and processes remain in place to discontinue existing relationships involving these countries. At present these countries are North Korea, Sudan, Syria, Iran and Cuba. Each of these countries is subject to a variety of EU, US and/or other sanctions regimes. Iran, Sudan, and Syria are identified by the US as state sponsors of terrorism and are subject to U.S. economic sanctions and export controls.

ING Bank has a FEC control framework in place to mitigate the risks related to Financial Economic Crime.

Also in 2016, the Ukraine-related sanctions as imposed earlier by both the US and the EU remained in force. Those sanctions restrict amongst others the dealing in specific (financial) products with certain named parties. Management of ING Bank entities use their existing control framework to ensure compliance with these sanctions.

Main developments in 2016

Regulatory developments

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

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

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

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

Compliance Risk Culture Monitoring

The Bank Compliance Risk Management function enhanced its control framework by assessing the operation of soft controls in relation to compliance risks in addition to hard controls. The aim of Compliance risk culture monitoring is to assess the risks that might influence the conduct and risk culture, promoting the individual integrity of all employees and enhancing the overall culture that is led by integrity.

Market Abuse

Integrity and transparency in financial markets are essential for public and investor confidence. In light of revised Market Abuse European legislation that came into effect on 3 July 2016, ING Bank issued a new Market Abuse Policy and Minimum Standard to prevent insider dealing, unlawful disclosure of inside information and market manipulation, including benchmark manipulation. A central project was established to support ING's commitment in adhering to the revised market abuse European legislation and to create consistency throughout the organisation with respect to the roll out and implementation of the policy and minimum standard requirements.

Financial Economic Crime
The 4th AML Directive as issued by the European Union has been incorporated into the update of the FEC Policy and Minimum Standards. The main changes in this Directive (compared to the 3rd AML Directive) are related to: the establishment of an UBO register (at national level with the potential to share the information within the European Economic Area (EEA)) and a stronger approach towards the application of Due Diligence on ING's customers. The final translation of the 4th AML Directive into the laws and regulations of the EU member states is foreseen in Q2/2017. Various global programs have started in 2016 to enhance the Know Your Client process and the risk assessment of the clients' files, as well as strengthening the requirements and activities relating to Client Activity Monitoring.

Regulator relationships
The Bank Compliance Risk Management function continued its policy of investing in pro-active relationship building with regulators in the jurisdictions where ING Bank operates, by striving for cooperation in identifying and mitigating compliance risks for ING Bank as well as seeking to contribute to the regulatory debate going forward.

Review processes for setting benchmark rates
ING Bank has reviewed its internal processes for contributing to setting various benchmark rates. Possible irregularities have been investigated and remedial actions have been taken. ING Bank is cooperating with information requests and/or investigations of regulators and other authorities concerning ING Bank's contribution to setting various benchmark rates. It is at this moment not possible to assess whether ING Bank will be subject to monetary or other penalties, or the amount and nature thereof if they should arise.

Non-Financial Risk Awareness

Promoting Integrity Programme
The Promoting Integrity Programme was started in 2010 and is an innovative programme consisting of e-learning modules on key bank-wide topics that can be followed-up with dialogue sessions in which managers discuss the issues raised with their teams. The programme is sponsored by board members and senior managers and is created to ensure that every employee in every part of ING Bank understands how their actions and behaviour can help earn and retain customer and stakeholder trust. The modules consist of several case studies and real life examples which require staff to think about various aspects of the issue. In 2016 Cybersecurity was addressed, with a closer look at CxO fraud, the risks of malicious apps, innovation and vulnerability to cybercrime, how to secure our assets (including responsible disclosure) and identity theft.

Learning
An e-learning module for all ING Bank employees was launched to raise awareness of Market Abuse and its consequences, addressing new and stricter legislation that took effect in July 2016. It aimed at increasing knowledge of ING standards, regulatory obligations and market practice to prevent it, looking at aspects, such as insider dealing, unlawful disclosure of inside information, market manipulation and how to guard against them. Also understanding the human element involved to remain alert and maintain high standards of integrity and adhering to the Orange Code values.

Global education and awareness in the form of e-learning modules, awareness sessions and material was provided on topics such as Fraud and Security, Conflicts of Interest, Financial Economic Crime (FEC) and an ORM Onboarding e-learning for staff new to Operational Risk Management worldwide. Similar to what was developed earlier for Compliance Risk Management, an ORM curriculum and learning path was launched in the ING Learning Centre that gives staff in Operational Risk Management worldwide an overview of available ORM and other relevant training, including recommended external trainings. For staff in the Netherlands an Insiders e-learning was developed. Furthermore, there were end of year campaigns for anti-bribery and anti-corruption to strengthen awareness.

Classroom sessions were delivered on general non-financial risk awareness for all lines of defence in the Netherlands and in other countries. This included training in introduction programmes for new staff and talent programmes. The international Training on Operational Risk was held for staff in ING Bank worldwide who are new to the ORM function. Compliance Risk Management held its mandatory international Compliance Officer Training programme for all new Compliance Officers in ING Bank worldwide and also held an advanced Compliance Officer Training for senior compliance officers in ING Bank worldwide. For Compliance and ORM staff, there were classroom trainings on Risk Assessment and Monitoring. Classroom trainings and workshops were held for risk officers involved in the areas of Information Risk and Business Continuity Risk to update and align these communities with regard to models, toolkits, internal standards and procedures.

In addition, regular global calls and webcasts were organised on various subjects to provide advice and clarification to non-financial risk staff and provide the opportunity to ask questions.

Business Risk

Introduction
Business Risk for ING Bank has been defined as the exposure to value loss due to fluctuations in volumes/margins, expenses as well as the impact of customer behaviour risk. It is the risk inherent to strategy decisions and internal efficiency. The calculation of business risk capital is done by calculation of two components that are combined to one business risk figure via the variance-covariance methodology:

1. Expense risk covers the risk that expenses will deviate from the expected expenses over the horizon of the relevant activities. This risk primarily relates to the (in)flexibility to adjust expenses, when that is needed. Expense risk only concerns non-financial expenses (e.g. staff and IT expenses); financial expenses are not in scope; and
2. Customer behaviour risk relates to clients behaving differently than expected and the effect that this behaviour can have on customer deposits and mortgage pre-payments. The customer behaviour risk is calculated by stressing the underlying assumptions in the models for behavioural assets and liabilities.

Governance and risk management
The governance and management of Business Risk differs from the risk types that have been described in the sections before. ING Bank has not developed explicit risk appetite statements regarding business risk nor has it set up a department that is responsible for managing this risk. The main reason is that the underlying risk types (expense risk, volume-margin risk, and customer behaviour risk) are mitigated and managed in a different way. Expense risk is monitored and managed via the financial performance of the bank and the local units, whereby the reported expense numbers are compared on a quarterly basis with the 2020 Ambition of having a cost/income ratio between 50% and 53%. Deviations from this ambition are monitored as part of the financial projections that are discussed continuously within different parts of the organisation. For customer behaviour risk, the management and monitoring of this risk is part of the day-to-day business of the Balance Sheet Risk department. As of January 2017, customer behaviour risk will be reported under market risk economic capital. For a more extensive explanation of the risk management practices for customer behaviour risk, please refer to the 'Market Risk in Banking Books' section.

Capital management

Objectives
ING Group Capital Management (Capital Management) is responsible for the adequate capitalisation of ING Group and ING Bank entities at all times in order to manage the risk associated with ING's business activities. This involves not only the management, planning and allocation of capital within ING Group and ING Bank, but also the necessary capital market transactions, term (capital) funding and risk management transactions. ING takes an integrated approach to assess the adequacy of its capital position in relation to its risk profile and its operating environment. This implies taking into account the interests of its various stakeholders. Capital Management takes into account the metrics and requirements of regulators, rating agencies and internal risk based metrics such as the Risk Appetite Framework.

ING applies the following main capital definitions:
- Common equity Tier 1 capital, Tier 1 capital and Total capital – Tier 1 capital is defined as shareholders' equity plus Additional Tier 1 (hybrid) capital less regulatory adjustments. Common equity Tier 1, Tier 1 and Total capital divided by risk-weighted assets equal the Common equity Tier 1, Tier 1 and Total capital ratios respectively. Common equity Tier 1 capital is equal to Tier 1 capital excluding Additional Tier 1 (hybrid) capital;
- Common equity Tier 1 Risk Appetite – the solvency risk appetite statement is not only compared to the actual reported level, but also includes the potential impact of a standardised and pre-determined 1-in-10-year stress event (i.e. at a 90% confidence level with a 1-year horizon) as described in the Risk Management section;
- Overall Capital Requirement (OCR). The OCR means that ING's own funds exceeds the sum of the total SREP capital requirement (wherein per risk type the maximum is taken of Regulatory and Economic Capital requirements), capital buffer requirements and macro-prudential requirements.

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

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

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

The transitional (phased-in) common equity Tier 1 requirement that ING Group had to meet on a consolidated basis in 2016 was set at 10.25%. This requirement is the sum of (i) 9.5% being the ECB's decision on the 2015 Supervisory Review and Evaluation Process (SREP), including the capital conservation buffer, and (ii) 0.75% for the Systemic Risk Buffer (SRB) which has been set separately for Dutch systemic banks by the Dutch Central Bank. The fully-loaded SRB requirement is currently set at 3% for ING Group and phases in over four years, with a final implementation date of 1 January 2019. The impact from countercyclical buffer requirements was insignificant at the start of 2016.

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

ING Bank continues to maintain a strong and high quality capital level, with a fully-loaded common equity Tier 1 ratio and a phased-in common equity Tier-1 ratio of 12.6%, thereby complying with CRR/CRD IV solvency requirements. Dividend from ING Bank to ING Group of EUR 1.3 billion was paid in November 2016. The fourth quarter 2016 profit of EUR 0.6 billion is not included in the regulatory capital per December 2016 as this was upstreamed as dividend to ING Group in February 2017. The sale of 2.5% of Kotak Mahindra Bank shares, which was settled in October 2016, had no material impact on ING's capital ratios. The fully loaded and phased in Tier 1 ratios respectively increased from 13.9% to 14.7% and 13.4% to 14.4%, primarily reflecting developments in ING Bank's common equity Tier 1 ratio. This was partly offset by the redemption of the USD 800 million 7.05% grandfathered Perpetual Debt Securities in September. In April 2016, ING Bank issued EUR 1 billion of Tier 2 bonds with an issuer substitution option through exchange. Now that clarity has been provided on the preferred resolution strategy, ING intends to use the option to replace these ING Bank Tier 2 notes with ING Group Tier 2 notes at similar terms through exchange. The noteholders have agreed upfront to the terms and conditions to exchange their ING Bank Tier 2 notes for ING Group Tier 2. ING Bank's fully-loaded Tier 1 ratio (including grandfathered securities) was 14.7% at the end of 2016, while the total capital ratio (including grandfathered securities) increased to 17.8%.

Dividend
A dividend from ING Bank to ING Group of EUR 1.3 billion was paid in November 2016. The fourth quarter 2016 profit of EUR 0.6 billion was upstreamed as dividend to ING Group in February 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
In addition to measure capital adequacy, Capital Management also ensures that sufficient capital is available through setting targets and limits relevant to the above mentioned metrics for ING Group and ING Bank and ensuring adherence to the set limits and targets through planning and executing capital management transactions. The ongoing assessment and monitoring of capital adequacy is embedded in Capital Management's capital planning process. Following the annual budgeting process, each year a capital plan is prepared for the Group as a whole and each of its material businesses. This plan is updated on a quarterly basis and it is assessed to what extent additional management actions are required. At all times maintaining sufficient financial flexibility should be preserved to meet important financial objectives. At the foundation of the capital plan are ING's risk appetite statements that determine target setting. These constraints are being cascaded to the different businesses in line with our risk management strategy.

Important inputs to the capital planning and management process are provided by stress testing that is performed on a regular basis. These stress tests focus on topical issues and the sensitivity of the Group's capital position to certain risks. These analyses provide input that help to steer strategic direction. Setting policies for recovery planning and resolution are a natural extension of ING's capital management policies and follow ING's risk management framework seamlessly.

ING Bank NV capital position according to CRR/CRD IV

	(fully-loaded)		(phased-in)	
	2016	2015	2016	2015
Shareholders' equity	43,540	40,857	43,540	40,857
Interim profit not included in CET1 capital[1]	–617	0	–617	0
Other adjustments	–3,548	–4,022	–3,661	–4,103
Regulatory adjustments	–4,165	–4,022	–4,278	–4,103
Available common equity Tier 1 capital	**39,375**	**36,834**	**39,262**	**36,753**
Additional Tier 1 securities[2]	6,496	7,248	6,496	7,248
Regulatory adjustments additional Tier 1	0	0	–798	–1,281
Available Tier 1 capital	**45,871**	**44,083**	**44,960**	**42,721**
Supplementary capital Tier 2 bonds[3]	9,488	8,570	9,488	8,570
Regulatory adjustments Tier 2	109	102	–86	–239
Available Total capital	**55,467**	**52,754**	**54,362**	**51,052**
Risk weighted assets	312,086	318,202	312,086	318,202
Common equity Tier 1 ratio	12.62%	11.58%	12.58%	11.55%
Tier 1 ratio	14.70%	13.85%	14.41%	13.43%
Total capital ratio	17.77%	16.58%	17.42%	16.04%

1 The interim profit of the fourth quarter 2016 has not been included in CET1 capita as of 31 December 2016.
2 Of which EUR 3,542 million (2015: EUR 3,531 million) is CRR/CRD IV compliant and EUR 2,954 million (2015: EUR 3,718 million) to be replaced as capital recognition subject to CRR/CRDIV grandfathering rules.
3 Of which EUR 7,347 million (2015: EUR 6,229 million) is CRR/CRD IV-compliant and EUR 2,141 million (2015-: EUR 2,341 million) to be replaced as capital recognition is subject to CRR/CRD IV grandfathering rules.

Regulatory requirements

Capital adequacy and the use of regulatory required capital are based on the guidelines developed by the Basel Committee on Banking Supervision (The Basel Committee) and the European Union Directives, as implemented by the Dutch Central Bank (Dutch Central Bank until 3 November 2014, the ECB thereafter) for supervisory purposes. In 2010 the Basel Committee on Banking Supervision issued new solvency and liquidity requirements, which superseded Basel II. The minimum requirements, excluding buffers, for the common equity Tier 1 ratio is 4.5%, the minimum Tier 1 requirement is 6% and the total capital ratio) is 8% of all risk-weighted assets. Basel III requires Banks to hold a capital of at least 80% of the old Basel I requirements, which was 8% of the RWAs as calculated with the Basel I methodology. This Basel I floor has been extended until the end of 2017.

ICAAP/SREP process

On a yearly basis submits extensive documentation on the Internal Capital Adequacy Assessment Process (ICAAP) to its regulator as prescribed in the CRD IV frameworks. This documentation includes a description of ING's internal capital models, its risk appetite framework, an asset quality analysis and a capital planning, both under normal circumstances and in certain stressed scenarios. This documentation is an important input for the regulator's Supervisory Review and Evaluation Process (SREP) resulting in a letter to ING Management. The SREP is conducted by the ECB and examines on a regular basis ING's internal models and processes. The regulatory 2016 guidance indicated that the minimum capital ratios ECB considers adequate for ING Group and ING Bank sufficiently covered by ING's own capital standards.

Ratings

Main credit ratings of ING at 31 December 2016

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

ING's key credit ratings and outlook are shown in the table above. Each of these ratings reflects only the view of the applicable rating agency at the time the rating was issued, and any explanation of the significance of a rating may be obtained only from the rating agency.

A security rating is not a recommendation to buy, sell or hold securities and each rating should be evaluated independently of any other rating. There is no assurance that any credit rating will remain in effect for any given period of time or that a rating will not be lowered, suspended or withdrawn entirely by the rating agency if, in the rating agency's judgment, circumstances so warrant. ING accepts no responsibility for the accuracy or reliability of the ratings.

Authorisation of Consolidated annual accounts

Amsterdam, 13 March 2017

The Supervisory Board

J. (Jeroen) van der Veer, *chairman*
H.J.M. (Hermann-Josef) Lamberti, *vice-chairman*
E.F.C.B. (Eric) Boyer de la Giroday
H.W. (Henk) Breukink
I. (Isabel) Martín Castellá
M. (Mariana) Gheorghe
R.W.P. (Robert) Reibestein
A.C. (Ann) Sherry

The Management Board Banking

R.A.J.G. (Ralph) Hamers, CEO, chairman of the Management Board Banking
J.V. (Koos) Timmermans, vice-chairman and head of Market Leaders
P.G. (Patrick) Flynn, CFO
W.F. (Wilfred) Nagel, CRO
R.M.M. (Roel) Louwhoff, COO
M. I. (Isabel) Fernandez Niemann, head of Wholesale Banking
A. (Aris) Bogdaneris, head of Challengers & Growth Markets

Parent company statement of financial position

as at 31 December before appropriation of result

in EUR million	2016	2015
Assets		
Cash and balances with central banks 1	9,941	12,491
Short-dated government paper 2	1,427	2,969
Loans and advances to banks 3	81,641	69,074
Loans and advances to customers[1] 4	325,872	339,062
Debt securities 5		
– available-for-sale	27,624	25,481
– held-to-maturity	5,266	4,719
– trading	10,127	12,215
Equity securities 6		
– available-for-sale	2,970	2,784
– trading	4,939	5,874
Investments in group companies 7	32,946	32,609
Investments in associates and joint ventures 8	777	652
Intangible assets 9	895	886
Equipment 10	444	463
Other assets 11	56,008	56,580
Total assets	**560,877**	**565,859**
Liabilities		
Deposits from banks 12	53,215	44,835
Customer deposits[1] 13	279,875	278,160
Debt securities in issue	101,671	120,034
Other liabilities 14	64,468	64,964
General provisions 15	1,562	620
Subordinated loans 16	16,546	16,389
Total liabilities	**517,337**	**525,002**
Equity 17		
Share capital	525	525
Share premium	16,542	16,542
Revaluation reserves	3,806	3,477
Legal and statutory reserves	1,914	2,315
Other reserves	16,650	13,470
Unappropriated result	4,103	4,528
Total equity	**43,540**	**40,857**
Total liabilities and equity	**560,877**	**565,859**

1 Loans and advances to customers and Customer deposits, as at 31 December 2015, are adjusted as a result of a change in accounting policies. Reference is made to the Accounting policies for the parent company annual accounts – Changes in accounting policies in 2016.

References relate to the accompanying notes. These form an integral part of the parent company annual accounts.

Parent company statement of profit or loss

for the years ended 31 December

in EUR million	2016	2015
Interest income	30,127	34,795
Interest expense	–24,128	–29,101
Net interest income 18	5,999	5,694
Investment income and results from participating interests 19	3,043	3,445
Commission income	1,680	1,647
Commission expense	–486	–453
Net commission income 20	1,194	1,194
Results from financial transactions 21	694	745
Other income 22	–50	–210
Total income	10,880	10,868
Staff expenses 23	2,784	2,730
Depreciation and amortisation 24	238	315
Other expenses 25	2,575	1,843
Addition to loan loss provisions 4	451	797
Impairments of participating interests		10
Reversal of impairments on participating interests		
Total expenses	6,048	5,695
Result before tax	4,832	5,173
Taxation 26	605	514
Result after tax	**4,227**	**4,659**

References relate to the accompanying notes. These form an integral part of the parent company annual accounts.

Reference is made to the accounting policies of the parent company annual accounts for information on Changes in presentation of the parent company annual accounts and related notes.

Parent company statement of changes in equity

in EUR million	Share capital	Share premium	Revaluation reserves	Legal and statutory reserves	Other reserves	Unappro-priated result	Total
Balance as at 1 January 2015	**525**	**16,542**	**3,144**	**2,343**	**12,849**	**2,661**	**38,064**
Unrealised revaluations available-for-sale investments and other revaluations			525	–227			298
Realised gains/losses transferred to the statement of profit or loss			–32	15			–17
Changes in cash flow hedge reserve			–165	–35			–200
Unrealised revaluations property in own use			2	33			35
Remeasurement of the net defined benefit asset/liability			3	61			64
Exchange rate differences and other				84			84
Total amount recognised directly in equity	**–**	**–**	**333**	**–69**			**264**
Net result				131		4,528	4,659
	–	**–**	**333**	**62**	**–**	**4,528**	**4,923**
Transfer from unappropriated results					2,661	–2,661	
Dividends					–2,200		–2,200
Employee stock options and share plans					70		70
Changes in the composition of the group and other changes				–90	90		
Balance as at 31 December 2015	**525**	**16,542**	**3,477**	**2,315**	**13,470**	**4,528**	**40,857**
Unrealised revaluations available-for-sale investments and other revaluations			310	–102			208
Realised gains/losses transferred to the statement of profit or loss			–124	–148			–272
Changes in cash flow hedge reserve			245	–143			102
Unrealised revaluations property in own use			2				2
Remeasurement of the net defined benefit asset/liability			11	–76			–65
Exchange rate differences and other				–251			–251
Total amount recognised directly in equity	**–**	**–**	**444**	**–720**	**–**	**–**	**–276**
Net result				124		4,103	4,227
	–	**–**	**444**	**–596**	**–**	**4,103**	**3,951**
Transfer from unappropriated results					4,528	–4,528	
Dividends					–1,345		–1,345
Employee stock options and share plans					72		72
Changes in the composition of the group and other changes			–115	195	–75		5
Balance as at 31 December 2016	**525**	**16,542**	**3,806**	**1,914**	**16,650**	**4,103**	**43,540**

Changes in individual components are presented in Note 17 ‘Equity’.

Accounting policies for the parent company annual accounts

for the years ended 31 December

Basis of presentation

ING Bank N.V. is a company domiciled in Amsterdam, the Netherlands and is registered at the Commercial Register of Amsterdam under number 33031431.

The parent company annual accounts of ING Bank 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 ING Bank Consolidated annual accounts, reference is made to Note 1 'Accounting policies' of the Consolidated annual accounts. Investments in group companies are accounted 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 accounting policies in 2016

Other than the change in accounting policy related to 'Offsetting of financial assets and liabilities', as described below, there were no changes in accounting policies, effective from 1 January 2016, that materially impact ING Bank N.V.

Offsetting of financial assets and financial

IAS 32 'Financial Instruments: Presentation' prescribes that a financial asset and a financial liability shall be offset when there is a legally enforceable right to set off and in addition an 'intention to settle on a net basis' simultaneously (IAS 32.42). ING has both the legally enforceable right (by contract) to set off the amounts under notional cash pooling arrangement as well as the intention to settle on a net basis. IFRS is principle based and does not prescribe how the intention to settle on a net basis is evidenced. ING applies certain practices to evidence that the requirement of 'intention to settle net' is met.

In April 2016, an Agenda Rejection Notice (ARN) was published by the IFRS Interpretations Committee (IFRIC) on balance sheet offsetting of notional Cash Pooling products. The issue in the ARN relates to the question whether certain cash pooling arrangements would meet the requirements for offsetting under IAS 32. The IFRIC provided further clarification that the transfer of balances into a netting account should occur at the period end to demonstrate an intention to settle on a net basis.

As a result of the ARN, which is applicable from 6 April 2016, ING has changed its accounting policy and therefore as a result performs physical transfers of cash balances of clients into a single netting account on a period end basis to evidence the intention to settle net. This change in accounting policy is accounted for retrospectively. Comparative amounts are adjusted accordingly with further information as set out below.

Summary of impact of changes in accounting policies

The change in the accounting policy, as described above, has no impact on the Parent company statement of profit or loss and the Parent company statement of changes in equity.

Comparative amounts in the Parent company statement of financial position are impacted in the line items Loans and advances to customers, Total assets, Customer deposits and Total liabilities. These line items increase by EUR 16,049 million as at 31 December 2015. Comparative amounts are adjusted accordingly.

Reference is made to the Parent company statement of financial position, Note 4 'Loans and advances to customers', Note 13 'Customer deposits' and Note 27 'Maturity of certain assets and liabilities'. For further information on the impact of the Change in accounting policies in 2016 on the Consolidated ING Bank annual accounts, reference is made to Note 1 'Accounting policies' – Changes in accounting policies in 2016, of the ING Bank Consolidated annual accounts.

Changes in presentation of the parent company annual accounts and related notes

Previously, ING Bank N.V. applied the option per Section 402, Book 2 of the Dutch Civil Code and presented an abbreviated statement of profit or loss. As of 2016, this option is no longer available for public interest entities, therefore ING Bank N.V. now presents a full statement of profit or loss together with the relevant note disclosures. Reference is made to the Parent company statement of profit or loss and related notes, being Notes 18 'Net interest income' up to Note 26 'Taxation'.

Parent company equity and related reserves

The total amount of equity in the parent company annual accounts equals Shareholders' equity (parent) in the consolidated annual accounts. Certain components within equity are different, as a result of the following presentation differences between the parent company accounts and consolidated accounts:

- Unrealised revaluations including those related to cash flow hedges within consolidated group companies, presented in Other reserves - Revaluation reserve in the consolidated accounts, are presented in the Share of associates and joint ventures reserve in the parent company accounts;
- Foreign currency translation on consolidated group companies, presented in Other reserves - Currency translation reserve in the consolidated accounts, is presented in the Share of associates and joint ventures reserve in the parent company accounts;
- Revaluations on investment property and certain participations recognised in income and consequently presented in Retained earnings in the consolidated accounts, is presented in the Share of associates and joint ventures reserve in the parent company accounts.

A legal reserve is carried at an amount equal to the share in the results of associates and joint ventures since their first inclusion at net asset value less the amount of profit distributions to which rights have accrued in the interim. Profit distributions which can be repatriated to the Netherlands without restriction are likewise deducted from the Share of associates and joint ventures reserve.

Notes to the parent company annual accounts

amounts in millions of euros, unless stated otherwise

Notes to the parent company statement of financial position

1 Cash and balances with central banks

Amounts held at central banks amount to EUR 9,360 million (2015: EUR 11,886 million). In 2016, the decrease in Amounts held at central banks is mainly as a result of the lowering of excess liquidity.

2 Short-dated government paper

Short-dated government paper includes international government paper amounting to EUR 1,350 million (2015: EUR 2,868 million) for the company.

3 Loans and advances to banks

Loans and advances to banks

	2016	2015
Non-subordinated receivables from:		
Group companies	30,659	17,156
Third parties	50,737	51,823
	81,396	**68,979**
Subordinated receivables from:		
Group companies	177	31
Third parties	68	64
	81,641	**69,074**

As at 31 December 2016, Loans and advances to banks includes receivables with regard to securities, which have been acquired in reverse repurchase transactions amounting to EUR 30,166 million (2015: EUR 28,311 million).

4 Loans and advances to customers

Loans and advances to customers

	2016	2015
Non-subordinated receivables from:		
ING Groep N.V.		
Group companies	49,953	54,608
Third parties[1]	275,919	284,403
	325,872	**339,011**
Subordinated receivables from:		
Group companies		51
	325,872	**339,062**

1 The comparative amounts, as at 31 December 2015, are adjusted as a result of a change in accounting policies. Total Loans and advances to customers, as at 31 December 2015, increased by EUR 16,049 million from EUR 323,013 million to EUR 339,011 million as a result of an increase in Non-subordinated loan receivables from Third parties. Reference is made to the Accounting policies of the parent company annual accounts – Changes in accounting policies in 2016.

As at 31 December 2016, assets held under finance lease contracts amount to EUR 2,555 million (2015: EUR 8 million). The increase in 2016 is due to the merger of ING Lease Italy with ING Bank N.V.

As at 31 December 2016, receivables included in Loans and advances to customers that are part of the trading portfolio amount to EUR 17,840 million (2015: EUR 19,609 million).

Loans and advances to customers includes receivables with regard to securities which have been acquired in reverse repurchase transactions amounting to EUR 17,302 million (2015: EUR 19,073 million) for the company.

5 Debt securities

Debt securities by issuer

	2016	2015
Public sector	30,909	32,720
Other	12,108	9,695
	43,017	**42,415**

Debt securities analysed by listing

	2016	2015
Listed	40,913	40,489
Unlisted	2,104	1,926
	43,017	**42,415**

Debt securities – subordinated and non-subordinated

	2016	2015
Non-subordinated debt securities issued by:		
Third parties	43,017	42,415
	43,017	**42,415**

Changes in debt securities (available-for-sale)

	2016	2015
Opening balance	25,481	25,445
Additions	11,476	9,540
Amortisation	–28	–18
Transfers and reclassifications		–848
Gains/(losses) from change in fair value	222	–315
Disposals and redemptions	–9,666	–8,761
Exchange rate differences	137	446
Other changes	2	–8
Closing balance	**27,624**	**25,481**

In 2015, included in Transfers and reclassifications is EUR –848 million related to transfers and reclassifications to Held-to-maturity investments.

As at 31 December 2016, the cost of the trading debt securities amounts to EUR 10,127 million (2015: EUR 12,215 million).

As at 31 December 2016, an amount of EUR 23,621 million (2015: EUR 22,876 million) is expected to be settled after more than one year from the balance sheet date.

Debt securities temporarily sold in repurchase transactions amounts to EUR 10,257 million as at 31 December 2016 (2015: EUR 9,502 million).

Borrowed debt securities are not recognised in the statement of financial position and amounts to nil (2015: nil) as at 31 December 2016.

6 Equity securities

Equity securities analysed by listing

	2016	2015
Listed	7,731	8,480
Unlisted	178	178
	7,909	**8,658**

Changes in equity securities (available-for-sale)

	2016	2015
Opening balance	2,784	2,269
Additions	18	28
Gains/(losses) from change in fair value	343	539
Provision for impairments	–5	–1
Disposals	–53	–51
Exchange rate differences	–92	
Other changes	–25	
Closing balance	**2,970**	**2,784**

The cost or purchase price of the shares in the trading portfolio approximates their fair value. As at 31 December 2016 the cost or purchase price of shares in the available-for-sale portfolio is EUR 2,597 million lower (2015: EUR 2,476 million lower) than the carrying amount.

7 Investments in group companies

Investments in group companies

	2016		2015	
	Interest held (%)	Statement of financial position value	Interest held (%)	Statement of financial position value
ING België N.V.	100	10,306	100%	9,817
ING Holding Deutschland GMBH	100	8,831	100%	8,382
ING Bank (Australia) Limited	100	2,557	100%	2,350
ING Financial Holdings Corporation	100	2,429	100%	2,359
ING Bank Slaski S.A.	75	1,744	75%	1,844
ING Bank A.S.	100	1,617	100%	1,685
ING Mauritius Investments I Limited	100	713	100%	1,181
ING Real Estate B.V.	100	366	100%	499
ING Australia Holdings Limited	100	1,211	100%	1,164
ING Corporate Investments B.V.	100	514	100%	500
Other (including financing companies)		2,658		2,828
		32,946		**32,609**

As at 31 December 2016, Investments in group companies includes credit institutions of EUR 17,398 million (2015: EUR 16,809 million). As at 31 December 2016 listed investments in group companies amount to EUR 1,744 million (2015: EUR 1,844 million).

Changes in investments in group companies

	2016	2015
Opening balance	32,609	32,488
Repayment of capital injection	–206	–93
Revaluations	–454	–232
Results from group companies	2,780	3,400
Dividends received	–1,670	–2,677
Capital contribution	18	203
Mergers and liquidations	–118	–765
Exchange rate differences	–118	256
Other changes	105	29
Closing balance	**32,946**	**32,609**

8 Investments in associates and joint ventures

Investments in associates and joint ventures

	2016		2015	
	Interest held (%)	Statement of financial position value	Interest held (%)	Statement of financial position value
TMB Public Company Limited	25	723	25	612
Other		54		40
		777		**652**

Changes in investments in associates and joint ventures

	2016	2015
Opening balance	652	600
Additions	13	2
Share of results	42	50
Dividends received	–17	–17
Disposals		10
Revaluations	57	–2
Exchange rate differences	26	9
Other changes	4	
Closing balance	**777**	**652**

9 Intangible assets

Changes in intangible assets

	Goodwill		Software		Other		Total	
	2016	2015	2016	2015	2016	2015	2016	2015
Opening balance	591	656	293	362	2	2	886	1,020
Additions			171	119			171	119
Disposal			–1				–1	
Depreciation			–104	–186			–104	–186
Impairments			–6	–6			–6	–6
Exchange rate differences	–82	–71					–82	–71
Changes in the composition of the group		6						6
Other changes			31	4			31	4
Closing balance	**509**	**591**	**384**	**293**	**2**	**2**	**895**	**886**

10 Equipment

Changes in equipment

	2016	2015
Opening balance	463	500
Additions	143	145
Depreciation	–134	–130
Disposals	–36	–50
Exchange rate differences	–1	1
Changes in the composition of the group		–2
Other changes	9	–1
Closing balance	**444**	**463**
Gross carrying amount as at 31 December	1,407	1,558
Accumulated depreciation as at 31 December	–963	–1,095
Net carrying value	**444**	**463**

11 Other assets

Other assets by type

	2016	2015
Derivatives	46,439	47,868
Deferred tax assets	442	363
Income tax receivables	61	
Accrued interests and rents	4,276	4,986
Other accrued assets	511	572
Pension asset	595	623
Other receivables	3,684	2,168
	56,008	**56,580**

Other receivables includes EUR 2,325 million (2015: EUR 1,101 million) related to transactions still to be settled at balance sheet date.

Derivatives includes transactions with group companies of EUR 12,980 million (2015: EUR 15,896 million).

As at 31 December 2016, an amount of EUR 273 million (2015: EUR 811 million) is expected to be settled after more than one year from the balance sheet date.

12 Deposits from banks

Deposits from banks

	2016	2015
Group companies	25,114	16,127
Third parties	28,101	28,708
	53,215	**44,835**

13 Customer deposits

Customer deposits by group companies and third parties	2016	2015
Group companies	42,663	28,148
Third parties[1]	237,212	250,012
	279,875	**278,160**

1 The comparative amounts, as at 31 December 2015, are adjusted as a result of a change in accounting policies. Total Customer deposits, as at 31 December 2015, increased by EUR 16,049 million from EUR 262,111 million to EUR 278,160 million as a result of an increase in Third parties. Reference is made to the Accounting policies of the parent company annual accounts – Changes in accounting policies in 2016.

Customer deposits by type	2016	2015
Savings accounts	120,648	117,602
Credit balances on customer accounts	87,304	94,197
Corporate deposits	59,829	55,779
Other	12,094	10,582
	279,875	**278,160**

14 Other liabilities

Other liabilities	2016	2015
Derivatives	46,898	47,678
Trading liabilities	5,270	6,666
Accrued interest	4,548	5,425
Costs payable	1,422	982
Income tax payable	51	94
Other taxation and social security contribution	44	91
Other amounts payable	6,235	4,028
	64,468	**64,964**

Other amounts payable includes EUR 4,258 million (2015: EUR 959 million) related to transactions still to be settled at balance sheet date.

Derivatives includes transactions with group companies of EUR 10,994 million (2015: EUR 12,203 million).

As at 31 December 2016, an amount of EUR 626 million (2015: EUR 265 million) is expected to be settled after more than one year from the balance sheet date.

15 General provisions

General provisions	2016	2015
Deferred tax liabilities	435	
Pension liabilities and other staff-related liabilities	9	15
Reorganisations and relocations	809	547
Other	309	58
	1,562	**620**

As at 31 December 2016, an amount of EUR 932 million (2015: EUR 404 million) is expected to be settled after more than one year from the balance sheet date.

16 Subordinated loans

Subordinated loans by group companies and third parties

	2016	2015
Group companies	6,603	7,253
Third parties	9,943	9,136
	16,546	**16,389**

Subordinated loans by type

	2016	2015
Capital debentures	9,889	8,978
Private loans	6,657	7,411
	16,546	**16,389**

The subordinated loans rank subordinated to the other liabilities in a winding-up of ING Bank.

17 Equity

Equity

	2016	2015
Share capital	525	525
Share premium	16,542	16,542
Revaluation reserves	3,806	3,477
Legal and statutory reserves	1,914	2,315
Other reserves	16,650	13,470
Unappropriated result	4,103	4,528
Total equity	**43,540**	**40,857**

Share capital

	Ordinary shares (par value EUR 1.13)			
	Number x 1,000		Amount	
	2016	2015	2016	2015
Authorised share capital	1,600,000	1,600,000	1,808	1,808
Unissued share capital	1,134,965	1,134,965	1,283	1,283
Issued share capital	**465,035**	**465,035**	**525**	**525**

No changes occurred in the issued share capital and share premium in 2016 and 2015.

Changes in revaluation reserves

2016	Property in own use reserve	Available-for-sale reserve	Cash flow hedge reserve	Net defined benefit assets/ liability remea-surement reserve	Total
Opening balance	120	2,663	600	94	3,477
Unrealised revaluations		–124			–124
Realised gains/losses transferred to the statement of profit or loss	2	310			312
Changes in cash flow hedge reserve			245		245
Change in net defined benefit assets/liability				11	11
Changes in the composition of the group and other changes	–115				–115
Closing balance	**7**	**2,849**	**845**	**105**	**3,806**

Notes to the parent company annual accounts of ING Bank N.V. - continued

Changes in revaluation reserves

2015	Property in own use reserve	Available-for-sale reserve	Cash flow hedge reserve	Net defined benefit assets/ liability remea-surement reserve	Total
Opening balance	118	2,170	765	91	3,144
Unrealised revaluations	2	525			527
Realised gains/losses transferred to the statement of profit or loss		–32			–32
Changes in cash flow hedge reserve			–165		–165
Change in net defined benefit assets/liability				3	3
Closing balance	**120**	**2,663**	**600**	**94**	**3,477**

Changes in legal and statutory reserves

2016	Share of associates and joint ventures reserve	Currency translation reserve	Statutory reserves	Capitalised software	Total
Opening balance	1,450	–516	1,201	180	2,315
Result for the year			124		124
Unrealised revaluations available-for-sale investments and other	–102				–102
Realised gains/losses transferred to the statement of profit or loss	–148				–148
Changes in cash flow hedge reserve	–143				–143
Changes in net defined benefit asset/liability remeasurement reserve	–76				–76
Exchange rate differences and other	28	–279			–251
Changes in composition of the group and other changes	89			106	195
Closing balance	**1,098**	**–795**	**1,325**	**286**	**1,914**

Changes in legal and statutory reserves

2015	Share of associates and joint ventures reserve	Currency translation reserve	Statutory reserves	Capitalised software	Total
Opening balance	1,621	–592	1,070	244	2,343
Result for the year			131		131
Unrealised revaluations available-for-sale investments and other	–227				–227
Realised gains/losses transferred to the statement of profit or loss	15				15
Changes in cash flow hedge reserve	–35				–35
Unrealised revaluations property in own use	33				33
Changes in net defined benefit asset/liability remeasurement reserve	61				61
Exchange rate differences and other	8	76			84
Changes in composition of the group and other changes	–26			–64	–90
Closing balance	**1,450**	**–516**	**1,201**	**180**	**2,315**

The Share of associates and joint ventures reserve includes the following components: Reserve for non-distributable retained earnings of associates of EUR 453 million (2015: EUR 351 million), Revaluation reserve of associates and joint ventures EUR 1,117 million (2015: EUR 1,523 million), Currency translation reserve of EUR 4 million (2015: EUR –24 million) and Net defined benefit asset/liability remeasurement reserve of EUR –476 million (2015: EUR –400 million).

The Statutory reserves include non-distributable reserves of EUR 1,325 million (2015: EUR 1,201 million) related to the former Stichting Regio Bank and the former Stichting Vakbondspaarbank SPN that cannot be freely distributed in accordance with the article 23.1 of the articles of association.

Changes in the value of hedging instruments that are designated as net investment hedges, are included in the line Exchange rate differences and other.

Changes in other reserves

2016	Retained earnings	Total
Opening balance	13,470	13,470
Transfer from unappropriated result	4,528	4,528
Dividends	–1,345	–1,345
Employee stock options and share plans	72	72
Changes in the composition of the group and other changes	–75	–75
Closing balance	**16,650**	**16,650**

Changes in other reserves

2015	Retained earnings	Total
Opening balance	12,849	12,849
Transfer from unappropriated result	2,661	2,661
Dividends	–2,200	–2,200
Employee stock options and share plans	70	70
Changes in the composition of the group and other changes	90	90
Closing balance	**13,470**	**13,470**

The reserve for cash flow hedges is included in the Share of associates and joint ventures reserve on a net basis. The Revaluation reserve, Share of associates and joint ventures reserve and Currency translation reserve cannot be freely distributed. Retained earnings can be freely distributed, except for an amount equal to the negative balance in each of the components of the Revaluation reserve , Share of associates and joint ventures reserve and the Currency translation reserve. Unrealised gains and losses on derivatives, other than those used in cash flow hedges, are presented in the statement of profit or loss and are therefore part of Retained earnings and are not included in Share of associates and joint ventures reserve.

The total amount of non-distributable reserves, in accordance with the financial reporting requirements per Part 9 of Book 2 of the Dutch Civil Code, is EUR 7,310 million (2015: EUR 6,824 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.

Notes to the parent company statement of profit or loss

18 Net interest income

Net interest income	2016	2015
Interest income on loans	9,331	12,220
Interest income on impaired loans	61	26
Negative interest on liabilities	117	32
Total interest income on loans	**9,509**	**12,278**
Interest income on available-for-sale securities	390	387
Interest income on held-to-maturity securities	28	50
Interest income on trading derivatives	14,771	16,414
Interest income on other trading portfolio	416	483
Interest income on non-trading derivatives (no hedge accounting)	637	768
Interest income on non-trading derivatives (hedge accounting)	4,230	4,334
Other interest income	146	81
Interest income	**30,127**	**34,795**
Interest expense on deposits from banks	206	313
Interest expense on customer deposits	1,443	3,888
Interest expense on debt securities	1,882	2,202
Interest expense on subordinated loans	775	815
Interest expense on trading derivatives	14,952	16,565
Interest expense on other trading liabilities	43	217
Interest expense on non-trading derivatives (no hedge accounting)	612	553
Interest expense on non-trading derivatives (hedge accounting)	3,877	4,221
Other interest expense	317	318
Negative interest on assets	21	9
Interest expense	**24,128**	**29,101**
Net interest income	**5,999**	**5,694**

19 Investment income and results from participating interests

Investment income and results from participating interests	2016	2015
Results from shares and other non-fixed income securities	220	–11
Results from group companies	2,780	3,400
Results from associates, joint ventures and other participations	43	56
	3,043	**3,445**

20 Net commission income

Fee and commission income	2016	2015
Funds transfer	698	642
Securities business	237	257
Insurance broking	35	30
Asset management fees	8	14
Brokerage and advisory fees	235	250
Other	467	454
	1,680	**1,647**

Fee and commission expenses	2016	2015
Funds transfer	256	237
Securities business	71	77
Asset management fees	5	7
Brokerage and advisory fees	35	32
Other	119	100
	486	**453**

21 Results from financial transactions

Results from financial transactions	2016	2015
Results from securities trading portfolio	43	781
Results from currency trading portfolio	–1,294	–498
Results from non-trading derivatives	1,558	10
Other	387	452
	694	**745**

22 Other income

In 2016, Other income relates to the sale of property in Spain (EUR –10 million) and the sale of non-trade loans with a loss (EUR –17 million), the remaining balance (EUR –23 million) relates to a number of individually insignificant amounts.

23 Staff expenses

Staff expenses

	2016	2015
Staff expenses		
- Salaries	1,610	1,635
- Social security costs	222	213
Pension costs and other staff related benefit costs	249	197
Other management fees	703	685
	2,784	**2,730**

Remuneration of Senior management, Management board and Supervisory board

Reference is made to Note 45 ‘Related parties’ (page 129 up to and including page 132) in the ING Bank Consolidated annual accounts.

24 Depreciation and amortisation

Depreciation and amortisation

	2016	2015
Depreciation of equipment	134	130
Amortisation of software and other intangible assets	104	185
	238	**315**

25 Other expenses

Other expenses

	2016	2015
Computer costs	451	470
Office expenses	222	229
Travel and accommodation expenses	84	80
Advertising and public relations	198	202
External advisory fees	230	167
Postal charges	25	29
Regulatory costs	427	261
Addition/(releases) of provision for reorganisations and relocations	575	109
Impairments and reversals of impairments	9	12
Other	354	284
	2,575	**1,843**

26 Taxation

Taxation by type

	2016	2015
Current taxation	324	80
Deferred taxation	281	434
	605	**514**

Additional information

27 Maturity of certain assets and liabilities

Analysis of certain assets and liabilities by maturity

2016	Less than 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Maturity not applicable	Total
Assets							
Loans and advances to banks	18,948	6,349	7,809	13,543	5,881	29,111	81,641
Loans and advances to customers	29,290	7,460	24,775	81,995	164,512	17,840	325,872
Liabilities							
Deposits from banks	22,493	1,262	2,447	13,290	1,840	11,883	53,215
Customer deposits	214,785	15,376	23,268	10,966	4,182	11,298	279,875
Debt securities in issue	2,655	11,590	13,588	41,704	21,343	10,791	101,671
Subordinated loans					9,118	7,428	16,546

Analysis of certain assets and liabilities by maturity

2015	Less than 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Maturity not applicable	Total
Assets							
Loans and advances to banks	14,349	4,677	6,847	9,869	3,758	29,574	69,074
Loans and advances to customers[1]	44,122	5,299	18,285	78,744	173,003	19,609	339,062
Liabilities							
Deposits from banks	17,232	628	2,759	10,816	1,020	12,380	44,835
Customer deposits[1]	212,338	18,899	15,556	12,413	8,342	10,612	278,160
Debt securities in issue	7,528	20,158	13,440	39,720	22,954	16,234	120,034
Subordinated loans	9				8,114	8,266	16,389

1 Loans and advances to customers and Customer deposits, as at 31 December 2015, are adjusted as a result of a changes in accounting policies. Reference is made to the Accounting policies of the parent company annual accounts – Changes in accounting policies in 2016.

28 Assets not freely disposable

Assets not freely disposable

	2016	2015
Investments	1,255	1,147
Lending	68,007	69,743
Banks	4,716	5,716
Other assets	11,647	10,515
	85,625	**87,121**

The table includes assets relating to securities lending as well as sale and repurchase transactions.

29 Contingent liabilities and other commitments

Contingent liabilities by type

	2016	2015
Guarantees	38,351	47,905
Irrevocable letters of credit	6,587	4,862
Other	308	209
Contingent debts	**45,246**	**52,976**
Irrevocable facilities	43,832	46,836
	89,078	**99,812**

Contingent debts

	2016	2015
Group companies	24,199	34,480
Third parties	21,047	18,496
	45,246	**52,976**

Irrevocable facilities

	2016	2015
Group companies	12	14
Third parties	43,820	46,822
	43,832	**46,836**

30 Other

Guarantees

ING Bank has issued guarantees as participant in collective arrangements of national banking funds and as a participant in required collective guarantee schemes. For example, ING Bank N.V. provided a guarantee to the German Deposit Guarantee Fund ('Einlagensicherundsfonds' or ESF) under section 5 (10) of the by-laws of this fund, where ING Bank 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.

ING Bank N.V. has issued statements of liabilities in connection with Section 403 Book 2 of the Dutch Civil Code and other guarantees for a number of group companies.

Fiscal unity

ING Bank N.V. forms a fiscal unity with ING Groep N.V. and several Dutch banking entities for corporation tax purposes. ING Bank N.V. and ING Groep N.V. and its banking subsidiaries that form part of the fiscal unity are jointly and severally liable for taxation payable by the fiscal unity.

31 Proposed appropriation of results

For 2016, it is proposed that the result, insofar at the disposal of the General Meeting, will be appropriated as follows. The dividend will be equal to the interim dividend already paid and the remainder of the result will be appropriated to the Other Reserves, so that no final dividend will be paid.

In November 2016 ING Bank N.V. paid a 2016 interim dividend of EUR 1,345 million, and in February 2017 a 2016 interim dividend of EUR 617 million to ING Groep N.V.

Proposed appropriation of result

	2016
Net result	4,227
Addition to reserves pursuant to Article 24 of the Articles of Association	124
Proposed to be added to the Other Reserves pursuant to Article 24 of the Articles of Association	**4,103**

Authorisation of Parent company annual accounts

Amsterdam, 13 March 2017

The Supervisory Board

J. (Jeroen) van der Veer, *chairman*
H.J.M. (Hermann-Josef) Lamberti, *vice-chairman*
E.F.C.B. (Eric) Boyer de la Giroday
H.W. (Henk) Breukink
I. (Isabel) Martín Castellá
M. (Mariana) Gheorghe
R.W.P. (Robert) Reibestein
A.C. (Ann) Sherry

The Management Board Banking

R.A.J.G. (Ralph) Hamers, CEO, chairman of the Management Board Banking
J.V. (Koos) Timmermans, vice-chairman and head of Market Leaders
P.G. (Patrick) Flynn, CFO
W.F. (Wilfred) Nagel, CRO
R.M.M. (Roel) Louwhoff, COO
M.I. (Isabel) Fernandez Niemann, head of Wholesale Banking
A. (Aris) Bogdaneris, head of Challengers & Growth Markets

Independent auditor's report

To: the Shareholder and the Supervisory Board of ING Bank N.V.

Report on the accompanying annual accounts 2016

Our opinion

In our opinion:
- the accompanying consolidated annual accounts give a true and fair view of the financial position of ING Bank N.V. ('ING Bank') as at 31 December 2016, and of its result and its cash flows for 2016 in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRS) and with Part 9 of Book 2 of the Netherlands Civil Code;
- the accompanying parent company annual accounts give a true and fair view of the financial position of ING Bank N.V. as at 31 December 2016, and of its result for 2016 in accordance with Part 9 of Book 2 of the Netherlands Civil Code.

What we have audited

We have audited the annual accounts 2016 of ING Bank N.V., based in Amsterdam. The annual accounts include the consolidated annual accounts and the parent company annual accounts.

The consolidated annual accounts comprise:
1. The consolidated statement of financial position as at 31 December 2016.
2. The following consolidated statements for 2016: the statement of profit or loss, the statements of comprehensive income, changes in equity and cash flows.
3. The notes comprising a summary of the significant accounting policies and other explanatory information.

The parent company annual accounts comprise:
1. The parent company statement of financial position as at 31 December 2016.
2. The parent company statement of profit or loss for 2016.
3. The notes comprising a summary of the accounting policies and other explanatory information.

Basis for our opinion

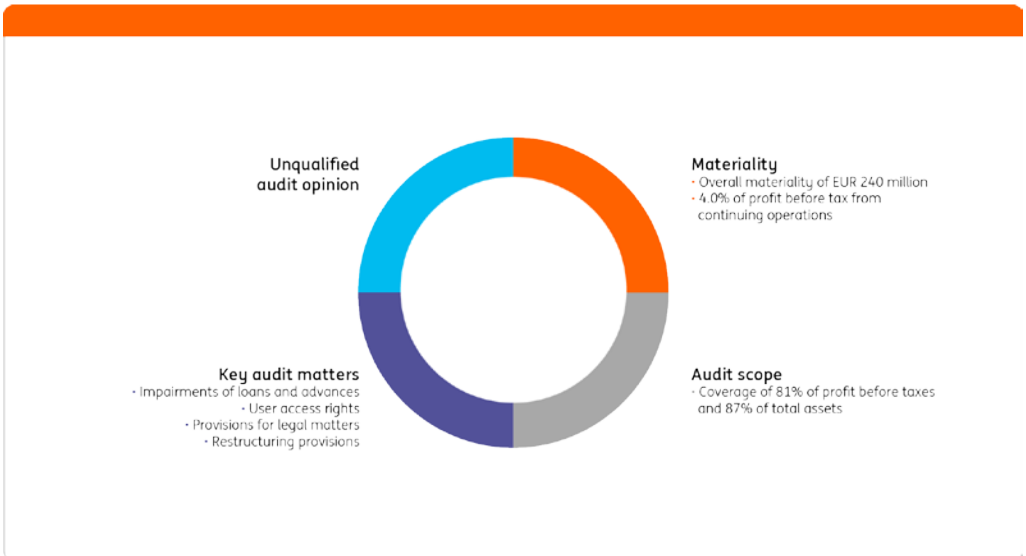
We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. Our responsibilities under those standards are further described in the section 'Our responsibilities for the audit of the annual accounts' of our report.

We are independent of ING Bank in accordance with the Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten (ViO, Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence regulations in the Netherlands. Furthermore, we have complied with the Verordening gedrags- en beroepsregels accountants (VGBA, Dutch Code of Ethics).

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Audit approach

Summary



Initial audit engagement
This year was the first year we audited the annual accounts of ING Bank. Therefore, we provide more information on how we prepared for this initial audit engagement.

From October 2015 and throughout the 31 December 2015 year-end process, we worked alongside the former auditors, attending their key meetings with ING Bank and understanding the complex or significant audit judgements which they made. Members of the audit team took the opportunity to meet with ING Bank's Management Board and key senior executives to understand the issues faced by the business, and to gather information which we required to plan our audit. We also observed the Audit Committee meetings and Risk Committee meetings of ING Bank.

In November 2015, we chaired a two-day meeting of the partners and staff of KPMG member firms who undertake audits of the most significant group entities, with the involvement of ING Bank's management. This meeting ensured that we would have a consistent approach to the audit globally, assisted in our determination of the significant risks, and provided an opportunity for those partners and staff to directly liaise with ING Bank's management.

We also reviewed the working papers of the former auditors, to help familiarise ourselves with the controls which they relied on for the purposes of issuing their opinion, the substantive audit procedures they carried out and to understand the evidence they obtained over key judgements.

Materiality
Based on our professional judgement, we determined the materiality for the annual accounts as a whole at EUR 240 million. The materiality is determined with reference to the profit before taxation from continuing operations (4.0%). We consider profit before taxation from continuing operations as the most appropriate benchmark based on our assessment of the general information needs of users of the annual accounts. We believe that profit before tax from continuing operations is a relevant metric for assessment of the financial performance of ING Bank. Given the relatively high balance sheet total and gross income, we have not used alternative benchmarks in determining materiality. We have also taken into account misstatements and/or possible misstatements that in our opinion are material for qualitative reasons for the users of the annual accounts.

We agreed with the Audit Committee of the Supervisory Board that misstatements in excess of EUR 10 million which are identified during the audit, would be reported to them, as well as smaller misstatements that in our view must be reported on qualitative grounds.

Scope of the group audit
ING Bank is the head of a group of entities and subsidiaries. The financial information of ING Bank is included in the consolidated annual accounts. ING Bank is structured in segments: Retail Netherlands, Retail Belgium, Retail Germany, Retail Other, Wholesale Banking and Corporate Line Banking covering, different countries.

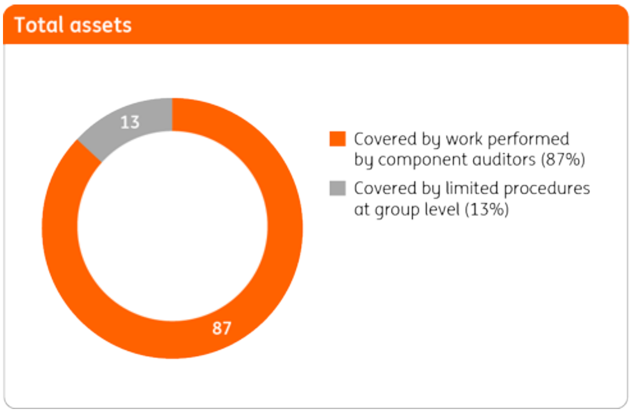
Because we are ultimately responsible for the opinion, we are responsible for directing, supervising and performing the group audit. In this respect, we have determined the nature and extent of the audit procedures to be carried out for group entities. Our group audit focused on significant group entities ('components'). These components are either individually financially significant due to their relative size compared to ING Bank 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 37 components, in total covering 14 countries. This resulted in a coverage of 81% of profit before taxes and 87% of total assets. The remaining 19% of profit before taxes and 13% of total assets results from remaining components. For these remaining components, we performed analytical procedures at the aggregated group level in order to corroborate our assessment that there are no significant risks of material misstatement within these remaining components.

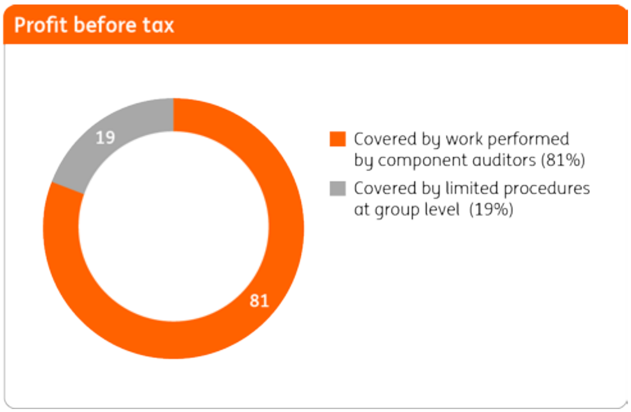
All components in scope for group reporting are audited by KPMG member firms. We sent detailed instructions to all component auditors, covering significant areas including the relevant risks of material misstatement ,and set out the information required to be reported to the group audit team. We visited component locations in the Netherlands, Belgium, Germany, Poland and the United States of America where we performed reviews of the audit files from local auditors. For all components in scope of the group audit, we held conference calls and/or physical meetings with the auditors of the components. During these visits, meetings and calls, the planning, risk assessment, procedures performed, findings and observations reported to the group auditor were discussed in more detail and any further work deemed necessary by the group audit team was then performed.

The group audit team has set component materiality levels which ranged from EUR 25 million to EUR 80 million, based on the mix of size and financial statement risk profile of the components within the group to reduce the aggregation risk to an acceptable level.

The consolidation of the group, the disclosures in the annual accounts and certain accounting topics that are performed at group level are audited by the group audit team. The accounting matters on which audit procedures are performed by the group audit team include, but are not limited to, goodwill impairment testing, equity, group financing, certain elements of the loan loss provisioning process, corporate income tax for the Dutch fiscal unity and claims and litigations.

By performing the procedures mentioned above at group entities, together with additional procedures at group level, we have been able to obtain sufficient and appropriate audit evidence about the group's financial information to provide an opinion about the annual accounts.





Our key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the annual accounts. We have communicated the key audit matters to the Audit Committee of the Supervisory Board. The key audit matters are not a comprehensive reflection of all matters discussed.

These matters were addressed in the context of our audit of the annual accounts as a whole and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Estimation uncertainty with respect to impairment losses on loans and advances to customers

Description
ING Bank's portfolio of loans and advances to customers amounts to EUR 563 billion as at 31 December 2016. These loans and advances are measured at amortised cost, less a provision for loan losses (EUR 5.2 billion). Certain aspects of the accounting for loan losses require significant judgement of management, such as the identification of loans that are deteriorating, the assessment of objective evidence for impairment, the value of collateral and the estimation of the recoverable amount.

Due to the significance of loans and advances to customers and the related estimation uncertainty, we consider the valuation of loans as a key audit matter. Refer to the 'Principles of valuation and determination of results' section in Note 1 of the Consolidated Annual Accounts and related disclosures in the 'Risk Management' paragraph.

Our response
Our audit approach included testing both the effectiveness of internal controls around determining loan loss provisions as well as substantive audit procedures.

Our procedures over internal controls focused on controls around the accuracy of loan and collateral data, the determination of risk ratings and the process for identifying arrears and the management thereof. In our audit, we also considered the process around the internal validation and implementation of the models used to determine the loan loss provisions, as well as the periodic evaluation of the parameters applied in these models. As a result of internal control deficiencies identified during the year, the internal control risk was assessed as higher and the level of substantive audit procedures increased.

We assessed collective impairment methodologies, focusing on the retail and wholesale banking portfolios due to their relative size and the potential impact of changing inputs and assumptions. With the assistance of our financial risk management specialists, we have evaluated the models, assumptions and data used by ING Bank for the collective impairment for incurred but not reported loan losses ('IBNR'), including the appropriateness of the loss emergence period as a critical factor used in these models. In addition, we have assessed the methodology and framework designed and implemented by ING Bank as to whether the collective provision model outcomes should be adjusted to better reflect the current circumstances of the portfolio performance and economic conditions.

With the assistance of our corporate finance specialists, we examined a selection of loan exposures that either continued to be, have become, or were at risk of being individually impaired. We applied professional judgement in selecting those exposures for our detailed inspection, placing an emphasis on portfolios that were potentially more sensitive to developing economic trends. For selected loan files, we challenged management's estimate of the recoverable amount, including the cash generating capacity and, where applicable, the value of realisable collateral, based on available financial information, market information and, where applicable, the analysis of alternative recovery scenarios. Additionally, we assessed whether the disclosures in the annual accounts appropriately reflect ING Bank's exposure to credit risk, specifically considering those portfolios identified in 2016 as presenting the highest risk.

Our observation
We have made recommendations to management in relation to evidencing appropriate review of risk ratings and IBNR model results in our auditor's report to ING Bank's Audit Committee of the Supervisory Board. Overall, we assess that loans and advances to customers after deduction of loan loss impairments are fairly stated and concur with the related disclosures in the annual accounts.

Risk of inappropriate access to information technology and systems

Description

ING Bank is vitally dependent on its IT infrastructure for the reliability and continuity of its operations and financial reporting. In 2016, ING Bank made significant efforts to improve IT systems and processes to increase the efficiency and effectiveness of the IT infrastructure and the reliability and continuity of the IT processing.

In particular, there was increased management attention on access rights to the applications, operating systems and databases. These are important to ensure that access and changes to applications and data are properly authorised and made in an appropriate manner. We have therefore identified the effectiveness of user access management as part of the general IT controls a key audit matter.

Our response

Our audit approach relies to a large extent on automated controls and therefore procedures are designed to test access controls over IT systems. Inappropriate access to an application or infrastructure could impact an automated control and therefore compromise financial data. The use of each application has been considered in the evaluation of each IT related deficiency. Given the IT technical characteristics of this part of the audit, we involved our IT audit specialists in all stages of the annual accounts audit (risk assessment, planning, execution and reporting).

Our IT auditors assessed the reliability and continuity of the IT environment, insofar as needed within the scope of our audit of the 2016 annual accounts. Amongst others, we assessed and tested the design and operating effectiveness of user access management controls of the IT systems relevant for financial reporting. We examined the framework of governance over ING Bank's IT organisations and the IT general controls, access to programmes and data, programme changes and IT operations, including compensating controls where those were required.

A particular area of focus related to the logical access management and segregation of duties controls. Access rights were tested to the extent relied upon for financial reporting. As a consequence of identified control weaknesses on user access management, management put additional efforts to remediate identified control deficiencies. Subsequently, we have performed additional test work over management's remediation. For those control weaknesses that were not remediated, we tested compensating controls that were not impacted by ineffective user access management controls. For certain applications, we substantively assessed the access to determine whether inappropriate access occurred and whether changes made were appropriate.

Our observation

The combination of the tests of the controls and the substantive tests performed, provided sufficient evidence to enable us to rely on the continued operation of the IT systems for the purposes of our audit. In our reporting to the Audit Committee of the Supervisory Board, we provided recommendations for further improvements to the IT controls and in particular the controls related to user access management.

Estimation uncertainty with respect to provision for legal matters

Description
The recognition and measurement of both provisions and the disclosure of contingent liabilities in respect of litigation, regulatory measures and client care remediation (hereafter: 'legal matters') require significant judgement by management. In 2016, notable developments in this area included amongst others the SME derivatives remediation programme in the Netherlands and related client care remediation and litigation.

Due to the complexity in assessing and measuring the amount from obligations resulting from legal matters, we consider this as a key audit matter. Refer to the 'Principles of valuation and determination of results' section in Note 1 on the annual accounts and related disclosures of legal proceedings in Note 41 of the annual accounts.

Our response
Our audit procedures included the assessment of controls over the identification, evaluation and measurement of potential obligations arising from legal matters. For matters identified, we considered whether an obligation exists, the appropriateness of provisioning and/or disclosure based on the facts and circumstances available.

In order to assess the facts and circumstances, we obtained and assessed underlying underwriters documentation and the relevant regulatory and litigation documents, including (external) lawyer's letters, we read minutes from relevant committees, we inquired with senior management and we interviewed ING Bank's legal counsel and, where necessary, external lawyers of ING Bank. We also assessed the assumptions made and key judgements applied by management based on our own assessment and knowledge of market information.
Additionally, we considered whether ING Bank's disclosures of the application of judgement in estimating provisions and contingent liabilities adequately reflect the uncertainties associated with legal matters.

Our observation
Overall, we conclude that the provision for claims in respect of legal matters is fairly stated and related disclosures as appropriate and concur with the nature and extent of disclosure in note 41 of the contingent liabilities for claims and litigation in the annual accounts.

Estimation uncertainty with respect to the digital transformation restructuring provisions

Description
The recognition and measurement of restructuring provisions requires significant judgement by management. This specifically relates to the restructuring provision following the publicly announced 'Accelerating Think Forward' strategy on 3 October 2016. There is significant management judgement involved in the assumptions over projected employee redundancy costs.

These assumptions are impacted by local circumstances and the estimation uncertainty of the projected costs. Due to the significance of this restructuring and the difficulty in assessing and measuring the amount from any resulting provision, we consider the measurement of the restructuring provision a key audit matter.

Refer to the 'Principles of valuation and determination of results' section in Note 1 on the annual accounts and related disclosures of reorganisation provisions in Note 14 of the annual accounts.

Our response
Our audit procedures included the assessment of controls over the identification, evaluation and measurement of potential provisions arising from restructuring programmes. For the restructuring programmes identified, we considered whether they meet the recognition criteria for a restructuring provision. Therefore, we determined whether an obligation resulting from a past event exists and tested the appropriateness of the provision estimate and the disclosure based on the facts and circumstances available. In order to assess the facts and circumstances, we obtained and assessed the relevant underlying internal and external documentation, read minutes from relevant committees, re-performed the underlying calculations and inquired with senior management.

We also assessed the assumptions made and key judgements applied by management based on detailed analysis using historical experience data from previous restructuring programmes.

We involved an actuarial specialist to verify the reasonableness of actuarial assumptions and we evaluated the consistency of measurement methodologies used. Additionally, we considered whether ING Bank's disclosures of the application of judgement in estimating provisions adequately reflect the uncertainties associated with determining the restructuring provision.

Our observation
We conclude that the provisioning for restructuring programmes are fairly stated as at 31 December 2016 and concur with the disclosures in the annual accounts, in note 14.

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 Management Board.
- Other information pursuant to Part 9 of Book 2 of the Netherlands Civil Code.
- The Report on corporate governance.

Based on the below procedures performed, we conclude that the other information:
- is consistent with the annual accounts and does not contain material misstatements;
- contains the information as required by Part 9 of Book 2 of the Netherlands Civil Code.

We read the other information. Based on our knowledge and understanding obtained through our audit of the annual accounts or otherwise, we have considered whether the other information contains material misstatements.
By performing these procedures, we comply with the requirements of Part 9 of Book 2 of the Netherlands Civil Code and the Dutch Standard 720. The scope of the procedures performed is substantially less than the scope of those performed in our audit of the annual accounts.

The Management Board is responsible for the preparation of the other information, including the report of the Management Board, in accordance with Part 9 of Book 2 of the Netherlands Civil Code and other Information pursuant to Part 9 of Book 2 of the Netherlands Civil Code.

Report on other legal and regulatory requirements

Engagement

We were engaged by resolution at the Annual General Meeting of the Shareholder as auditor of the ING Bank on 11 May 2015 for the audit of the year 2016.

Description of the responsibilities for the annual accounts

Responsibilities of the Management Board and Supervisory Board for the annual accounts

The Management Board is responsible for the preparation and fair presentation of the annual accounts in accordance with EU-IFRS and with Part 9 of Book 2 of the Netherlands Civil Code. Furthermore, the Management Board is responsible for such internal control as the Management Board determines is necessary to enable the preparation of the annual accounts that are free from material misstatement, whether due to errors or fraud.

As part of the preparation of the annual accounts, the Management Board is responsible for assessing the company's ability to continue as a going concern. Based on the financial reporting framework mentioned, the Management Board should prepare the annual accounts using the going concern basis of accounting unless the Management Board either intends to liquidate the company or to cease operations, or has no realistic alternative but to do so. The Management Board should disclose events and circumstances that may cast significant doubt on the company's ability to continue as a going concern in the annual accounts.

The Supervisory Board is responsible for overseeing the company's financial reporting process.

Our responsibilities for the audit of annual accounts

Our objective is to plan and perform the audit to obtain sufficient and appropriate audit evidence for our opinion. Our audit has been performed with a high, but not absolute, level of assurance, which means we may not have detected all material errors and fraud during the audit.

Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual accounts. The materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

For a further description of our responsibilities in respect of an audit of annual accounts, we refer to the website of the professional body for accountants in the Netherlands (NBA)
https://www.nba.nl/Documents/Tools%20Vaktechniek/Standaardpassages/Standaardpassage_nieuwe_controletekst_oob_variant_%20Engels.docx

Amstelveen, 13 March 2017

KPMG Accountants N.V.

M.A. Hogeboom RA

Articles of Association – Appropriation of results

Appropriation of results

The result is appropriated pursuant to Article 24 of the Articles of Association of ING Bank N.V., the relevant stipulations of which state that the result shall firstly be appropriated to the Stichting Regio Bank Reserve, respectively the Reserve Stichting Vakbondsspaarbank SPN or charged to that reserves in proportion to the ratio between the Stichting Regio Bank Reserve, respectively the Reserve Stichting Vakbondsspaarbank SPN and the company's equity at the end of the relevant financial year and that the remainder shall be at the disposal of the General Meeting.

Additional Pillar III information

amounts in millions of euros, unless stated otherwise

Introduction

Basis of disclosure

The information in this report relates to ING Bank N.V. and all of its subsidiaries (hereafter ING Bank). There are no differences between the scope of consolidation for prudential purposes and the scope of consolidation for accounting purposes as reported in the annual accounts in Note 1 'Accounting policies', Note 43 'Principal subsidiaries' and Note 44 'Structured entities'.

Assurance/validity

The Pillar III disclosures have been subject to the ING Bank's internal control assessments and validation mechanisms, to ensure compliance with laws and regulations. They have not been audited by ING Bank's external auditors.

The Disclosure Committee (DC), responsible for all ING Bank disclosures, assesses the accuracy of the content before reporting their conclusions to the Audit Committee (AC) who review the outcome and provide final approval. However, the ultimate authority for the preparation and disclosure of financial information is vested within the Executive Board. This process ensures that both Executive Board and Supervisory Board are given sufficient opportunity to review and challenge the Bank's financial statements and other significant disclosures before they are made public. Stand-alone reports that are not published in the annual report require management (General Manager or Head of department involved) to seek appropriate verification and validation of the information.

Regulatory framework

In 2010, the Basel III framework was adopted and consequently translated in the European Union (EU) into regulation through the Capital Requirement Regulation (CRR) and Capital Requirement Directive IV (CRD IV). The CRR is binding for all EU member states and became effective per 1 January 2014. For more information, please refer to the chapter 'Regulatory environment' in the Risk Management Paragraph.

The Basel Committee's framework is based on three pillars: the Pillar I on minimum capital requirements, which defines the rules for the calculation of credit, market and operational risk, Pillar II about Supervisory review process, which requires banks to undertake an internal capital adequacy assessment process for risks not included in Pillar I, and Pillar III on Market discipline, requiring disclosures to allow investors and other market participants to understand the risk profiles of individual banks.

ING Bank prepares the Pillar III report in accordance with the CRR and CRD IV as required by the supervisory authority. The purpose of this report is to enable market participants to assess more effectively key information relating to the bank's regulatory capital and risk exposures.

ING Bank prepares the Pillar III report in accordance with the CRR and CRD IV as required by the supervisory authority. The ING Bank's 'additional Pillar III information' report contains disclosures for Regulatory Capital requirements, Credit Risk, including counterparty credit risk, securitisations and Other Non-Credit Obligation Assets (ONCOA), Market Risk, Liquidity Risk and Non-Financial Risk disclosures. Furthermore, the report will discuss regulatory exposures and risk weighted assets, which are not included in the risk management section. Hence, the Pillar III section should be read in conjunction with the Risk Management and Capital Management sections of the annual accounts, which present a comprehensive discussion on both topics.

For the requirements related to CRR/CRD IV disclosures, a reference guide will be published on the corporate website ing.com.
http://www.ing.com/About-us/Annual-Reporting-Suite.htm

The Pillar III report is published on an annual basis as part of the ING Bank Annual Report. However, some capital requirements as laid down in Article 438 and, as well as information on risk exposure or other items prone to rapid change rapidly, are disclosed on a quarterly basis. Some ING Bank's subsidiaries publish information on capital and solvency on their websites or annual reports pursuant to local regulatory requirements.

Developments in disclosure requirements

BCBS Revised Pillar III framework (RPF)

With respect to market information disclosures, the Basel Committee on Banking Supervision (BCBS) announced in 2014 its ambition to revise and consolidate the Pillar III disclosure requirements in a two-phase programme. The revised Pillar III framework (RPF) is the result of an extensive review of Pillar III reports, in which the existing Pillar III disclosure requirements are superseded. The result applies to internationally active banks at the highest consolidated level.

Key goal is to improve comparability and consistency of disclosures by introducing harmonised templates. There are two type of templates/tables:

- Prescriptive fixed format (template) for quantitative information that is considered essential for the analysis of a bank's regulatory capital requirements, and
- Flexible format (table) for information considered meaningful to the market but not central to the analysis of a bank's regulatory capital adequacy.

The first phase of the revised Pillar III framework (RPF) was introduces in January 2015 (BCBS 309), focussing on risk management and RWA, linkages between financial statements and regulatory exposures, Credit risk, counterparty credit risk, securitisation and market risk.

In March 2016, the Basel Committee issued a consultative paper for the second phase of the RPF, which suggested:

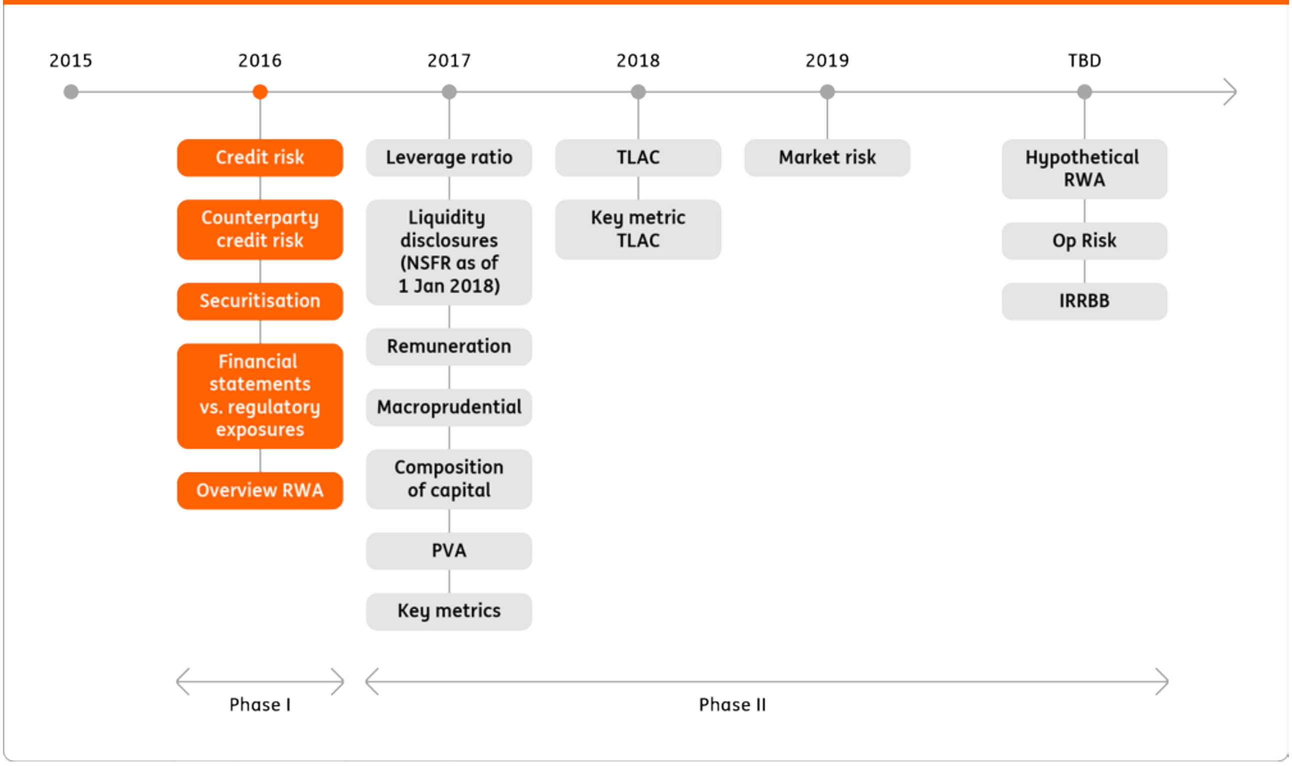
(i) further revision of the Phase I proposals, including the introduction of additional key regulatory metrics (when applicable) to a "dashboard", disclosure of 'hypothetical risk-weighted assets' calculated based on the standardised approach - to serve as a benchmark to RWA calculations using the internal ratings-based approach - and increased granularity for the disclosure of the Prudent Valuation Adjustment (PVA).

(ii) an inclusion of disclosure requirement resulting from other BCBS proposals, including addition of TLAC disclosure (via TLAC RWA and Leverage Ratio requirement and eligible instruments) to the regulatory capital disclosure requirements, revisions of operational risk disclosures to reflect the Standardised Measurement Approach (SMA), once finalised, revisions of market risk disclosures resulting from the Fundamental Review of the Trading Book (FRTB) and disclosure requirement described in the Interest Rate Risk in Banking Book (IRRBB) proposal.

(iii) the integration of other BCBS disclosure requirements into the Pillar III framework, which covers the disclosure requirements previously issued or announced by BCBS (i.e. G-SIB indicators, Countercyclical Capital Buffer, Leverage Ratio, LCR and NSFR)

The implementation date of the Phase 1 alterations is dependent on the expected finalisation of the underlying regulatory standards as displayed in the total overview of the RPF below.

BCBS revised Pillar III disclosures – overview



European Regulation

In order to be legally binding, the RPF templates needed to be transposed for European institutions into EU requirements by EBA. Therefore, in June 2016, EBA issued a consultation paper on the guidelines on the CRR disclosure requirements covering Phase I of the BCBS Revised Pillar III Framework.

Within the draft Guidelines, EBA adjusted the Revised Pillar III templates and included EU specificities, for instance in terms of exposure classes or concepts used, to fit the CRR requirements. The draft EBA guidelines should therefore be seen as specifications of the existing CRR disclosure requirements, rather than a completely new set of requirements.

Furthermore, EBA proposed to postpone the implementation date to year-end 2017, rather than year-end 2016 as proposed by BCBS. However, G-SIBs like ING Bank are required to disclose a subset composed of the amounts on risk exposures and minimum capital requirements per year-end 2016. Further, EBA explicitly refers to and makes use of COREP and FINREP to populate the fixed and variable disclosure templates to ease the implementation. As part of the review of the Pillar III framework, EBA also requests to publish a compilation of the quantitative information in an editable format/ MS Excel file.

The scope of the EBA guidelines corresponds almost fully with the first phase of the RPF, focusing on general disclosure requirements for risk management, credit risk, counterparty credit risk and market risk. The remaining requirements in Part Eight CRR are out of scope because either covered in the second phase of the BCBS Pillar III review or are covered via other regulations (Delegated Act, Implementation Technical Standards, etc.) that are already applicable.

CRR/CRD IV review
On 23 November 2016, the European Commission (EC) published proposals amending major European regulations among others the Capital Requirements Directive and Capital Requirements Regulation (CRD V and CRR II) essential to further reinforce banks' ability to withstand potential shocks.

For the disclosure requirements, the Commission proposed targeted amendments to ensure better alignment with international standards. In particular, new disclosure requirements are proposed for TLAC, counterparty credit risk, market risk and liquidity requirements. Also, a more proportionate disclosure regime has been proposed where the disclosures are adapted to the relevance of institutions with small (i.e. with assets below EUR 1.5 billion) and non-listed institutions subject to less extensive and less frequent disclosures. In the CRR II proposals, firms are classified into three categories (significant, small, and other) with a further distinction between listed and non-listed firms.

Further, the EBA is mandated to develop uniform disclosure formats to enhance comparability, and the management is required to verify and sign off on compliance with disclosure requirements and adherence to internal policies on disclosure.

Implementation
With the EBA guidelines being positioned as specifications of the existing CRR disclosure requirements, ING Bank has opted for an early implementation of the EBA templates related to regulatory capital requirements, credit risk, counterparty credit risk and market risk. This early implementation provides us an opportunity to improve the transparency of the information published in the annual Pillar III report.

The table below “disclosure index” points out where one can find the EBA templates in the annual report:

Additional Pillar III information - continued

Disclosure index EBA guidelines

Type	ID	EBA description	Pages
Capital requirements	EU OV1	Overview of RWAs	240
Credit risk and general information on CRM	EU CRB-B	Total and average net amount of exposures	261
	EU CRB-C	Geographical breakdown of exposures	262
	EU CRB-D	Concentration of exposures by industry or counterparty types	263
	EU CRB-E	Maturity of exposures	264
	EU CR1-A	Credit quality of exposures by exposure class and instrument	271
	EU CR1-B	Credit quality of exposures by industry or counterparty types	272
	EU CR1-C	Credit quality of exposures by geography	272
	EU CR1-D	Ageing of past-due exposures	275
	EU CR1-E	Non-performing and forborne exposures	274
	EU CR3	Credit risk mitigation techniques – overview	283
Credit risk and CRM in the standardised approach	EU CR4	Standardised approach – Credit risk exposure and CRM effects	269
	EU CR5	Standardised approach	270
Credit risk and CRM in the IRB approach	EU CR6	IRB approach – Credit risk exposures by exposure class and PD range	265
	EU CR9	IRB approach – Backtesting of PD per exposure class	267 – 268
CCR	EU CCR1	Analysis of CCR exposure by approach	276
	EU CCR8	Exposures to CCPs	280
	EU CCR3	Standardised approach – CCR exposures by regulatory portfolio and risk	276
	EU CCR4	IRB approach – CCR exposures by portfolio and PD scale	277
	EU CCR5-A	Impact of netting and collateral held on exposure values	279
	EU CCR5-B	Composition of collateral for exposures to CCR	279
Market risk	EU MR1	Market risk under the standardised approach	191
	EU MR2-A	Market risk under the IMA	192
	EU MR2-B	RWA flow statements of market risk exposures under an IMA	290
	EU MR3	IMA values for trading portfolios	191

Public disclosure of return on assets
The CRD IV requires ING Bank to disclose information on its return on assets. ING Bank has decided to calculate ROA based on underlying results and average assets derived from quarter-end assets to align it with the other indicators. The underlying ROA represents profit as a percentage of average total assets. In 2016, the underlying ROA was 0.59% (in 2015: 0.52%).

Capital requirement
Capital Adequacy Rules – CRR/CRD IV
The rules for required Regulatory Capital or Capital adequacy are based on the guidelines developed by the Basel Committee on Banking Supervision (The Basel Committee) and the European Union Regulation and Directives, as implemented by the European Central Bank and Dutch Central Bank for supervisory purposes.

The rules express the regulators' and legislators' opinions of how much capital a bank and other regulated credit institutions must retain in relation to the size and the type of risk taking expressed in the form of risk-weighted assets. The most important part of the capital base is the shareholders' equity. In addition to equity, the institution may issue certain liabilities such as hybrid instruments to be included in the capital base. The legal minimum requirement (excluding buffers) stipulates that the capital base must correspond to at least 8% of the Risk-Weighted Assets (RWA).

The table below presents an overview of the Minimum capital requirements and the RWA at year end 2016 per type of risk and method of calculation. The largest part of the capital requirement relates to credit risk (82%), followed by operational risk with 13%, amounts below the threshold for deduction (which relates to equity in the banking book) 3% and market risk for 2% of the capital requirements.

Additional Pillar III information - continued

EU OV1: ING Bank Regulatory capital requirements

	RWA		Minimum capital requirements
amounts in EUR million	2016	2015	2016
Credit risk (excluding counterparty credit risk) (CCR)	**239,435**	**236,412**	**19,155**
Of which standardised approach (SA)	24,731	22,368	1,978
Of which internal rating-based (IRB) approach	211,541	209,439	16,923
Of which Equity IRB under the simple risk-weight or the internal models approach	3163	4605	253
Counterparty credit risk (CCR)	**14,732**	**17,939**	**1,179**
Of which Marked to market			
Of which Original exposure			
of which standardised approach for counterparty credit risk	10,872	12,302	870
of which internal model method (IMM)			
Of which risk exposure amount for contributions to the default fund of a CCP	279	633	22
Of which CVA	3581	5004	286
Settlement risk			
Securitisation exposures in banking book (after cap)	**842**	**1904**	**67**
Of which IRB approach (RBA)	842	1904	67
Of which IRB Supervisory Formula Approach (SFA)			
Of which Internal assessment approach (IAA)			
Of which Standardised approach (SA)			
Market risk	**6,660**	**9,635**	**533**
Of which standardised approach (SA)	1,081	1,328	87
Of which internal model approaches (IMA)	5,579	8,307	446
Large exposures			
Operational risk	**40,527**	**43,137**	**3,242**
Of which Basic Indicator Approach			
Of which Standardised Approach			
Of which Advanced Measurement Approach	40,527	43,137	3,242
Amounts below the thresholds for deduction (subject to 250% risk weight)	**9,890**	**9,174**	**791**
Floor adjustment			
Total	**312,087**	**318,202**	**24,967**

The decrease in CRR/CRDIV required regulatory capital was mainly caused by decreased capital requirements for counterparty credit risk, market risk and operational risk. This decrease was partly offset by increased credit risk capital requirements following from volume growth and model changes. The CRR/CRDIV requires banks to hold own funds of at least 80% of the old Basel I requirement, which was 8% of the RWAs as calculated using the Basel I methodology. This requirement remains at least until the end of 2017.

Additional Pillar III information - continued

ING Bank Regulatory Capital flow statement

		2016		2015
	CRR/CRD IV phased-in	CRR/CRD IV fully loaded	CRR/CRD IV phased-in	CRR/CRD IV fully loaded
Common Equity Tier 1 capital				
Opening amount	36,753	36,834	33,256	33,668
Profit included in CET1 capital	2,265	2,265	2,459	2,459
Adjustment prudential filters own credit risk	23	31	-135	-129
Change in goodwill and intangibles	-279	58	-296	88
Change in revaluation reserves	732	-87	1,689	317
Change in third party interest	20	20	40	40
Change in deductions significant investments in Financial Institutions	-	-	17	41
Other	-253	254	-277	350
Closing amount	**39,262**	**39,375**	**36,753**	**36,834**
Additional Tier 1 capital				
Opening amount	5,968	7,249	3,844	5,727
Change in AT 1 instruments	-752	-752	1,521	1521
CRR/CRD IV phased-in adjustments (excl. significant investments in FIs)	482		569	
Change in deductions significant investments in Financial Institutions	0		34	
Closing amount	**5,698**	**6,496**	**5,968**	**7,249**
Tier 2 capital				
Opening amount	8,331	8,671	8,915	9,474
Change in T 2 instruments	918	918	-801	-801
CRR/CRD IV phased-in adjustments (excl. significant investments in FIs)	146		184	
Change in deductions significant investments in Financial Institutions	0		34	
Change minority interest	6.518	6.518	-1	-1
Closing amount	**9,403**	**9,597**	**8,331**	**8,671**
Total Regulatory Capital	**54,362**	**55,467**	**51,052**	**52,754**

Capital position

As at 1 January 2014, the CRR/CRD IV capital rules entered into force. According to CRR/CRD IV capital adequacy rules, the Common Equity Tier 1 ratio has to be at least 4.5%, the Tier 1 ratio at least 6% and the total capital ratio at least 8% of all risk-weighted assets.

The capital position table reflects own funds according to the CRR/CRD IV rules. As CRD IV is phased in gradually until 2019, the table shows the CRD IV positions both according to the 2019 end-state rules and the 2016 rules. This makes clear which items phase in directly, which phase in gradually.

ING Bank's capital consists of Tier 1 capital and Tier 2 capital net after deductions. Tier 1 capital consists of both Common Equity Tier 1 capital and other Tier 1 capital, also referred to as hybrid capital. Tier 2 capital consists mostly of subordinated loans.

ING Bank's phased-in (transitional) common equity Tier 1 ratio at year-end 2016 of 12.58% is well in excess of the 8.00% common equity Tier 1 requirement for ING Group in 2017. This requirement is the sum of (i) 4.5% Pillar 1 requirement (ii) 2.25% Pillar 2 requirement, being the European Central Bank's (ECB) decision on the 2016 Supervisory Review and Evaluation Process (SREP) and (iii) the 1.25% capital conservation buffer. The Systemic Risk Buffer (SRB) does not apply to ING Bank and the impact from countercyclical buffer requirements was insignificant in 2016. With a 12.62% fully-loaded Group CET1 ratio as at 31 December 2016, ING Bank is already in compliance with the current fully-loaded requirement that is expected to grow to 9.25% in 2019.

Additional Pillar III information - continued

ING Bank Capital position

	2016			2015		
	2016 rules (CRR/CRD IV phased in)	2017 rules (CRR/CRD IV phased in)	2019 rules (CRR/CRD IV fully loaded)	2015 rules (CRR/CRD IV phased in)	2016 rules (CRR/CRD IV phased in)	2019 rules (CRR/CRD IV fully loaded)
Shareholders' equity	**43,540**	**43,540**	**43,540**	**40,857**	**40,857**	**40,857**
Regulatory adjustments:						
Minority interests, counting as Common equity Tier 1	326	326	326	305	305	305
Goodwill and intangibles deducted from Tier 1[1]	-906	-1,207	-1,509	-627	-940	-1,567
Provision shortfall[2]	-583	-777	-972	-454	-681	-1,135
Revaluation reserve debt securities	-470	-235		-758	-505	
Revaluation reserve equity securities	-1,063	-531		-1,580	-1,053	
Revaluation reserve real estate	-80	-40		-196	-130	
Revaluation reserve cash flow hedge	-777	-777	-777	-675	-675	-675
Prudent valuation adjustment	-21	-21	-21	-44	-44	-44
Investments >10% FI, exceeding 10% threshold						
excess AT1 deductions over AT1						
Position in own shares	-8	-8	-8	-18	-18	-18
Prudential filters:						
Own credit risk	127	127	127	89	89	89
Defined benefit remeasurement (IAS19R)	223	148		244	184	
Net defined benefit pension fund assets	-297	-396	-495	-257	-386	-643
Deferred tax assets	-95	-127	-159	-113	-169	-282
Own credit risk adjustments to derivatives (DVA)	-36	-48	-60	-21	-32	-53
Interim profit not included in CET1 capital	-617	-617	-617			
Available capital - Common equity Tier 1	**39,262**	**39,356**	**39,375**	**36,753**	**36,801**	**36,834**
Subordinated loans qualifying as Tier 1 capital[3]	6,496	6,496	6,496	7,248	7,248	7,248
Deduction of goodwill and other intangibles[1]	-604	-302		-940	-627	
Provision shortfall[2]	-194	-97		-340	-227	
CRD-IV eligible Tier 1 Hybrids						
Investments >10% FI, exceeding 10% threshold						
Minority interests, counting as Additional Tier 1 capital						
Available capital - Tier 1	**44,960**	**45,453**	**45,871**	**42,721**	**43,195**	**44,083**
Supplementary capital - Tier 2[3]	9,488	9,488	9,488	8,570	8,570	8,570
Provision shortfall[2]	-194	-97		-340	-227	
IRB excess provision						
Investments >10 FIs, exceeding 10% threshold						
Minority interests, counting as Tier 2 capital	109	109	109	102	102	102
Available Tier 3 funds						
BIS capital	**54,362**	**54,952**	**55,467**	**51,052**	**51,640**	**52,754**
Risk-weighted assets	**312,087**	**312,087**	**312,087**	**318,202**	**318,202**	**318,202**
Common Equity Tier 1 ratio	**12.58%**	**12.61%**	**12.62%**	**11.55%**	**11.57%**	**11.58%**
Tier 1 ratio	**14.41%**	**14.56%**	**14.70%**	**13.43%**	**13.57%**	**13.85%**
Total capital ratio	**17.42%**	**17.61%**	**17.77%**	**16.04%**	**16.23%**	**16.58%**

1 Intangibles: mainly capitalised software.
2 In CRR/CRD IV the provision shortfall is deducted fully from Common Equity Tier 1. During the phase-in period (until 2017), the part of the shortfall that is not deducted from CET1 Capital is substracted 50%/50% from additional Tier 1 and Tier 2 Capital.
3 Assuming that non CRR/CRD IV eligible Tier 1 and Tier 2 capital will be replaced by CRR/CRD IV eligible equivalents before they stop to meet the CRR/CRD IV grandfathering conditions.

Own funds

The CRR requires ING Group to disclose information on own funds in a specific format that was provided in the EBA Implementation Technical Standards. The EBA templates Annex I, II and Annex VI are disclosed on the corporate website ing.com.
http://www.ing.com/About-us/Annual-Reporting-Suite.htm

Leverage ratio

The Leverage ratio is a CRR/CRD IV measure indicating the level of the Tier 1 Capital compared to the total exposure. Its aim is to assess the risk of excessive leverage of the institution. In line with the regulatory requirements, ING Bank will use the specific EBA templates as basis for the presentation of its Leverage ratio. These EBA templates reflect the Leverage ratio as calculated under the Leverage ratio Delegated Act which was introduced in October 2014. The Final Draft Implementing Technical Standards (ITS) on disclosure of the leverage ratio have been approved by the European Commission and published in the EU Official Journal early 2016. The official reporting of the Delegated Act Leverage ratio to the ECB has commenced per September 2016. The fully loaded leverage ratio of ING Bank based on the Delegated Act, and with notional cash pooling grossed is 4.2% at 31 December 2016.

Summary reconciliation of accounting assets and leverage ratio exposures

		2016 CRR/CRD IV phased in	2016 CRR/CRD IV fully loaded	2015 CRR/CRD IV phased in	2015 CRR/CRD IV fully loaded
		Applicable amounts	Applicable amounts	Applicable amounts	Applicable amounts
1	Total assets as per published financial statements	843,919	843,919	838,528	838,528
2	Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	0	0	0	0
3	(Adjustment for fiduciary assets recognised on the balance sheet pursuant to the applicable accounting framework but excluded from the leverage ratio exposure measure in accordance with Article 429(13) of Regulation (EU) No 575/2013 'CRR')	0	0	0	0
4	Adjustments for derivative financial instruments[1]	568	568	6	6
5	Adjustments for securities financing transactions 'SFTs'	3,661	3,661	15,786	15,786
6	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	71,219	71,219	68,657	68,657
EU-6a	(Adjustment for intragroup exposures excluded from the leverage ratio exposure measure in accordance with Article 429 (7) of Regulation (EU) No 575/2013)	0	0	0	0
EU-6b	(Adjustment for exposures excluded from the leverage ratio exposure measure in accordance with Article 429 (14) of Regulation (EU) No 575/2013)	0	0	0	0
7	Other adjustments[1]	172,317	173,228	146,708	148,102
8	**Total leverage ratio exposure**	**1,091,685**	**1,092,596**	**1,069,686**	**1,071,079**

1 The adjustment for Receivables for cash variation margin provided in derivatives transactions has been included in the line Other adjustments.

Additional Pillar III information - continued

Bank leverage ratio common disclosure

		2016 CRR/CRD IV phased in CRR leverage ratio exposures	2016 CRR/CRD IV fully loaded CRR leverage ratio exposures	2015 CRR/CRD IV phased in CRR leverage ratio exposures	2016 CRR/CRD IV fully loaded CRR leverage ratio exposures
On-balance sheet exposures (excluding derivatives and SFTs)					
1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	929,000	929,000	895,069	895,069
2	(Asset amounts deducted in determining Tier 1 capital)	-4,785	-3,874	-5,757	-4,364
3	**Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets) (sum of lines 1 and 2)**	**924,215**	**925,126**	**889,312**	**890,705**
Derivative exposures					
4	Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin)	11,726	11,726	13,439	13,439
5	Add-on amounts for PFE associated with all derivatives transactions (mark-to-market method)	27,042	27,042	25,590	25,590
EU-5a	Exposure determined under Original Exposure Method				
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the applicable accounting framework				
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	-10,579	-10,579	-11,800	-11,800
8	(Exempted CCP leg of client-cleared trade exposures)	0	0	-156.1	-156
9	Adjusted effective notional amount of written credit derivatives	15,656	15,656	15,606	15,606
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	-13,316	-13,316	-12,245	-12,245
11	**Total derivative exposures (sum of lines 4 to 10)**	**30,529**	**30,529**	**30,433**	**30,433**
Securities financing transaction exposures					
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	81,569	81,569	88,067	88,067
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	-19,509	-19,509	-22,569	-22,569
14	Counterparty credit risk exposure for SFT assets	3,661	3,661	15,786	15,786
EU-14a	Derogation for SFTs: Counterparty credit risk exposure in accordance with Article 429b (4) and 222 of Regulation (EU) No 575/2013				
15	Agent transaction exposures				
EU-15a	(Exempted CCP leg of client-cleared SFT exposure)				
16	**Total securities financing transaction exposures (sum of lines 12 to 15a)**	**65,722**	**65,722**	**81,283**	**81,283**
Other off-balance sheet exposures					
17	Off-balance sheet exposures at gross notional amount	217,538	217,538	210,420	210,420
18	(Adjustments for conversion to credit equivalent amounts)	-146,320	-146,320	-141,762	-141,762
19	**Other off-balance sheet exposures (sum of lines 17 to 18)**	**71,219**	**71,219**	**68,657**	**68,657**
Exempted exposures in accordance with CRR Article 429 (7) and (14) (on and off balance sheet)					
EU-19a	(Exemption of intragroup exposures (solo basis) in accordance with Article 429(7) of Regulation (EU) No 575/2013 (on and off balance sheet))				
EU-19b	(Exposures exempted in accordance with Article 429 (14) of Regulation (EU) No 575/2013 (on and off balance sheet))				
Capital and total exposures					
20	Tier 1 capital[1]	44,960	45,871	42,721	44,083
21	**Total leverage ratio exposures (sum of lines 3, 11, 16, 19, EU-19a and EU-19b)**	**1,091,685**	**1,092,596**	**1,069,686**	**1,071,079**
Leverage ratio					
22	**Leverage ratio**	**4.1%**	**4.2%**	**4.0%**	**4.1%**
Choice on transitional arrangements and amount of derecognised fiduciary items					
EU-23	Choice on transitional arrangements for the definition of the capital measure	Transitional	Fully phased in	Transitional	Fully phased in
EU-24	Amount of derecognised fiduciary items in accordance with Article 429(11) of Regulation (EU) NO 575/2013				

1 Please note that Tier 1 Capital per December 2016 includes grandfathered hybrids to an amount of EUR 2,954 million (2015: EUR 3,718 million)

Disclosure on qualitative items		
1	Description of the processes used to manage the risk of excessive leverage	ING follows the leverage ratio on a monthly basis and takes it into account when taking certain securitisation and/or Tier 1 issuance decisions.
2	Description of the factors that had an impact on the leverage ratio during the period to which the disclosed leverage ratio refers	The leverage ratio improved as ING Bank's fully-loaded Tier 1 capital increased 4% (5% on a phased-in basis), while the Leverage exposure measure increased slightly (2%).

Economic and Regulatory Capital

EC and Regulatory Capital (RC) are the main sources of capital allocation within ING Bank. Both of these capital metrics are used to determine the amount of capital that a transaction or business unit requires to support the economic and regulatory-based risks it faces. The concept of EC differs from RC in the sense that RC is the mandatory amount of capital that is defined under Pillar I while EC is the best estimate of Pillar II capital that ING Bank uses internally to manage its own risk. EC is a non-accounting measure that is inherently subject to dynamic changes and updated as a result of ING Bank's portfolio mix and general market developments. ING Bank continuously recalibrates the underlying assumptions behind its economic capital model which may have an impact on the values of EC going forward.

EC is defined as the amount of capital that a transaction or business unit requires in order to support the economic risks it takes. In general, EC is measured as the unexpected loss above the expected loss at a given confidence level. This economic capital definition is in line with the net market value (or surplus) definition. The EC calculation is used as part of the CRR/CRD IV Pillar II Internal Capital Adequacy Assessment Process (ICAAP) and the Supervisory Review and Evaluation Process (SREP) that is performed regularly by the supervisor.

The following fundamental principles and definitions have been established for the model:
- ING Bank uses a one-sided confidence level of 99.95% and a one-year time horizon to calculate EC;
- It is assumed that all currently known measurable sources of risk are included;
- The best estimate risk assumptions are as objective as possible and based on proper analysis of statistical data.;
- The EC calculation is based on fair value principles. Where complete and efficient markets exist, fair value is equal to market value;
- The EC calculations reflect known embedded options and the influence of customer behaviour in banking products;
- The EC calculations are on a before tax basis and do not consider the effect of regulatory accounting and solvency requirements on capital levels; and
- The framework does not include any franchise value of the business, discretionary management intervention or future business volumes and margins.

Specific measurement by risk type is described in greater detail in the separate risk type sections.

The tables below provide ING Bank's EC and RC by risk type and business line. For 2016, both the total RC and EC decreased compared to 2015. Both are well below the total amounts of available capital of EUR 53,646 million based on CRR/CRD IV phased-in rules. Details regarding the available capital can be found in the table "ING Group Regulatory Capital flow statement".

Economic and Regulatory Capital by risk type				
	Economic capital		Regulatory capital	
	2016	2015	2016	2015
Credit risk	18,820	20,057	21,192	21,234
Market risk	7,965	8,581	533	771
Business risk	3,160	2,571		
Operational risk	4,465	4,748	3,242	3,451
Total banking operations	**34,410**	**35,957**	**24,967**	**25,456**

Economic and Regulatory Capital by business line combination

	Economic capital		Regulatory capital	
	2016	2015	2016	2015
Wholesale Banking	11,937	12,127	12,305	12,195
Retail Benelux	8,642	9,237	6,663	7,159
Retail Challengers & Growth Markets	10,620	10,729	5,820	5,886
Corporate Line[1]	3,210	3,864	179	216
Total banking operations	**34,410**	**35,957**	**24,967**	**25,456**

1 Corporate Line includes funding activities at ING Bank level, internal transactions between business units and the Corporate Line.

The main changes in and differences between ING Bank's economic capital and regulatory capital are:
- The capital adequacy assessment in this section disregards any inter-risk diversification in the EC calculation, in accordance with the final EBA guidelines on common procedures and methodologies for the SREP. However, ING Bank is of the opinion that applying diversification across different risk types reflects economic reality. In case diversification was taken into account, the total EC would decrease with EUR 5.6 billion to EUR 28.8 billion. Note that for RC diversification was never taken into account;
- Apart from the below described risk specific differences, the EC numbers are based on a 99.95% confidence level, while the confidence level is 99.9% for RC. The EC figures include business risk, while there is no business risk defined for RC;
- The credit risk EC methodology includes internally calibrated asset correlations and excludes conservative floors otherwise present in the credit risk RC calculations. Furthermore, credit risk EC includes transfer risk while RC does not. Economic capital for credit risk decreased in 2016, mainly due to a credit quality improvement, besides a decrease of credit valuation adjustment (CVA) exposure and Other Non-Credit Obligation Assets (ONCOA).
- The market risk EC is higher than the RC primarily due to the inclusion of the interest rate risk in the banking books and the equity stakes in EC. In RC, only market risk in trading books and FX risk of the banking book are in scope. Furthermore, for Equity Investments the EC figures are reported under market risk, while the RC figures are reported under credit risk. During 2016, market risk economic capital decreased mainly caused by the sale of shares in Kotak Mahindra Bank and lower volatility in the time period used in the Historical Value-at-risk calculation for foreign exchange positions.
- For operational risk, the EC calculations are done using the same methodology as for RC apart from the application of a 99.95% confidence level.

EC and RC do not cover liquidity risk: the risk that ING Bank or one of its subsidiaries cannot meet its financial liabilities, at reasonable cost and in a timely manner, when they come due. ING Bank has a separate liquidity management framework in place to manage this risk, which is described in the 'funding and liquidity risk' section of the Risk Management section part of the Annual Accounts.

Credit Risk

Basis and scope of presentation

In the credit risk section of Pillar III, data included in tables are related to ING Bank's credit risk resulting from Lending (both on- and off-balance); Securities Financing, Derivatives (collectively Counterparty Credit Risk); Money Market activities, and Investment Risks. Compared to the Pillar III section of 2015, new templates have been added in accordance with EBA Pillar III disclosure requirements. A separate section for counterparty risk has been added.

The amounts presented in this section relate to amounts used for Credit Risk Management purposes, which follow ING Bank's internal interpretation of the definitions as prescribed under CRR/CRD IV. Therefore, the numbers can be different from the accounting numbers as reported in the annual accounts under IFRS-EU. An example is the treatment of ONCOA (Other Non-Credit Obligation Assets) items – while the accounting numbers include ONCOA, they are excluded from the credit risk section of Pillar III.

Unless stated otherwise, the tables included in this section are based on the measurement of Regulatory Exposure at Default (READ) and Credit Risk Weighted Assets (RWA) under the CRR/CRD IV definitions. READ is the sum of the on-balance and off-balance sheet: Lending, Investment, Money Market and Counterparty activities plus an estimated portion of the unused credit facilities extended to the obligor. The amounts associated with Investment and Lending activities are based on the original amount invested less repayments. Multiplying RWA by 8% will result in the level of Regulatory Capital (RC) for these portfolios (for the Credit Risk portion of the activities). This excludes all additional buffers. Figures for Derivatives and Securities Financing are based on the current exposure method, which generally is equal to the marked-to-market value of the underlying trades plus a (regulatory defined) 'add-on' which represents estimated potential future exposure(PFE). The amounts are then further modified by an adjustment that is related to the underlying collateral (market) values (after a haircut is applied) and any legal netting or compensation that may be permitted under various master agreement arrangements such as International Swaps and Derivatives Association (ISDA master agreements and Credit Support Annexes (CSAs).

Off-balance sheet exposures include letters of credit and guarantees, which are associated with the Lending Risk category. Additionally, off-balance sheet exposures include a portion of the unused limits, which is the unused portion of the limit between the moment of measurement and the theoretical moment of statistical default. Collectively, these amounts are called ‘Credit Risk outstandings’.

Exposures associated with Securitisations (Asset Backed Financing, Commercial / Residential Mortgage Backed Securities) are shown separately because of their specific treatment. These amounts also relate to the amount invested prior to any impairment activity or mark-to-market adjustments. These amounts are also considered to be ‘Credit Risk outstandings’.

Credit RWA Migration Analysis

The table below explains the changes in Credit RWA during the reporting period and provides additional information by linking the impact of changes in portfolio composition, model changes and shifts in the risk environment on Credit RWA. The table reconciles movements in Credit RWA for the period for each Credit RWA risk type of ING Bank for the SA and AIRB portfolio including securitisations excluding equity and ONCOA. It does not include counterparty credit risk exposures under the Internal Model Method, because ING Bank does not have these exposures.

Flow statement for Credit RWA

in EUR billion	2016	2015
Opening amount	231.6	226.7
Book size[1]	9.2	7.6
Divestments/De-consolidations	-0.5	-1.5
Book quality[2]	-9.8	-8.4
Model updates[3]	13.0	5.6
Methodology and policy[4]	0.4	-2.8
Foreign exchange movements	0.1	5.5
Other	-2.3	0.4
Total Credit RWA movement excluding CVA RWA	10.1	**6.3**
CVA RWA movement	-1.4	-1.4
Total Credit RWA movement	8.7	**4.9**
Closing amount	**240.3**	**231.6**

Excluding equities and ONCOA.

1 Book size: organic changes in book size and composition (including new business and maturing loans).
2 Book quality: quality of book changes caused by experience such as underlying customer behaviour or demographics including changes to credit quality of portfolios.
3 Model updates: model implementation, change in model scope or any change to address model malfunctions including changes through model calibrations / realignments.
4 Methodology and policy: methodology changes to the calculations driven by internal changes in policy and regulatory policy changes.

Key changes

Over the year 2016, credit RWA increased by EUR 8.7 billion to EUR 240.3.

- **Book size:** The increasing book size, excluding divestments, de-consolidations and FX fluctuations, led to EUR 9.2 billion higher RWA, mainly driven by the Wholesale Banking and Challenger & Growth portfolios. The growth in Challengers & Growth portfolios was partly due to organic growth and partly due to transfer of assets from Wholesale Banking to Germany. Mortgages also witnessed a growth in Germany, Australia, Poland and Spain, contributing to the growth of the Challenger & Growth portfolio. Within Wholesale Banking growth was seen in the Structured Finance book in Asia, Switzerland and Americas and the CFIL book in UK and BeLux. The reduction in the Dutch mortgage portfolio continued over 2016 contributing to reduced book size in the Market Leaders portfolio. Increase in mortgages in BeLux was more than compensated by the reduction in the Netherlands. Several smaller movements, both increases and decreases occurred in various portfolios throughout the year.
- **Divestments/ de-consolidations:** The periodic transfer of residential mortgages from WestlandUtrecht to NN Bank as a part of overall the strategy for WestlandUtrecht continued over 2016, further reducing RWA by EUR 0.5 billion.
- **Book quality:** The book quality improved reducing RWA by EUR 9.8 billion, largely due to the Dutch mortgages portfolio. The improved economic conditions especially with respect to house prices and employment in the Netherlands, accompanied with a more efficient arrears management has led to RWA reduction of EUR 2.9 billion in the mortgage portfolio. The Real Estate book showed signs of improvement in overall risk profile, helped by return to performing status of key clients and higher collateralisation which reduced RWA by EUR 1.4 billion. Similar Improvement in risk profile was also witnessed in other Corporate portfolios which further reduced RWA by EUR 2.1 billion. However, deteriorating conditions in Poland and Turkey led to a downgrade in ING rating of these countries and subsequently to an increase of more than EUR 0.5 billion in RWA.
- **EU Equivalence:** The EU equivalence rule used to be applicable to certain countries outside the EU that had supervisory and regulatory arrangements in place that are at least equivalent to those applied in the EU. As of March 31 2016, the 0% risk weight

will only apply to sovereigns that are part of the EU. Before the EU equivalence implementation ING did not take custormer type into account. From now on, EU equivalence and the resulting exposure class and correlation will be based on the combination of country and customer type. Due to this implementation, certain banks will be treated as Corporates, rather than Institutions.

- **Model updates:** Introduction of the Single Supervisory Mechanism of the ECB has led to a change in the implementation timelines. Model updates driven by regulatory guidance increased RWA by EUR 13.0 billion. An RWA add-on for the SME portfolios in the Netherlands and Belgium was implemented through LGD model updates which increased RWA by EUR 6.1 billion. Further RWA add-ons were implemented on Belgian mortgages and SBF portfolios through model updates, which increased RWA by EUR 1.9 billion. The RWA impact of all these add-ons were taken as an ONCOA item in 2015. For the LGD models for Project Finance and ING Direct Spain mortgages risk-weight multipliers were added to make the models more conservative increasing RWA by EUR 4.0 billion and EUR 0.7 billion, respectively. Next to these model updates, the model approach for the Dutch Healthcare portfolio changed from AIRB to SA which increased RWA by EUR 1.0 billion.
- **Methodology and policy:** Some larger and smaller changes resulted in an RWA increase of EUR 0.4 billion. The EUR 1.2 billion decrease was mainly due to the change in calculation for derivatives, counterparty credit risk methodology changes and reduction of the regulatory maturity. An RWA increase of EUR 1.4 billion was due to methodology updates on SME and EU equivalence identification implemented for regulatory compliance. The biggest impact was caused by the change in calculation for derivatives, several methodology changes for counterparty credit risk, and regulatory maturity reduced the RWA by EUR 1.2 billion. Another big impact was caused by the move of the Dutch Healthcare portfolio from IRB to SA approach which increased RWA by EUR 1.0 billion. Further increase in RWA of EUR 1.4 billion was due to methodology updates on SME and EU equivalence identification implemented for regulatory compliance. All in all, these changes and multiple other smaller changes resulted in an RWA increase of EUR 0.4 billion.
- **Foreign exchange movements:** FX rates fluctuated over quarters, but over the year FX movements had a small impact increasing RWA by EUR 0.1 billion. The appreciation of the US Dollar (3.0%) against the Euro increased RWA by EUR 1.6 billion, this was offset by the depreciation of the Turkish Lira (-14,5%) and the British Pound (-13.6%) decreasing RWA by EUR 1.0 billion and EUR 0.7 billion respectively.
- **CVA RWA:** RWA attributable to CVA capital movements decreased by EUR 1.4 billion over 2016, predominantly due to change in the calculation of pre-settlement exposure and regulatory maturity.
  Other: The remaining RWA decrease of EUR 2.3 billion was the result of multiple smaller changes. Improved and on-time handling of customer rating led to a decline of EUR 1.0 billion in RWA attributed to penalty ratings. Remainder of the RWA decreases stemmed from improvements in covers and provisions allocation.

Overall, RWA management has a high priority throughout ING Bank in all aspects of our business. From product design, to pricing, to divestment decisions, RWA allocation and consumption is extensively monitored, reported, and managed at all levels of the organisation.

Credit risk approach

ING Bank uses two methods to calculate Regulatory Capital for Credit Risk within its portfolio: the Advanced Internal Rating Based (AIRB) approach and the Standardised Approach (SA). ING Bank does not use the Basel Foundation IRB Approach (FIRB) for any of its portfolios. This section is to be read in conjunction with the Risk Management paragraph of the Annual Report.

ING Bank applies the Advanced Internal Ratings Based (AIRB) approach on the majority of its significant portfolios that contain credit risk in accordance with the approvals granted by ECB and various local regulators, as required. The AIRB approach is permitted by the Regulator if there are regulatory approved rating models (PD, EAD and LGD) in place and if the (local) management understands and uses these rating models (Basel Use Test) in their credit decision making processes. However, a small portion of the portfolio remains that is subject to the Standardised Approach (SA). The majority of SA portfolios at ING Bank relate to subsidiaries where the home regulator does not have a robust AIRB framework or requirement. Depending on the regulatory landscape, ING will continue to explore opportunities to transition additional portfolios from SA to AIRB.

The AIRB and SA approaches are explained in more detail in the Credit Risk Measurement section of the Risk Management paragraph. An analysis on the AIRB and SA portfolios and accompanying tables is provided in the SA and AIRB Approach sections of Pillar III.

CRR/CRD IV introduced an additional regulatory capital charge for material increases in the credit valuation adjustment (CVA), the market price of the counterparty credit risk of derivatives. In particular, as credit spreads of ING Bank's counterparties increase, CVA will increase as well and ING Bank will incur a loss. ING Bank follows the standardised approach for calculation of the capital charge to cover CVA Risk (CVA Capital) in accordance with the CRR/CRD IV. The scope of the products and counterparties that the CVA Capital charge is applied to also follows those regulations.

ING Bank uses the AIRB and the Internal Assessment Approach (IAA) for liquidity lines provided to Asset Backed Commercial Paper programmes and this is explained in more detail in the securitisation section.

Exposure classes

The Basel Accord has developed the concept of 'Exposure Classes'. These are essentially groupings of credit risks associated with a common obligor type or product type. For the AIRB and SA, most of the exposure classes have subcategories.

- **Central Governments & Central Banks** (hereafter **Sovereigns**) include Sovereign Government entities, Central Banks, CRR/CRD IV recognized Local / Regional Authorities and Public Sector entities as well as Supranational Organisations;
- **Institutions** include Commercial Banks and non-Bank Financial Institutions;
- **Corporates** include all legal entities, that are not considered to be Governments, Institutions or Retail; and
- **Retail** includes the following classes:
  - **Retail – Secured by immovable property non-SME** (hereafter **Secured by Residential Mortgages**) includes all retail loans which are covered by residential properties
  - **Retail – Secured by immovable property SME** (included in most tables with **Other Retail**) includes all retail loans which are covered by commercial properties.
  - **Retail Other** includes all other retail credit obligations related to Retail SMEs (such as partnerships and one-man businesses) and private individuals (such as consumer loans, car loans and credit cards). Under these exposure class definitions, it is possible for a private individual to be included under both Secured by Res. Mortgage and Retail Other.

In the table below, the CRR categories for the AIRB and SA approach are given and are mapped to the ING Bank exposure classes. The CRR is the translation of the Basel Accords into the European and national regulations.

CRR exposure classes[1]	ING Bank exposure class classification
AIRB	
Central governments and central banks	Sovereigns
Institutions	Institutions
Corporates – Specialised lending	Corporates
Corporates – SME	Corporates
Corporates – Other	Corporates
Retail – Secured by immovable property SME	Other Retail
Retail – Secured by immovable property non-SME	Secured by Res. Mortgage
Retail – Other SME	Other Retail
Retail – Other non-SME	Other Retail
Securitisations	Securitisations
SA	
Central governments or central banks	Sovereigns
Regional governments or local authorities	Sovereigns
Public sector entities	Sovereigns
Multilateral development banks	Sovereigns
International organisations	Sovereigns
Institutions	Institutions
Corporates	Corporates
Retail	Other Retail
Exposures secured by mortgages on commercial immovable property	Secured by commercial real estate
Exposures secured by mortgages on residential property	Secured by residential property
Exposures in default	All [2]

1 Exposure classes not applicable to ING are not listed in the table, and not taken up on the tables in the disclosures.
2 The SA exposure class 'Exposures in default' is mapped to the ING exposure class in which the exposure would have been if it was performing.

In the tables below an overall picture is given of the ING Bank portfolio per exposure class, after which a breakdown per exposure class is given segmented by geography, industry and maturity. The segmentation on Securitisations is provided in the Securitisation chapter. Compared to the Pillar III section of 2015, new templates have been added in accordance with EBA Pillar III disclosure requirements. A separate section for counterparty risk has been added. In some tables where a separation of actual AIRB and SA exposure classes is not provided, mapping of SA exposure classes presented in above tables has been used. This approach has been followed to preserve continuity with past annual disclosures.

Credit risk exposure (based on internal exposure classes)

The table below shows the total READ and RWA for ING Bank by internal defined exposure types for both the SA and AIRB portfolio per exposure class for Lending, Investment and Money Market. Counterparty Credit Risk is included in the table.

Additional Pillar III information - continued

Model approaches per exposure class

	Sovereigns		Institutions		Corporate		Secured by Res. Mortgage		Other Retail		Total 2016		Total 2015	
	READ	RWA	READ	RWA	READ	RWA	READ	RWA	READ	RWA	READ	RWA	READ	RWA
AIRB approach														
On-balance	91,045	5,215	39,386	7,082	210,673	100,281	274,321	40,809	26,494	13,455	641,918	166,841	632,066	158,568
Off-balance	8,409	206	5,021	1,383	70,871	28,883	7,981	619	8,820	2,380	101,102	33,472	101,247	31,480
Securities Financing	191	5	11,265	831	2,818	310					14,275	1,146	15,741	1,503
Derivatives	2,259	272	30,384	3,424	11,207	5,486			24	11	43,874	9,192	45,094	10,415
Total AIRB	101,904	5,698	86,055	12,720	295,569	134,959	282,302	41,428	35,339	15,846	801,169	210,651	794,148	201,967
SA approach														
On-balance	2,464	2,181	2,222	484	10,853	9,084	7,775	3,412	9,618	6,673	32,931	21,834	30,460	19,824
Off-balance	0	0	11	7	1,399	1,287	83	63	2,097	1,540	3,590	2,897	3,270	2,544
Securities Financing					0	0					0	0	45	41
Derivatives			565	280	247	251			3	3	815	534	672	343
Total SA	2,464	2,181	2,797	771	12,499	10,622	7,858	3,475	11,718	8,216	37,337	25,265	34,447	22,752
SEC AIRB														
On-balance											6,097	755	6,854	1,780
Off balance											827	87	1,276	124
Total Sec IRB											6,924	842	8,130	1,904
Total Bank	**104,368**	**7,879**	**88,853**	**13,491**	**308,068**	**145,581**	**290,161**	**44,903**	**47,056**	**24,061**	**845,430**	**236,757**	**836,726**	**226,623**
CVA (SA portfolio)				13		0						14		20
CVA (AIRB portfolio)		28		2,973		565						3,567		4,985
Total CVA		**28**		**2,987**		**566**						**3,581**		**5,005**
Total Bank including CVA	**104,368**	**7,907**	**88,853**	**16,478**	**308,068**	**146,147**	**290,161**	**44,903**	**47,056**	**24,061**	**845,430**	**240,339**	**836,726**	**231,628**

Excludes equities and ONCOA.
Default Fund Contribution to Central Clearing Parties is included under exposure classes Institutions and Corporate.

The ING Bank portfolio falls for 89% under the AIRB approach and for 11% under SA in terms of RWA (excl. CVA RWA). The total portfolio increased in 2016 by EUR 8.7 billion (2015: EUR 46.4 billion) in READ and also by EUR 8.7 billion (2015: EUR 4.9 billion) in RWA. The increase in READ was mainly a result of growth witnessed in the Wholesale Banking and Challenger & Growth portfolios while RWA growth was driven by implementation of model updates apart from the portfolio growth.

Improvements in risk profile were observed in the mortgages (especially in the Netherlands), Real Estate Finance and Corporate & FI Lending portfolios. These improvements were offset by deterioration of the credit quality of some specific portfolios, notably shipping, and the direct and indirect negative effects of continued low oil and other commodity prices. Despite the imbalances in emerging economies and financial markets which continued in 2016, ING's overall risk profile improved during the year leading to decline in RWA in the banking book. FX rates fluctuated over quarters, but over the year FX movements had a small impact in READ and RWA.

However, these declines were more than compensated by the various model updates in the Netherlands and Belgium. Also, some methodology changes implemented for regulatory compliance further contributed to the RWA increase. These two in total contributed to a relatively higher increase in RWA compared to READ.

SA portfolio increase over the year was mainly due to the shift of the Dutch Healthcare portfolio from AIRB to SA approach. In addition to this development, rating downgrades for Turkey and Poland contributed to a higher increase in RWA compared to READ since these two countries form majority of the SA portfolio.

Additional Pillar III information - continued

Sovereigns credit risk disclosure

The table below presents the READ and RWA (excl. CVA RWA), segmented by relevant factors for the exposure class ‘Sovereigns’. The figures per geography for each exposure class are based on the country of residence of the obligor.

Sovereigns – credit risk disclosure in READ and RWA

		READ			RWA		
		2016	2015	Change in %	2016	2015	Change in %
Sovereigns	**Total per rating**	104,368	117,789	-11%	7,879	8,297	-5%
	Performing	104,368	117,771	-11%	7,879	8,229	-4%
	Non-performing	0	18	-100%	0	68	-100%
			0			0	
Sovereigns	**Geography/business units**	104,368	117,789	-11%	7,879	8,297	-5%
	Africa	560	313	79%	58	180	-67%
	America	5,159	3,490	48%	586	18	3092%
	Asia	4,242	6,868	-38%	327	428	-23%
	Australia	2,679	3,061	-12%	166	0	0%
	Europe	91,729	104,057	-12%	6,741	7,671	-12%
			0			0	
Sovereigns	**Europe**	91,729	104,057	-12%	6,741	7,671	-12%
	Netherlands	17,590	25,205	-30%	233	224	4%
	Belgium	14,658	14,691	0%	158	147	8%
	Germany	22,889	24,364	-6%	0	64	-100%
	Other Europe	36,591	39,797	-8%	6,350	7,236	-12%
			0			0	
Sovereigns	**Product Type**	104,368	117,789	-11%	7,879	8,297	-5%
	Bond Investments	67,823	70,427	-4%	4,337	4,373	-1%
	Revolving	13,705	23,983	-43%	624	776	-20%
	Money Market	15,644	15,128	3%	2,306	2,270	2%
	Term Loans	4,582	4,414	4%	306	390	-21%
	Derivatives	2,259	2,229	1%	272	262	4%
	Other	355	1,609	-78%	34	225	-85%
Sovereigns	**PD Bands**	104,368	117,789	-11%	7,879	8,297	-5%
	<0.05%	84,277	91,755	-8%	1,036	283	266%
	0.05% to 0.5%	19,195	25,532	-25%	6,141	7,385	-17%
	0.5% to 5%	451	276	63%	49	195	-75%
	5% to 10%	438	63	594%	643	10	6346%
	10% to 20%	8	43	-82%	9	30	-69%
	20% to 50%	0	103	-100%	0	325	-100%
	more than 50%	0	18	-100%	0	68	-100%
Sovereigns	**LGD Bands**	104,368	117,789	-11%	7,879	8,297	-5%
	<10%	1,519	1,107	37%	69	41	70%
	10% to 20%	628	715	-12%	72	42	73%
	20% to 30%	3,708	3,436	8%	8	15	-49%
	30% to 40%	95,038	106,644	-11%	5,794	5,241	11%
	40% to 50%	3,200	5,689	-44%	1,325	2,443	-46%
	50% to 60%	-	-	-	-	-	-
	more than 60%	274	197	39%	611	515	19%

Includes both AIRB and SA portfolios; excludes equities, CVA RWA and ONCOA.

The majority of the sovereign exposure comprises of investments in bonds issued by European sovereigns. Next to Germany, the Netherlands and Belgium a large part of sovereign exposure is observed in Poland, Luxembourg and France. The main driver for the READ decrease in the Netherlands was a decline in the central bank deposits of EUR 7.4 billion) at the Dutch Central Bank (also visible in the <0.05% PD bucket), which carries a 0% risk weight therefore not impacting the RWA.

The main driver for the RWA increase in America (EUR 0.6 billion) and Australia (EUR 0.2 billion) was the implementation of the EU equivalence regulation, which asserts that a 0% risk weight no longer applies to sovereigns outside the EU that have supervisory and regulatory arrangements in place that are at least equivalent to those applied in the EU.

Given that a major purpose of sovereign credit exposure is to support high quality liquid assets, it is consistent that most exposures are in the best quality risk bands. Due to the sovereign rating upgrade for Ukraine the exposure moved from the 20% to 50% bucket to the 5% to 10% PD Band bucket. Exposures in Ukraine increased during the year increasing the 5% to 10% PD Band bucket further.

The declined RWA in the 0.05% to 0.5% PD Band bucket is mainly attributable to the Government of the Republic of Italy (EUR 1.2 billion RWA) and Bank of Japan (EUR 0.2 billion RWA), which was driven by a decrease in READ (EUR 2.6 billion and EUR 3.4 respectively).

Institutions credit risk disclosure

The table below presents the READ and RWA (excl. CVA RWA), segmented by relevant factors for the exposure class 'Institutions'. The figures per geography for each exposure class are based on the country of residence of the obligor.

Institutions – credit risk disclosure in READ and RWA

		READ			RWA		
		2016	2015	Delta %	2016	2015	Delta %
Institutions	**Total per rating**	**88,853**	107,372	-17%	**13,491**	20,683	-35%
	Performing	**88,530**	107,017	-17%	**13,483**	20,477	-34%
	Non-performing	**323**	354	-9%	**8**	206	-96%
Institutions	**Geography/business units**	**88,853**	107,372	-17%	**13,491**	20,683	-35%
	Africa	**126**	435	-71%	**79**	515	-85%
	America	**14,334**	17,701	-19%	**2,202**	3,249	-32%
	Asia	**9,045**	12,274	-26%	**1,640**	2,878	-43%
	Australia	**1,730**	1,495	16%	**236**	216	9%
	Europe	**63,618**	75,466	-16%	**9,334**	13,827	-32%
Institutions	**Europe**	**63,618**	75,466	-16%	**9,334**	13,827	-32%
	Netherlands	**7,317**	7,845	-7%	**1,252**	1,775	-29%
	Belgium	**9,107**	8,601	6%	**1,734**	1,667	4%
	Germany	**2,072**	3,259	-36%	**303**	430	-30%
	Other Europe	**45,122**	55,761	-19%	**6,046**	9,955	-39%
Institutions	**Product Type**	**88,853**	107,372	-17%	**13,491**	20,683	-35%
	Derivatives	**29,579**	32,056	-8%	**3,531**	5,371	-34%
	Bond Investments	**15,027**	18,645	-19%	**1,273**	1,623	-22%
	Revolving	**11,678**	18,144	-36%	**2,877**	4,575	-37%
	Securities Financing	**11,017**	13,113	-16%	**779**	1,387	-44%
	Term Loans	**12,952**	13,794	-6%	**3,276**	4,200	-22%
	Other	**8,601**	11,620	-26%	**1,755**	3,526	-50%
Institutions	**PD Bands**	**88,853**	107,372	-17%	**13,491**	20,683	-35%
	<0.05%	**19,296**	17,386	11%	**2,396**	2,346	2%
	0.05% to 0.5%	**64,487**	84,313	-24%	**8,884**	15,367	-42%
	0.5% to 5%	**4,647**	4,987	-7%	**2,097**	2,393	-12%
	5% to 10%	**11**	91	-88%	**12**	67	-83%
	10% to 20%	**82**	137	-40%	**92**	262	-65%
	20% to 50%	**7**	104	-93%	**3**	43	-92%
	more than 50%	**323**	354	-9%	**8**	206	-96%
Institutions	**LGD Bands**	**88,853**	107,372	-17%	**13,491**	20,683	-35%
	<10%	**23,745**	26,663	-11%	**1,211**	1,534	-21%
	10% to 20%	**7,005**	9,584	-27%	**843**	1,346	-37%
	20% to 30%	**3,205**	6,012	-47%	**608**	1,372	-56%
	30% to 40%	**52,959**	55,941	-5%	**9,373**	11,058	-15%
	40% to 50%	**71**	276	-74%	**53**	195	-73%
	50% to 60%	**1,226**	5,147	-76%	**772**	3,037	-75%
	more than 60%	**641**	3,748	-83%	**631**	2,142	-71%

Includes both AIRB and SA portfolios; excludes equities, CVA RWA and ONCOA.

The decrease in READ was mainly driven by the implementation of the EU equivalence regulation, which shifted EUR 15.0 billion READ and EUR 5.9 billion RWA from exposure class Institutions to Corporates. Under this change, the resulting exposure class and correlation will be determined by the country and customer type, meaning that some banks will be treated as Corporates rather than Institutions. The shift was witnessed across the geographies within this portfolio. The biggest impact of this change in absolute numbers was witnessed in America, Asia and Other Europe and in the 50%-60% LGD band.

Additionally, the READ decrease was driven by a decline in revolving loans and bond investments, which was spread over several countries. As Turkey and Russia carry a relatively high risk weight, the volume decrease of the revolving loans portfolio in both countries impacted RWA considerably, while the volume decreases in the Netherlands, US and China impacted RWA to a lesser extent, due to their relatively low risk weight. The decrease in bond investments is mainly witnessed in Spain and Norway.

The READ and RWA decrease in the more than 60% bucket is mainly driven by reduced nostro exposure in Switzerland.

Corporate credit risk disclosure

The table below presents the READ and RWA (excl. CVA RWA), segmented by relevant factors for the exposure class 'Corporates'. The figures per geography for each exposure class are based on the country of residence of the obligor.
The Industry breakdown for this table is based on the NAICS system (North American Industry Classification System).

Corporates – credit risk disclosure in READ and RWA

		READ			RWA		
		2016	2015	Delta %	2016	2015	Delta %
Corporate	**Total per rating**	308,068	269,558	14%	145,581	125,091	16%
	Performing	300,022	261,661	15%	134,429	114,457	17%
	Impaired/Non-performing	8,046	7,897	2%	11,152	10,634	5%
Corporate	**Geography/business units**	308,068	269,558	14%	145,581	125,091	16%
	Africa	2,553	1,654	54%	1,735	1,007	72%
	America	48,956	39,936	23%	24,362	19,191	27%
	Asia	35,151	25,601	37%	11,392	8,044	42%
	Australia	5,520	4,083	35%	2,171	1,556	39%
	Europe	215,890	198,284	9%	105,922	95,292	11%
Corporate	**Europe**	215,890	198,284	9%	105,922	95,292	11%
	Netherlands	57,366	54,324	6%	28,669	26,228	9%
	Belgium	38,697	39,083	-1%	20,051	15,476	30%
	Germany	9,432	8,284	14%	3,552	3,100	15%
	Rest of Europe	110,395	96,593	14%	53,650	50,488	6%
Corporate	**Industry**	308,068	269,558	14%	145,581	125,091	16%
	Natural Resources	54,572	48,089	14%	23,672	19,157	24%
	Real Estate	48,473	43,999	10%	16,627	17,676	-6%
	Transportation & Logistics	32,317	30,377	6%	13,951	12,897	8%
	Food, Beverages & Personal Care	22,448	24,600	-9%	11,846	11,509	3%
	Services	20,633	18,189	13%	13,644	10,435	31%
	Other	129,626	104,306	24%	65,842	53,417	23%
Corporate	**PD Bands**	308,068	269,558	14%	145,581	125,091	16%
	<0.05%	10,997	9,058	21%	1,499	1,239	21%
	0.05% to 0.5%	183,109	158,886	15%	58,113	49,792	17%
	0.5% to 5%	94,849	83,802	13%	62,505	50,991	23%
	5% to 10%	4,075	3,049	34%	3,757	2,877	31%
	10% to 20%	2,736	3,176	-14%	3,285	4,335	-24%
	20% to 50%	4,256	3,690	15%	5,271	5,222	1%
	more than 50%	8,046	7,897	2%	11,152	10,634	5%
Corporate	**LGD Bands**	308,068	269,558	14%	145,581	125,091	16%
	<10%	79,490	66,795	19%	6,732	4,889	38%
	10% to 20%	32,219	38,908	-17%	11,264	12,812	-12%
	20% to 30%	54,954	43,457	27%	23,332	16,322	43%
	30% to 40%	74,699	59,761	25%	40,188	31,314	28%
	40% to 50%	41,385	38,953	6%	33,683	33,286	1%
	50% to 60%	12,980	9,642	35%	13,141	10,039	31%
	more than 60%	12,340	12,042	3%	17,240	16,429	5%

Includes both AIRB and SA portfolios; excludes equities, CVA RWA and ONCOA.

The increase in READ is mainly attributed to growth observed in the Structured Finance, Corporate & FI Lending, and Real Estate Finance portfolios. During the year, risk weights improved for these portfolios, partially due to increased provisions, restructuring and increased collateral.

A driver for both the READ and RWA increase is the implementation of the EU Equivalence regulation. Under this regulation, EUR 15.0 billion READ and EUR 5.9 billion RWA shifted from exposure class Institutions to exposure class Corporates.
The methodology update on SME clients also contributed to an increase in READ and RWA. Due to this change, EUR 3.7 billion in READ and EUR 1.6 billion in RWA shifted from Retail exposure class to Corporate exposure class. Besides this, an additional stand-alone increase of EUR 0.9 billion in RWA has been observed within the Corporate exposure class, which is not related to the methodology update on SME clients or the implementation of the EU Equivalence regulation.

The Natural Resources portfolio shows a deterioration in risk profile due to the difficulties faced by the Oil and Gas sector. This deterioration impacted RWA mainly in the Netherlands, United Kingdom, Switzerland, United States, and the Republic of Korea. The exposures in Africa are mainly in Structured Finance.

In addition, model updates and changes in methodology and policy further increased RWA by EUR 11.1 billion. An 35% LGD add-on for the SME Belgium and SME Netherlands LGD models was implemented, increasing RWA by EUR 6.1 billion. Furthermore the Project Finance LGD model was updated, increasing RWA by EUR 4.0 billion. In addition to these model related impacts the Dutch Healthcare portfolio was moved from AIRB approach to SA approach, increasing RWA by EUR 1.0 billion in the Netherlands.

Retail credit risk disclosure

The table below presents the READ and RWA (excl. CVA RWA), segmented by relevant factors for the exposure class 'Retail'. The figures per geography for each exposure class are based on the country of residence of the obligor.

Retail – credit risk disclosure in READ and RWA

		READ			RWA		
		2016	2015	Delta %	2016	2015	Delta %
Retail	**Total per rating**	337,217	333,876	1%	68,964	70,647	-2%
	Performing	332,193	327,116	2%	62,570	62,297	0%
	Impaired/Non-performing	5,024	6,760	-26%	6,394	8,351	-23%
Retail	**Customer Segment**	337,217	333,876	1%	68,964	70,647	-2%
	Private Persons	315,311	308,145	2%	60,270	59,982	0%
	Small Mid-sized Enterprises	17,638	19,377	-9%	7,606	8,769	-13%
	Private Banking	3,112	3,683	-16%	702	910	-23%
	Other	1,156	2,671	-57%	387	986	-61%
Retail	**Geography/business units**	337,217	333,876	1%	68,964	70,647	-2%
	Africa	55	88	-38%	14	16	-12%
	America	166	249	-33%	45	85	-47%
	Asia	118	171	-31%	20	26	-22%
	Australia	32,948	29,834	10%	2,116	2,011	5%
	Europe	303,929	303,534	0%	66,769	68,509	-3%
Retail	**Europe**	303,929	303,534	0%	66,769	68,509	-3%
	Netherlands	135,611	142,607	-5%	20,635	26,242	-21%
	Belgium	43,535	42,660	2%	10,259	8,284	24%
	Germany	81,356	77,107	6%	20,920	19,772	6%
	Rest of Europe	43,428	41,160	6%	14,955	14,211	5%
Retail	**PD Bands**	337,217	333,876	1%	68,964	70,647	-2%
	<0.05%	28,159	25,288	11%	1,773	1,521	17%
	0.05% to 0.5%	217,248	206,862	5%	22,646	20,853	9%
	0.5% to 5%	77,923	85,664	-9%	29,472	30,734	-4%
	5% to 10%	3,253	3,215	1%	2,870	2,796	3%
	10% to 20%	3,458	3,599	-4%	3,394	3,679	-8%
	20% to 50%	1,951	2,084	-6%	2,293	2,480	-8%
	more than 50%	5,225	7,164	-27%	6,516	8,584	-24%
Retail	**LGD Bands**	337,217	333,876	1%	68,964	70,647	-2%
	<10%	116,023	108,381	7%	6,547	5,362	22%
	10% to 20%	109,066	109,392	0%	17,144	17,784	-4%
	20% to 30%	23,469	34,637	-32%	5,880	9,816	-40%
	30% to 40%	20,893	23,761	-12%	6,220	6,117	2%
	40% to 50%	18,623	15,732	18%	6,782	6,319	7%
	50% to 60%	17,129	12,446	38%	7,371	6,745	9%
	more than 60%	32,013	29,527	8%	19,022	18,503	3%

Includes both AIRB and SA portfolios; excludes equities, CVA RWA and ONCOA.

The decrease in RWA is mainly due to an improved risk profile, also observed in decreasing non-performing loans. The improving Dutch economy resulted in lower RWAs for mortgages. Furthermore the decline in READ in the Dutch portfolio was caused by the continued transfer of Westland Utrecht Bank (WUB) mortgages to NN Group and the run-off in the WUB mortgages portfolio.

Due to the methodology update on SME clients a shift of EUR 3.7 billion in READ and EUR 1.6 billion in RWA from Retail exposure class to Corporate exposure class is observed. The decreases were offset by model updates for Belgium mortgages, increasing RWA by EUR 1.9 billion. This was mainly caused by the implemented macro-prudential add-on for Belgium mortgages Additionally, growth in the residential mortgages portfolio, mainly observed in Germany, Australia, and Poland, increased RWA by an additional EUR 0.9 billion RWA. The increase of RWA in the Rest of Europe bucket is mainly a result of the ING Direct Spain mortgage LGD model update, increasing RWA by EUR 0.7 billion.

LTV Residential Mortgages per country

The table below shows the weighted average Loan-to-Value (LTV) ratio of the ING Bank Residential Mortgage portfolio per country. All LTV figures are based on market values. In most portfolios, ING uses house price developments to index these market values. In several markets, customers provide additional collateral or (government sponsored) mortgage insurance programs are used. None of these additional covers are included in the LTV figures.

Loan-to-Value Residential Mortgages per country

		2016		2015
	LTV	READ	LTV	READ
Netherlands	78%	124,368	83%	129,814
Germany	70%	72,671	70%	69,967
Belgium, Luxembourg	64%	32,395	72%	30,760
Australia	61%	32,901	62%	29,875
Spain	62%	11,750	64%	10,453
Italy	58%	8,220	59%	7,673
Poland	62%	5,325	61%	4,626
Turkey	57%	1,357	57%	1,472
Romania	69%	1,173	68%	871
Total	71%	290,161	74%	285,510

The improvement of the LTV ratio is mainly caused by improved housing markets in the Benelux region. The economic environment and the housing market in the Netherlands continued to improve in 2016. The average Dutch house price increased from EUR 227,000 in December 2015 to EUR 236,000 in December 2016, which led to an improved LTV through indexation. The LTV in Belgium improved due to the change in the LTV calculation, which now takes indexation into account instead of LTV at origination. The improvement in LTV in Spain is also attributable to the improved housing market, which is again reflected through indexation. The increased READ change was due to growth in mortgage portfolios mainly in Australia, Germany, Poland, Spain, and Italy, which was offset by decreased exposures in the Netherlands.

AIRB models per exposure class

Within ING Bank internal Basel models are used to determine the PD, EAD and LGD for regulatory and economic capital. Bank wide, ING Bank has implemented over 80 models, including various sub models for specific portfolios. A model may be applicable for various exposure classes. In the table below, the number of significant PD, EAD, and LGD models per asset class are shown. Additionally a description of the model and methodology are provided per exposure class. The asset classes presented in this table do not align with the EBA Exposure classes as the scope has been redefined to better fit the scope of the model. SME exposure for example can be part of both Corporate exposures as Other Retail depending on the size of the SME.

Additional Pillar III information - continued

AIRB models and methodology

Asset classes measured in EUR billion	READ for associated Asset class	% of Total EAD	RWAs for associated Asset class	% of Total RWA	Model Type	Number of significant models	Model description and methodology	Number of years of data
Sovereigns	95.62	11.8%	5.32	2.5%	PD	1	The Government Central PD model is a fully statistical model, containing only quantitative risk drivers.	>7 years
					LGD	1	The LGD model for Sovereigns and other governments is an unsecured recovery model built on assessment of structural factors that influence a country's performance.	>7 years
					EAD	1	The Low Default EAD model is a hybrid model that pools default information from multiple low default portfolios, including central governments and central banks.	>7 years
Government related entities	12.84	1.6%	2.35	1.1%	PD	1	The government related entities PD model is expert based and assigns ratings based on stand-alone credit fundamentals as well as degree of government support.	>7 years
					LGD	1	The LGD model for Government related entities is a secured/unsecured recovery model built on assessment of stand-alone fundamentals as well as geography.	>7 years
					EAD	1	The Low Default EAD model is a hybrid model that pools default information from multiple low default portfolios, including government related entities.	>7 years

AIRB models and methodology - continued								
Financial institutions	81.72	10.1%	14.90	7.0%	PD	3	The main PD model applied is Bank Commercial based upon financial, qualitative and country information. Other PD models for different types of financial institutions are built using a similar framework, but are more specialised for the specific characteristics of the financial institution.	>7 years
					LGD	1	This LGD model was developed based on expert judgement, supported by limited internal and external data. The developed LGD model is based on ultimate recovery rates.	>7 years
					EAD	1	The Low Default EAD model is a hybrid model used that pools default information from multiple low default portfolios, including financial institutions.	>7 years
Corporates - Specialized lending	83.75	10.4%	29.77	14.1%	PD	3	Expert based scorecards Models predict a rating for Commercial Property Finance, Project Finance, Trade and Commodity Finance.	>7 years
					LGD	3	Hybrid LGD Models predict loss given default for Commercial Property Finance, Project Finance, Trade and Commodity Finance.	>7 years
					EAD	1	There is a dedicated EAD model for commercial property finance due to the specificities of this portfolio.	>7 years
Large Corporates	141.63	17.5%	67.09	31.7%	PD	1	The Corporate Large model is a global hybrid model build on 13 years of data, including balance sheet and qualitative information as well as country risk and parent influence.	>7 years
					LGD	1	Loss Given Default for Large corporates are predicted by a dedicated hybrid LGD model using both no loss rates as well as secured/unsecured recovery rates.	>7 years
					EAD	1	The Low Default EAD model is a hybrid model used that pools default information from multiple low default portfolios, including large corporates.	>7 years
SME	64.81	8.0%	37.10	17.5%	PD	6	The SME PD models are estimated statistically and directly predict a PD. Most of these models are developed locally to reflect regional/jurisdiction circumstances.	>7 years
					LGD	6	Local statistical models or hybrid models use various data inputs on cure behaviour as well as cost and recovery.	>7 years
					EAD	6	Local statistical models that use various data inputs, including product type and geography.	>7 years
Secured by Res. Mortgage	276.29	34.2%	39.64	18.7%	PD	7[1]	The PD mortgages models are all developed statistically and include borrower specific information, payment behaviour and product related information. These are statistical models that directly predict a PD.	>7 years
					LGD	7	Local statistical models or hybrid models use various data inputs on cure behaviour as well as cost and recovery	>7 years
					EAD	7	Local statistical models that use various data inputs, including product type and geography.	>7 years
Private Individuals	30.10	3.7%	12.36	5.8%	PD	4[1]	The PD models for private individuals are all developed statistically and include borrower specific information, payment behaviour and product related information. These are statistical models that directly predict a PD.	>7 years
					LGD	4	Local statistical models use various data inputs on cure behaviour as well as cost and recovery.	>7 years
					EAD	4	Local statistical models that use various data inputs, including product type and geography.	>7 years
Other[1]	21.27	2.6%	2.93	1.4%	Other		(Covered Bonds, Structured assets)	
Total	**808.03**	**100%**	**211.46**	**100%**				

1 Belgian PD models provide a rating at a customer level, covering both secured and unsecured loans.
Excludes Securitisations, CVA RWA, Equities and ONCOA.

Credit risk exposure excluding Counterparty Credit Risk (based on EBA templates)

In this section on Credit Risk the tables shown represent the Net Values of on- and off-balance sheet exposures as per EBA definitions. The scope of these tables are the Credit Risk Exposures excluding the Counterparty Credit Risk exposures (within the Risk Management Paragraph these are named Pre-Settlement exposures), Securitisations, Equity positions, CVA RWA and ONCOA items. The EBA has implemented a view on credit risk exposures different from the internal ING view.

Additional Pillar III information - continued

The gross carrying value refers to the original exposure pre-credit conversion factors for the on- and off-balance sheet items. The net carrying values correspond to the original exposure (on and off-balance) pre-credit conversion factors corrected for allowances, impairments and provisions. In the table on Credit quality of exposures by exposure class and instruments, the gross carrying values and the net carrying values are provided .
The next four tables the Net Carrying Values are broken down per exposure class, Geography, Counterparty Type and Maturity.

The table below displays the net carrying values at the end of 2015 and as per end of 2016 per AIRB and SA exposure classes. Next to it the average net carrying value per the same exposure classes over the past 4 quarters is provided. This average net carrying value is based upon the last 4 quarter end observations in the year 2016.

EU CRB-B: Total and average net amount of exposures

AIRB Approach	Net carrying value of exposures at the end of 2016	Average net exposures over the period	Net carrying value of exposures at the end of 2015
Central governments or central banks	225,826	222,210	180,961
Institutions	100,954	106,058	120,191
Corporates	409,510	387,659	350,343
Of Which: Specialised lending	142,754	132,616	120,709
Of Which: SME	34,060	34,200	36,003
Retail	325,737	325,014	324,427
Secured by real estate property	296,084	294,992	293,514
SMEs	10,916	11,391	12,227
Non-SMEs	285,168	283,601	281,287
Qualifying Revolving			
Other Retail	29,653	30,022	30,913
SMEs	5,907	6,622	8,108
Non-SMEs	23,745	23,399	22,805
Total AIRB approach	**1,062,027**	**1,040,941**	**975,921**
SA approach			
Central governments or central banks	3,801	3,807	3,812
Regional governments or local authorities	274	245	227
Institutions	2,281	2,438	4,917
Corporates	12,468	14,002	13,456
of which: SMEs	2,865	3,408	3,746
Retail	14,831	14,783	14,533
of which: SMEs	4,492	4,815	5,236
Secured by mortgages on immovable property	15,991	14,278	11,665
of which: SMEs	2,960	2,910	2,702
Exposures in default	481	479	424
Total SA approach	**50,127**	**50,032**	**49,033**
Total	**1,112,154**	**1,090,972**	**1,024,954**

The total exposure increased by EUR 87.2 billion in Net Carrying value mainly from increased exposures and higher limits in the AIRB portfolio (EUR 86.1 billion), and to a lesser extent from the SA portfolio (EUR 1.1 billion). A significant part of the increased limits were unadvised and uncommitted. Within both the AIRB and SA portfolios, the highest exposures can be found towards corporates, retail, and secured by real estate property. The exposure within institutions decreased in 2016 mainly driven by the implemented EU equivalence regulation in 2016, shifting exposures from the institutions to corporates exposure class. The growth of the Corporates portfolio is observed in the Structured Finance, Corporate & FI Lending, and Real Estate portfolios.
The majority of the growth in the SA portfolio is related to the move of the Dutch Healthcare portfolio from the AIRB to the SA approach. The Retail Mortgage exposures in Turkey, Poland and Romania contribute to the growth of the 'Secured by Mortgages on Immovable Property' exposure class.

Exposure by geography
The table below presents a breakdown of net carrying value of exposures and their totals by geographical areas and exposure classes under the AIRB and SA approaches.

Additional Pillar III information - continued

EU CRB-C: Geographical breakdown of exposures

	Net carrying value									
	Europe	Netherlands	Belgium & Luxembourg	Germany	Other Europe	America	Africa	Asia	Australia	Total
Central governments or central banks	202,241	44,146	45,040	70,937	42,118	10,194	586	8,748	4,057	225,826
Institutions	54,573	5,132	10,748	2,210	36,483	11,908	1,234	27,738	5,501	100,954
Corporates	272,448	68,230	59,972	12,991	131,255	64,620	4,309	63,924	4,209	409,510
Retail	292,647	140,662	46,784	83,435	21,766	178	58	127	32,728	325,737
Total AIRB approach	**821,909**	**258,170**	**162,544**	**169,573**	**231,622**	**86,900**	**6,187**	**100,537**	**46,494**	**1,062,027**
Central governments or central banks	3,801	2			3,799					3,801
Regional governments or local authorities	274	1	4		269					274
Institutions	2,229	2,060	36	2	132	43	1	6	2	2,281
Corporates	12,069	995	817	350	9,907	1	0	391	7	12,468
Retail	14,825	140	114	1	14,569	3	3	0	0	14,831
Secured by mortgages on immovable property	14,473	3,247	0	2	11,224	0		45	1,473	15,991
Exposures in default	474	41	129	0	305	0	0	0	7	481
Total SA approach	**48,145**	**6,486**	**1,101**	**354**	**40,204**	**48**	**4**	**442**	**1,489**	**50,127**
Total	**870,054**	**264,656**	**163,645**	**169,928**	**271,826**	**86,947**	**6,191**	**100,979**	**47,983**	**1,112,154**

The Central Governments or Central Banks exposure for ING is mostly concentrated within Europe. The majority of the exposure comprises uncommitted/unadvised limits.

The SA portfolio comprises of Secured by Mortgages on Immovable Property, Retail, and Corporates exposure class. These exposures are mainly observed in Poland and Turkey with some Commercial Property Finance in Australia.

Exposure by industry or counterparty type

The following table provides a breakdown of the net carrying values by industry or counterparty type per exposure class, both AIRB and SA, ordered by the size of the combined AIRB and SA exposure. These industry sector or counterparty types are based upon the European NACE codes (Nomenclature statistique des Activités économiques dans la Communauté Européenne) and reflect the main activity of the counterparty. The industry or counterparty type allocation is based exclusively on the nature of the immediate counterparty. The classification of the exposures incurred jointly by more than one obligor should be done on the basis of characteristics of the obligor that was the more relevant, or determinant, for the institution to grant the exposure.

EU CRB-D: Concentration of exposures by industry or counterparty types

	Net Carrying Value						
	Activities of households as employers and own use	Wholesale and retail trade	Financial and insurance activities	Public administration and defence, compulsory social security	Manufac turing	Other Services	Total
Central governments or central banks			85,935	136,268	0	3,623	225,826
Institutions			89,080	8,666	20	3,189	100,954
Corporates	74	81,424	49,995	0	85,703	192,313	409,510
Retail	273,566	5,598	1,548	12,989	8,252	23,783	325,737
Total AIRB approach	**273,640**	**87,022**	**226,558**	**157,923**	**93,975**	**222,908**	**1,062,027**
Central governments or central banks			2,699	1,100		2	3,801
Regional governments or local authorities				271		3	274
Institutions			2,281				2,281
Corporates	283	3,449	406		4,968	3,361	12,468
Retail	5,727	2,241	305	915	1,878	3,765	14,831
Secured by mortgages on immovable property	6,415	1,281	104	64	1,525	6,602	15,991
Exposures in default	263	74	2	3	50	90	481
Total SA approach	**12,687**	**7,045**	**5,797**	**2,353**	**8,422**	**13,824**	**50,127**
Total	**286,328**	**94,067**	**232,355**	**160,275**	**102,397**	**236,732**	**1,112,154**

The table shows the industry or counterparty types that represent at least 5% of the total net carrying value. In total the top 5 Counterparty or Industry types makes up 79% of the exposure. The other counterparty or industry types exposures are grouped under the Other Services. The way of allocating exposures to these counterparty sectors, explains largely the above table. Manufacturing is logically mostly found in the Corporate Exposure class and the Financing activities in the Institutions and Sovereign exposure classes.

The AIRB portfolio is mostly concentrated in the Financial and Insurance Activities, Public Administration and Defence and Activities of Households as Employers industries. This last industry or counterparty type refers to both households as employers and to the production and services to households for own use. In this case is the mortgage book underlying that is classified in this category.
The SA portfolio is predominantly spread in Manufacturing, Wholesale and Retail Trade, Financial and Insurance Activities, Human Health Services and Social Work Activities, and Activities of Households as Employers.

The Retail portfolio holds most exposures within the Activities of Households as Employer, which is related to Residential Mortgages and Loans (Traditional Residential Mortgages and Interest-Only Mortgage). The Central Governments or Central Banks exposure class holds most exposures within the industry types Financial and Insurance Activities and Public Administration and Defence.

Within the SA Secured by Mortgages on Immovable Property exposure class, most exposures can be found in the Manufacturing, Wholesale and Retail Trade, Human Health Services and Social Work Activities, and Activities of Households as Employers industries.
The Retail portfolio shows the highest exposures within Manufacturing, Wholesale and Retail Trade, Professional, Scientific and Technical Activities, and Activities of Households as Employers industries.
The Corporates exposure class holds most exposures within the industry types Manufacturing, Wholesale and Retail Trade, and Human Health Services and Social Work Activities.

Exposure by maturity
The table below presents a breakdown of the net carrying value by residual maturity, for both AIRB and SA exposure classes.

EU CRB-E: Maturity of exposures

	Net carrying value				
	<= 1 year	> 1 year < 5 years	>= 5 years	No stated maturity	Total
Central governments or central banks	110,087	62,072	53,668		225,826
Institutions	66,600	19,726	14,628		100,954
Corporates	163,364	168,364	77,781		409,510
Retail	14,552	38,019	273,165		325,737
Total AIRB approach	**354,603**	**288,181**	**419,243**		**1,062,027**
Central governments or central banks	3,136	628	37		3,801
Regional governments or local authorities	2	245	27		274
Institutions	2,170	108	3		2,281
Corporates	4,859	6,356	1,252		12,468
Retail	5,422	6,772	2,637		14,831
Secured by mortgages on immovable property	2,330	3,677	9,985		15,991
Exposures in default	266	29	187		481
Total SA approach	**18,186**	**17,814**	**14,127**		**50,127**
Total	**372,789**	**305,996**	**433,370**		**1,112,154**

The majority of the exposures within the AIRB portfolio are observed in the lower than 1 year and higher than 5 years maturity buckets. The Retail portfolio consists mostly of residential mortgages, which typically have longer maturities. The exposures within the Corporates and Central Governments or Central Banks exposure classes are shorter compared to the Retail portfolio, which results in more exposure within the lower maturity buckets.
For Central Governments or Central Banks this is mostly in the less than 1 year buckets in Money Market Lending and to a lesser extent to Revolving Loans. Exposures in the other two buckets are predominantly seen in the Bond Investment products. Revolving Loans and Guarantees make up the majority of the exposure seen in the first maturity bucket of the Corporate exposure class, whereas Term Loans and Revolvers are the dominant product types in the longer maturity buckets.

For the SA portfolio, most exposures within both the Retail and Corporates exposure classes can be found in the first two maturity buckets. With Mortgages as the main underlying exposure the Secured by Mortgages and Immovable Property is predominantly seen in the longer maturity.

Advanced Internal Rating Based approach (AIRB)

The AIRB approach has five main elements that drive the CRR/CRD IV 'risk-based approach' for the determination of RWA and EL. The elements are: the Exposure Class, Probability of Default (PD), Regulatory Exposure at Default (READ), Loss Given Default (LGD) and Maturity (M). For further details on these elements please see the 'Risk Management' part of the consolidated annual accounts.

AIRB credit exposures by exposure class and PD range

The table below provides an overview of the main parameters used for the calculation of capital requirements for AIRB models. The on-and off balance sheet exposures are shown by the four main exposure classes and according to PD grades to enable an assessment of the credit quality of the portfolio. The exposures are bucketed in PD Scales prescribed by EBA. This bucketing of PD scales is not used within ING. The ING Bank's Probability of Default (PD) rating models are based on a 1-22 scale, which corresponds to the same rating grades that are assigned by external rating agencies. Risk Ratings (PD) for performing loans (1-19) are calculated in ING Bank with regulatory approved models. Risk Ratings for non-performing loans (20-22) are set on the basis of an approved discretionary methodology by the Global or Regional Restructuring unit. Overall the risk weights of the ING portfolio are a mixture of low risk weights for Sovereigns and Residential Mortgages combined with higher risk weights for Corporates. Many central governments exposure receive a zero risk weight due to the high quality rating (permanent partial use of the SA rules). Mortgages generally benefit from large levels of (over) collateralisation.

Additional Pillar III information - continued

As of July 2014, PD values of the ING Bank Master Scale are adjusted using both internal and external default data covering the period from 2005 until 2013. External data from Standard & Poor's is used. Internal default experience is reflected for a better fit of ING Bank's portfolios compared to the predominantly US-based Standard & Poor´s data.

The average Credit Conversion Factor CCF (the conversion of off-balance sheet exposure into credit exposure equivalents) is calculated as the off-balance exposure post-crm and post-ccf over the original off-balance sheet exposure. The CCF's percentages are applied on product or transaction level and are regulatory driven.

EU CR6: IRB- Credit risk exposures by exposure class and PD range

	PD Scale	Original on-balance sheet gross expo-sure	off-balance sheet expo-sures pre-ccf	Average CCF	EAD post crm and post-ccf	Average pd	Number of obligors	Average LGD	Average matu-rity	RWA	RWA density	EL	Value adjust-ments and provi-sions
Central Governments and Central Banks	0.00 to < 0.15	87,684	131,631	6%	95,367	0.0%	1,212	30%	2.63	3,509	4%	4	-2
Central Governments and Central Banks	0.15 to < 0.25	570	630	34%	785	0.2%	30	36%	1.98	216	28%	1	
Central Governments and Central Banks	0.25 to < 0.50	2,242	2,150	9%	2,428	0.3%	42	42%	1.52	1,056	44%	3	-1
Central Governments and Central Banks	0.50 to <0.75			0%		0.0%	0	0%	-		0%		
Central Governments and Central Banks	0.75 to < 2.50	107	26	52%	121	1.9%	40	3%	4.37	11	9%		
Central Governments and Central Banks	2.50 to < 10.00	438	337	91%	746	6.6%	41	23%	3.11	620	83%	14	-8
Central Governments and Central Banks	10.00 to < 100.00	3	17	24%	7	16.3%	54	20%	2.94	9	119%		
Central Governments and Central Banks	default			50%		100.0%	3	31%	1.00		6%		
Central Governments and Central Banks	**sub-total**	**91,045**	**134,792**	**6%**	**99,454**	**0.1%**	**1,421**	**30%**	**2.61**	**5,421**	**5%**	**22**	**-11**
Institutions	0.00 to < 0.15	30,769	49,398	7%	34,352	0.1%	2,925	23%	2.59	4,781	14%	5	-2
Institutions	0.15 to < 0.25	1,316	3,635	13%	1,799	0.2%	470	25%	1.89	327	18%	1	
Institutions	0.25 to < 0.50	3,127	4,676	11%	3,650	0.4%	767	24%	2.16	1,414	39%	4	-2
Institutions	0.50 to < 0.75	3	1	100%	5	0.7%	7		4.61	3	62%		
Institutions	0.75 to < 2.50	3,809	2,583	14%	4,163	1.0%	551	27%	1.72	1,785	43%	8	-4
Institutions	2.50 to < 10.00	28	532	3%	42	5.3%	145	18%	1.39	61	145%	1	
Institutions	10.00 to < 100.00	23	731	7%	73	17.2%	3,380	26%	1.51	86	118%	2	-1
Institutions	default	310	26	50%	323	100.0%	48	1%	4.93	8	2%	4	-4
Institutions	**sub-total**	**39,386**	**61,581**	**8%**	**44,407**	**0.9%**	**8,293**	**23%**	**2.46**	**8,465**	**19%**	**25**	**-13**
Corporate	0.00 to < 0.15	35,245	78,364	32%	60,411	0.1%	15,940	32%	2.73	13,018	22%	17	-5
Corporate	0.15 to < 0.25	23,089	27,062	35%	32,673	0.2%	7,848	25%	2.92	9,055	28%	17	-5
Corporate	0.25 to < 0.50	66,370	55,139	36%	86,025	0.4%	24,957	23%	3.08	30,940	36%	77	-26
Corporate	0.50 to < 0.75	1,149	450	48%	1,364	0.6%	2,135	30%	2.89	672	49%	2	-1
Corporate	0.75 to < 2.50	61,379	33,074	39%	74,410	1.2%	34,991	24%	3.17	45,438	61%	231	-89
Corporate	2.50 to < 10.00	10,395	4,526	45%	12,287	5.5%	11,330	25%	2.91	11,122	91%	162	-59
Corporate	10.00 to < 100.00	5,599	2,884	29%	6,464	23.4%	21,374	21%	2.77	8,017	124%	320	-132
Corporate	default	7,429	749	49%	7,911	100.0%	5,715	32%	2.37	10,901	138%	2,934	-2,934
Corporate	**sub-total**	**210,656**	**202,248**	**35%**	**281,543**	**4.1%**	**124,290**	**26%**	**2.98**	**129,163**	**46%**	**3,761**	**-3,252**
Retail	0.00 to < 0.15	61,311	15,077	66%	71,372	0.1%	4,228,271	25%		3,879	5%	13	-5
Retail	0.15 to < 0.25	63,761	3,705	51%	65,685	0.2%	723,298	16%		4,707	7%	21	-10
Retail	0.25 to < 0.50	97,514	3,434	59%	99,728	0.4%	1,129,103	16%		11,467	11%	63	-23
Retail	0.50 to < 0.75	27,191	1,311	56%	27,936	0.7%	509,064	23%		6,402	23%	43	-19
Retail	0.75 to < 2.50	30,045	2,499	68%	31,901	1.2%	1,163,149	27%		11,529	36%	114	-52
Retail	2.50 to < 10.00	10,572	652	56%	10,990	4.5%	439,278	27%		7,667	70%	136	-59
Retail	10.00 to < 100.00	5,153	226	66%	5,330	22.5%	186,922	26%		5,628	106%	307	-138
Retail	default	4,601	46	54%	4,675	100.0%	88,581	31%		5,985	128%	1,053	-1,053
Retail	**sub-total**	**300,147**	**26,949**	**62%**	**317,617**	**2.4%**	**8,467,666**	**21%**		**57,263**	**18%**	**1,749**	**-1,360**
Total (all portfolios)	**Total**	**641,234**	**425,571**	**24%**	**743,021**	**2.6%**	**8,237,084**	**24%**	**2.84**	**200,313**	**27%**	**5,557**	**-4,635**

All figures are in millions of EUR, except for the number of obligors. The maturity is not available for the retail exposure class, for all other cells that are left blank, the values are minimal.

The figures in this table can be compared to the figures reported in the first tables in this section on exposure class, geography, counterparty type and maturity. Adding the on and off-balance sheet exposures with the Expected Losses will provide the net carrying amounts, except for the corporate exposure class where the write-offs should be included as well.

The PD, LGD, EAD and Maturity are drivers from the RWA and the RWA Density, which is measured as the RWA over the EAD, and is expected to increase with each PD Scale. In several instances the RWA Density is lower than expected, for instance in the Central Governments and Central Banks and Institutions exposure classes where loans are guaranteed by an Export Credit Agency [ECA]. These ECAs offer loans and insurance to help remove the risk of uncertainty of exporting to other countries and underwrite the political risk and commercial risks of overseas investments, and as such lower the LGD for these loans. With very low LGDs as a result the RWA is lower than would be assumed in a higher PD classes.

The CCF is lower for products and/or transactions seen in the corporate exposure class as opposed those seen in the Central Government exposure class, explaining the higher observed average CCF percentage in the latter exposure class.

Backtesting of model parameters
ING has dedicated AIRB credit risk models per business line and geography. The performance and predictive power of the models is monitored by the model development team. More over an independent Model Validation department periodically reviews all AIRB models. All models are backtested when possible by both the Model development and the independent Model Validation departments. If a model is considered not to be robust or backtesting indicates insufficient performance, than the model is either re-calibrated or re-developed. All model recommendations from Model Validation department are tracked via an internal database that management uses to track issues detected by the Internal Audit department, incidents and non-financial risk issues. All significant model changes are submitted to the ECB and implemented after regulatory approval. On average, 86% of the AIRB credit risk models in the validation cycle have had ‘No to Remote’ (49%) and ‘Minor’ (37%) model deficiencies.

PD backtesting
The PD backtesting is performed per exposure class and PD-range, corresponding to the internal rating scales 1 to 19, which are then mapped to comparable rating grades from Standard & Poor’s. Securitisations and Equity exposures are not included in these tables. The results are presented per exposure class, each in an individual table, and display the performing portfolios as per end of 2016.

The analysis is based on the 31 December 2016 portfolio. The average PD as of 31 December 2016 per portfolio is split per exposure class and rating grade. Both the number and the amount-weighted predicted PD figures are shown for the performing portfolios. The number weighted predicted PD is also referred to as the arithmetic weighted PD, and the amount weighted PD is referred to as the EAD-weighted PD.

The Annual Average historical default rate is calculated over the last 6 years, from 2011 until 2016. The performing clients at the end of each year were followed through the following year (12 months) and their into-default moments were flagged each month. In case a client went into-default more than once within the 12-month observation period, the last (i.e. most recent) observed into-default moment was used. The annual average observed default rate represents the average of the 6 years observed number weighted default rates.

ING does not have positions with Central Governments in the lower two performing rating classes

Additional Pillar III information - continued

EU CR9: IRB – Backtesting of probability of default (PD) per exposure class

Exposure class	PD Range	External rating equivalent	Weighted average PD	Arithmetic average PD by obligors	Number of obligors: End of 2015	Number of obligors: End of 2016	Defaulted obligors in the year	Average historical annual default
Central Governments	0.00 - 0.01	AAA	0.010%	0.010%	85	93		
Central Governments	0.01 - 0.03	AA	0.021%	0.021%	515	532		
Central Governments	0.03 - 0.04	AA	0.031%	0.031%	253	267		
Central Governments	0.04 - 0.05	AA	0.041%	0.041%	202	161		
Central Governments	0.05 - 0.06	A	0.052%	0.052%	48	39		
Central Governments	0.06 - 0.08	A	0.062%	0.062%	86	74		
Central Governments	0.08 - 0.11	A	0.092%	0.092%	43	37		
Central Governments	0.11 - 0.17	BBB	0.139%	0.139%	27	22		0.245%
Central Governments	0.17 - 0.26	BBB	0.212%	0.213%	32	26		
Central Governments	0.26 - 0.37	BBB	0.307%	0.306%	24	25		
Central Governments	0.37 - 0.58	BB	0.444%	0.445%	23	21		
Central Governments	0.58 - 1.00	BB	0.756%	0.756%	6	9		
Central Governments	1.00 - 1.77	BB	1.321%	1.335%	13	11		
Central Governments	1.77 - 3.23	B	2.377%	2.441%	24	23		
Central Governments	3.23 - 6.05	B	4.391%	4.410%	17	18		0.926%
Central Governments	6.05 - 11.67	B	8.349%	8.349%	14	23		
Central Governments	11.67 - 20.20	CCC	16.324%	16.324%	7	8		

EU CR9: IRB – Backtesting of probability of default (PD) per exposure class

Exposure class	PD Range	External rating equivalent	Weighted average PD	Arithmetic average PD by obligors	Number of obligors: End of 2015	Number of obligors: End of 2016	Defaulted obligors in the year	Average historical annual default
Corporates	0.00 - 0.01	AAA	0.010%	0.010%	13	13		
Corporates	0.01 - 0.03	AA	0.021%	0.021%	26	315		
Corporates	0.03 - 0.04	AA	0.031%	0.031%	89	96		
Corporates	0.04 - 0.05	AA	0.041%	0.041%	121	158		0.075%
Corporates	0.05 - 0.06	A	0.051%	0.047%	2,667	2,960	1	0.095%
Corporates	0.06 - 0.08	A	0.062%	0.066%	1,242	1,320		0.159%
Corporates	0.08 - 0.11	A	0.092%	0.102%	1,423	1,577	1	0.133%
Corporates	0.11 - 0.17	BBB	0.139%	0.136%	9,453	10,030	25	0.300%
Corporates	0.17 - 0.26	BBB	0.213%	0.214%	6,447	6,782	10	0.340%
Corporates	0.26 - 0.37	BBB	0.306%	0.297%	10,451	11,279	30	0.448%
Corporates	0.37 - 0.58	BB	0.443%	0.444%	13,245	14,191	52	0.725%
Corporates	0.58 - 1.00	BB	0.755%	0.761%	13,051	13,807	90	1.214%
Corporates	1.00 - 1.77	BB	1.318%	1.343%	13,057	13,583	210	1.680%
Corporates	1.77 - 3.23	B	2.360%	2.393%	9,367	9,837	196	2.936%
Corporates	3.23 - 6.05	B	4.384%	4.350%	6,935	7,432	230	4.659%
Corporates	6.05 - 11.67	B	8.317%	8.347%	3,083	3,221	225	10.425%
Corporates	11.67 - 20.20	CCC	15.846%	15.769%	3,172	3,271	320	9.335%
Corporates	20.20 - 29.58	CC-	24.881%	24.639%	1,512	1,414	266	16.522%
Corporates	29.58 - 100.00	C-	36.148%	39.969%	1,242	1,104	288	27.205%

Additional Pillar III information - continued

EU CR9: IRB – Backtesting of probability of default (PD) per exposure class

Exposure class	PD Range	External rating equivalent	Weighted average PD	Arithmetic average PD by obligors	Number of obligors		Defaulted obligors in the year	Average historical annual default
					End of 2015	End of 2016		
Institutions	0.00 - 0.01	AAA	0.010%	0.010%	59	52		
Institutions	0.01 - 0.03	AA	0.021%	0.021%	309	33		
Institutions	0.03 - 0.04	AA	0.031%	0.031%	69	80		0.154%
Institutions	0.04 - 0.05	AA	0.041%	0.041%	992	1,006		
Institutions	0.05 - 0.06	A	0.052%	0.051%	505	526		0.064%
Institutions	0.06 - 0.08	A	0.062%	0.062%	828	646		
Institutions	0.08 - 0.11	A	0.092%	0.092%	790	451		0.072%
Institutions	0.11 - 0.17	BBB	0.139%	0.139%	672	775	1	0.135%
Institutions	0.17 - 0.26	BBB	0.212%	0.213%	488	528		0.023%
Institutions	0.26 - 0.37	BBB	0.307%	0.305%	503	377		0.036%
Institutions	0.37 - 0.58	BB	0.444%	0.444%	812	643	1	0.021%
Institutions	0.58 - 1.00	BB	0.756%	0.761%	520	471		0.042%
Institutions	1.00 - 1.77	BB	1.318%	1.331%	392	321	4	0.293%
Institutions	1.77 - 3.23	B	2.389%	2.406%	285	275		1.055%
Institutions	3.23 - 6.05	B	4.524%	4.371%	223	150	4	0.539%
Institutions	6.05 - 11.67	B	8.183%	8.277%	91	62	2	1.091%
Institutions	11.67 - 20.20	CCC	16.322%	16.293%	62	126	4	3.476%
Institutions	20.20 - 29.58	CC-	24.855%	24.658%	32	10	4	4.819%
Institutions	29.58 - 100.00	C-	36.813%	39.576%	31	10	1	4.611%

EU CR9: IRB – Backtesting of probability of default (PD) per exposure class

Exposure class	PD Range	External rating equivalent	Weighted average PD	Arithmetic average PD by obligors	Number of obligors		Defaulted obligors in the year	Average historical annual default
					End of 2015	End of 2016		
Retail	0.00 - 0.01	AAA	0.005%	0.009%	1,865,865	1,984,312	538	0.031%
Retail	0.01 - 0.03	AA	0.019%	0.021%	79,657	86,022	71	0.073%
Retail	0.03 - 0.04	AA	0.031%	0.031%	77,248	97,544	42	0.090%
Retail	0.04 - 0.05	AA	0.044%	0.041%	645,294	677,469	296	0.050%
Retail	0.05 - 0.06	A	0.051%	0.053%	79,571	46,746	21	0.031%
Retail	0.06 - 0.08	A	0.067%	0.067%	143,336	51,231	89	0.061%
Retail	0.08 - 0.11	A	0.089%	0.102%	864,211	948,013	1,059	0.104%
Retail	0.11 - 0.17	BBB	0.146%	0.136%	556,848	556,142	559	0.142%
Retail	0.17 - 0.26	BBB	0.209%	0.217%	647,080	681,394	978	0.222%
Retail	0.26 - 0.37	BBB	0.324%	0.312%	541,514	570,611	1,384	0.392%
Retail	0.37 - 0.58	BB	0.457%	0.476%	615,005	615,365	3,035	0.600%
Retail	0.58 - 1.00	BB	0.727%	0.773%	663,427	653,326	3,540	1.605%
Retail	1.00 - 1.77	BB	1.314%	1.485%	373,902	455,802	3,762	1.663%
Retail	1.77 - 3.23	B	2.645%	2.498%	421,224	470,410	5,298	2.348%
Retail	3.23 - 6.05	B	4.152%	3.907%	191,386	190,078	6,905	6.357%
Retail	6.05 - 11.67	B	8.340%	7.927%	171,878	182,624	11,027	7.675%
Retail	11.67 - 20.20	CCC	16.227%	16.815%	82,577	75,683	7,580	12.792%
Retail	20.20 - 29.58	CC-	24.960%	25.843%	11,192	10,885	2,131	20.164%
Retail	29.58 - 100.00	C-	44.409%	37.048%	43,591	34,283	11,592	27.216%

The performance of AIRB PD models is statistically back-tested on a regular basis. There are currently no known issues of PD underestimation.

EL backtesting
The table below gives insight in the Expected Loss rate and the Observed Loss rate. The expected loss as of 31 December 2015 for the performing portfolio is split per exposure class. The 31 December 2015 portfolio is followed through 2016 to determine the defaulted exposures. The models are based on long series of historical data. In the comparison, the expected loss rate is calculated by dividing the expected loss of the performing portfolio as of 31 December 2015 by the READ of the performing portfolio of the same period. The Observed Loss rate is a result of multiplying the observed defaulted exposures by its LGD. This backtest is only representative of the year end 2015 portfolio and can be influenced by small sample sizes or incidents. Nonetheless, backtesting gives a comparison of the Expected Loss rate PD versus the observed Loss rate.

Expected loss rate under the Advanced IRB approach versus the observed loss rate per exposure class

2016	Sovereigns	Institutions	Corporate	Secured by Res. Mortgage	Other retail	Total
Expected loss rate 2015*	0.02%	0.05%	0.34%	0.18%	0.82%	**0.22%**
Observed Loss Rate 2016	0.00%	0.05%	0.25%	0.12%	0.80%	**0.17%**

Includes the AIRB portfolio only; excludes securitisations, equities and ONCOA.
* Expected loss rate 2015 includes performing loans only.

Backtesting observed default rates and observed losses for 2016 show observed results that are below predicted levels for all exposure classes except for Institutions. This can be explained by the improved economic conditions that were experienced in 2016. In 2016, no defaults were recorded for Sovereigns while default rates of corporates, residential mortgages and other retail loans have continued to improve compared to the previous year. The observed losses for institutions were mainly witnessed for institutions in Africa.

Standardised Approach
A subset of the ING portfolio is treated with the Standardised Approach (SA approach). The SA approach applies fixed risk weights to each exposure class, split into credit quality steps (based on external ratings) as dictated by the Capital Requirement Directive (CRD). The SA approach is the least sophisticated of the CRR/CRD IV methodologies and is not as risk sensitive as the risk-based AIRB Approach.

In order to calculate the regulatory capital requirements under the SA approach, ING Bank uses eligible external ratings from Standard & Poor's, Moody's and Fitch Ratings. Ratings are applied to all relevant exposure classes in the SA approach. For the mortgage portfolios, the fixed prescribed risk weights are used.

Exposures before and after risk mitigation for the SA portfolio
The table below shows how credit risk mitigation (CRM) in the SA portfolio is distributed over the exposure classes. ING Bank's exposure value is shown before and after credit risk mitigation. There are two principal methods for reducing or mitigating Credit Risk: i) by reduction of Credit Risk through the acceptance of pledged financial assets as collateral or ii) mitigation or shifting of credit risks to a lower risk weighting group by accepting guarantees from unrelated third parties. ING Bank uses both methods to take CRM effects into account. For financial markets collateral, ING Bank uses the Financial Collateral Comprehensive Method to allow for mitigation effects.

The table below illustrates the effect of all CRM techniques applied in accordance with the Part Three, Title II, Chapter 4 of Regulation (EU) 575/2013 on the standardised approach capital requirements' calculations. Risk weighted exposure amount (RWA) density provides a synthetic metric on riskiness of each portfolio.

EU CR4: Standardised approach - credit risk exposure and Credit Risk Mitigation (CRM) effects

	Exposures before CCF and CRM		Exposures post-CCF and CRM		RWA and RWA density	
Exposure classes	On-Balance Sheet amount	Off-Balance Sheet amount	On-Balance Sheet amount	Off-Balance Sheet amount	RWA	RWA density
Central governments or central banks	2,433	1,369	2,582	3	2,158	84%
Regional governments or local authorities	76	198	76	1	37	48%
Institutions	2,147	135	2,563	11	540	21%
Corporates	5,969	6,521	5,861	893	6,637	98%
Retail	8,528	6,409	7,969	2,020	7,142	71%
Secured by mortgages on immovable property	13,604	2,409	13,426	653	7,667	54%
Exposure in default	878	37	455	10	550	118%
Total	**33,634**	**17,078**	**32,931**	**3,590**	**24,731**	**68%**

Excludes Counterparty Credit Risk exposures.

Additional Pillar III information - continued

The SA portfolio comprises mainly of the exposures in Turkey, Poland and Romania. In terms of business, the portfolio is spread over residential mortgages and consumer lending, with a relatively small portion arising from corporate exposures. The biggest movement in 2016 within the SA portfolio was the move of the Dutch Healthcare portfolio from IRB approach to SA approach. Excluding this change, there was growth in residential mortgages in these SA three countries. The sovereign portion of SA exposure is arising mainly due to deposits with the Turkish Sovereign.

Risk weights per exposure classes

The table below presents the breakdown, post conversion factor and post risk mitigation techniques, of exposures under the Standardised approach by exposure class and risk weight (corresponding to the riskiness attributed to the exposure according to SA approach). The risk weights presented encompass all those assigned to each credit quality step in Article 113 to Article 134 in Part Three, Title II, Chapter 2 of Regulation (EU) 575/2013.

EU CR5: Standardised approach Post-CCF and Post-CRM Techniques

	Risk weight																	
Exposure Classes	0%	2%	4%	10%	20%	35%	50%	70%	75%	100%	150%	250%	370%	1250%	others	de-ducted	**Total**	Un-rated
Central governments or central banks	216						419			1,949							**2,584**	
Regional governments or local authorities					5		71										**76**	
Institutions					2,537	0	10			25	2						**2,574**	
Corporates							7			6,704	43						**6,754**	
Retail									9,989								**9,989**	
Secured by mortgages on Real immovable property						6,968	3,436			3,675							**14,079**	
Exposure in default							20			255	191						**466**	
Total	**216**				**2,542**	**6,968**	**3,963**		**9,989**	**12,608**	**236**						**36,522**	

Excludes Counterparty Credit Risk exposures.

The SA portfolio increased by 8% to EUR 36.5 billion in terms of READ, excluding the counterparty credit risk. The RWA increased by 10% to EUR 24.7billion. This increase in the SA portfolio is mainly related to transfer of the Dutch Healthcare portfolio from AIRB approach to SA. Increase in portfolio was witnessed in Poland and in Turkey. In Poland the Residential Mortgage portfolio grew by EUR 0.8 billion READ while in Turkey the portfolio growth is mainly attributable to the Corporates portfolio which increased by EUR 1.3 billion. FX impact over 2016 was limited as the portfolio is denominated in both Turkish Lira's and U.S. dollar for which the FX impacts offset each other.
The exposures with a 35% risk weight are mostly seen in the Polish mortgage portfolio, and the retail exposures with a 75% risk weight originate mostly in the Turkish portfolios, with smaller attributions from Poland and Romania. The 100% risk weight exposures in the corporate exposure class originate in the Turkish corporate portfolio (EUR 7.2 billion) and in the Dutch Healthcare portfolio (EUR 2.0 billion).

Credit quality

This section focusses on non-performing loans, which are loans where there is a reasonable probability that ING Bank may end up with a loss, unless ING Bank intervenes with specific and significant actions. In other words, in this category an account or portfolio requires a more intensified approach, which may include renegotiations of terms and conditions and/or business/financial restructuring. This section should be read in conjunction with the Risk Management paragraph sections of the Annual Report on: Risk Appetite Framework and Credit Quality.

The credit quality of risk exposures is presented in three tables providing insight in the credit quality per exposure class, industry or counterparty type and geography. These tables present the gross carrying values, consisting of on- and off balance sheet exposures, split over non-performing / performing, specific risk adjustments and impairments/allowances. The net carrying values are the result and are presented at the end of the tables. These three tables should be read in conjunction with detailed sections per (ING Internal) exposures class: Sovereign, Institutions, Corporate and Retail. Albeit that the measures used in those sections are READ and RWA, the main movements are explained.

On-balance sheet items include loans and debt securities. Off-balance sheet items include guarantees given and irrevocable loan commitments. Pre-settlement exposures are not included in this section.
More information on the definition of non-performing loans and allowances can be found in the Credit quality section of the risk management paragraph of the Annual report.

Credit quality of exposures by exposure classes and instruments

This section provides a comprehensive picture of the credit quality of the banks' assets per exposure class.

EU CR1-A: Credit quality of exposures by exposure classes and instruments

	gross carrying values					
	defaulted exposures	Non-defaulted exposures	specific credit risk adjustments	general credit risk adjustments	credit risk adjustment charges of the period	Net values
Central governments or central banks	0	225,837	-11			225,826
Institutions	336	100,631	-13			100,954
Corporates	8,179	404,726	-3,395			409,510
of which: specialised lending	2,559	141,166	-971			142,754
of which: SMEs	1,657	32,950	-546			34,060
Retail	4,647	322,450	-1,360			325,737
secured by real estate property	3,893	292,942	-751			296,084
SMEs	611	10,476	-171			10,916
Non-SMEs	3,281	282,466	-580			285,168
Qualifying revolving						
Other retail	754	29,507	-609			29,653
SMEs	303	5,839	-235			5,907
Non-SMEs	451	23,669	-374			23,745
Total IRB Approach	**13,161**	**1,053,643**	**-4,778**			**1,062,027**
Central governments or central banks	0	3,802	-1			3,801
Regional governments or local authorities	0	274	0			274
Institutions	0	2,282	-1			2,281
Corporates	0	12,489	-22			12,468
of which: SMEs	0	2,870	-5			2,865
Retail	0	14,937	-106			14,831
of which: SMEs	0	4,509	-17			4,492
secured by mortgages on immovable property	0	16,012	-21			15,991
of which: SMEs	0	2,967	-7			2,960
Exposures in default	915	0	-434			481
Total SA approach	**915**	**49,797**	**-585**			**50,127**
Total	**14,077**	**1,103,441**	**-5,363**			**1,112,154**

Excludes Counterparty Credit Risk, Securitisations, CVA RWA, Equities and ONCOA.

Credit quality of exposures by industry or counterparty types

The following breakdown shows the defaulted and non-defaulted exposures per NACE industry or counterparty sector type.

Additional Pillar III information - continued

EU CR1-B: Credit quality of exposures by industry or counterparty types	gross carrying values of					
	defaulted exposures	non-defaulted exposures	specific credit risk adjustments [1]	general credit risk adjustments	credit risk adjustment charges of the period	Net values
Agriculture, Forestry and Fishing	338	4,164	-129			4,373
Mining and Quarrying	732	21,378	-232			21,878
Manufacturing	1,900	101,454	-956			102,397
Electricity, Gas, Steam and Air Conditioning Supply	290	22,633	-127			22,796
Water Supply; Sewerage, Waste Management and Remediation Activities	86	3,540	-37			3,589
Construction	1,237	18,167	-547			18,858
Wholesale and Retail Trade; Repair of Motor Vehicles and Motorcycles	1,240	93,418	-591			94,067
Transportation and Storage	1,195	32,608	-381			33,422
Accommodation and Food Service Activities	115	4,530	-49			4,596
Information and Communication	343	17,898	-107			18,134
Financial and Insurance Activities	421	232,026	-92			232,355
Real Estate Activities	1,474	45,481	-498			46,457
Professional, Scientific, and Technical Activities	512	23,965	-231			24,247
Administrative and Support Service Activities	407	21,121	-126			21,402
Public Administration and Defence; Compulsory Social Security	105	160,226	-56			160,275
Education	15	1,812	-7			1,820
Human Health and Social Work Activities	105	10,852	-47			10,910
Arts, Entertainment, and Recreation	47	1,502	-26			1,523
Other Service Activities	69	2,690	-33			2,727
Activities of Households as Employers; Producing Activities of Households for own use	3,445	283,975	-1,092			286,328
Total	**14,077**	**1,103,441**	**-5,363**			**1,112,154**

Excludes Counterparty Credit Risk exposures, Securitisations, CVA RWA, Equities and ONCOA.
[1] Includes 119 million for contingent liabilities

Credit quality of exposures by geography

The table below provides a comprehensive picture of the credit quality of the on- and off-balance sheet exposures by geography

EU CR1-C : Credit quality of exposures by geography	gross carrying values of					
	defaulted exposures	non-defaulted exposures	specific credit risk adjustments[1]	general credit risk adjustments	credit risk adjustment charges of the period	Net values
Europe	12,740	862,182	-4,867			870,054
Netherlands	5,269	261,185	-1,799			264,656
Germany	780	169,692	-544			169,928
Belgium & Luxemburg	2,677	161,640	-672			163,645
Other Europe	4,014	269,665	-1,853			271,826
Africa	90	6,109	-7			6,191
America	838	86,350	-241			86,947
Asia	254	100,960	-236			100,979
Australia	155	47,840	-12			47,983
Total	**14,077**	**1,103,441**	**-5,363**			**1,112,154**

Excludes Counterparty Credit Risk exposures, Securitisations, CVA RWA, Equities and ONCOA.
[1] Includes 119 million for contingent liabilities

Reconciliation of non-performing loans disclosures

The table below shows the reconciliation of non-performing loans segmented by the lines of businesses used internally by ING Bank. A narrative explanation on these business lines is given in the Risk Management paragraph of the Annual report.

Reconciliation of non-performing loans disclosures[4]

	Wholesale Banking	Retail Banking Benelux	Retail Challengers & Growth Markets	Total ING Bank
Impaired loan book - movements				
Impaired loans at 1 January 2016[1]	6,191	7,172	1,962	15,325
Classified as impaired during the year[2]	1,719	1,668	842	4,229
Outflow from impaired excluding write-offs	-1,628	-2,443	-367	-4,438
Amounts written off	-624	-677	-188	-1,489
Changes in composition of the bank	0	0	0	0
Exchange rate and other movements[3]	22	0	-52	-30
At 31 December 2016	**5,680**	**5,721**	**2,196**	**13,597**
Impairment allowances - movements				
Impairment allowances at 1 January 2016[1]	2,371	2,199	1,216	5,786
Changes in the composition of the Bank	0	0	0	0
Amounts written off	-625	-681	-188	-1,494
Recoveries of amounts written off in previous years	49	38	7	94
Addition to loan loss provisions (from income statement)	367	347	260	974
Exchange rate and other movements	-15	-19	-18	-52
At 31 December 2016	**2,147**	**1,884**	**1,277**	**5,308**

1 Equals the amount as of 31 December 2015.
2 Unadjusted for exchange rate fluctuations.
3 Based on start and end date of the outstanding positions, unadjusted for inflow and outflow.
4 At the end of 2016, the stock of provisions included provisions for amounts due from banks: EUR 11 million (2015: EUR 14 million).

The decrease of EUR 1.7 billion in non-performing loans was mainly driven by the continuing improving Dutch economy. In Wholesale Banking a significant NPL decrease was observed within Real Estate Finance (EUR 0.5 billion) due to write-offs, repayments and improved clients. This was offset by an increase in Structured Finance (EUR 0.5 billion), mainly driven by the Shipping and Oil & Gas portfolios, the latter also being the main driver for the watch listed clients increase.

The favourable trend in risk costs continued over the first three quarters of 2016. Compared to 2015-end, risk costs have trended down to 31 basis points (2015: 44 basis points) of average RWA which is below the through-the-cycle guidance range of 40-45 basis points. The improving risk trend caused average quarterly risk costs to remain well below EUR 300 million, causing the total stock of provisions to decline from EUR 5.8 billion to EUR 5.3 billion.

Portfolios in Market Leaders continued to improve, Wholesale Banking corporate lending was also relatively strong with a few incidental defaults. Challenges continued in industries like Oil & Gas, Shipping, and Telecom while on the other hand, improved risk profiles were witnessed in other portfolios of the bank such as in Residential Mortgages and in the REF portfolio. Encouraging signs in the Dutch housing market have helped reduce the risk costs due to improved house prices and risk profiles. Risk costs in Turkey and Ukraine have trended downwards in previous quarters.

There was an improvement in the bank coverage ratio to 39.0% (2015: 38.5%) due to improved non-performing loan levels and a comparatively lesser decrease in stock provision level.

Large parts of the Investment portfolio are not accounted for at amortised costs (Loans & Receivables or Held-to-Maturity) and therefore out of scope for LLP. Instead, these assets are evaluated for impairment. The ING Bank Impairment Meeting is a quarterly process that reviews all assets that are subject to an IFRS-EU impairment test.

Non-performing and forborne exposures

The Non-performing exposure table should be read in conjunction with the information and statements made in the Risk Management Paragraph of the annual accounts.

Additional Pillar III information - continued

EU CR1-E: Non-performing and forborne exposures

	Gross carrying amount of performing and non-performing exposures					Accumulated impairment and provisions and negative fair value adjustments due to credit risk				Collaterals and financial guarantees received	
		Of which performing but past due >30 days and <=90 days	of which performing forborne	Of which non-performing		On performing exposures		On non-performing exposures		On non-performing exposures	of which: forborne exposures
					of which: forborne		of which: forborne		of which: forborne		
Debt Securities	91,920			7	0	-13		-5			
Loans and advances	589,232	601	7,660	13,215	6,733	-814	-91	-4,475	-1,818	6,917	10,144
Off-balance sheet exposures	149,025		687	602	361					153	116

The total ING Bank forborne assets increased by EUR 4.7 billion to EUR 15.4 billion per December 2016. The main driver for this increase relate to the further policy revision of the forbearance definition which was implemented in 2016. Key policy revisions were the inclusion of concessions where ING Bank is substantially compensated by concessions by the client, as well as measures that address key financial covenants as part of the loan agreement. Almost 70% of this increase is visible in the top three industries: a EUR 1.0 billion increase in Natural Resources which was mostly attributable to the Oil & Gas portfolio, another EUR 0.9 billion increase in Transportation & Logistics which is mainly related to shipping activities and another EUR 0.4 billion in the Real Estate portfolio.

Past due loans

ING Bank considers past due loans to be those loans where any payment of interest of principal is more than one day past due. The methodology is principally applied to loans to private individuals, such as residential mortgage loans, car loans and other consumer loans. For business loans (Sovereigns, Institutions, Corporates), ING Bank has adopted a policy to classify the obligor as a non-performing loan as quickly as possible upon the occurrence of a payment default.

The table below is based on the country of residence of the obligor and on credit risk outstandings. Credit Risk outstandings include amounts associated with both on- and off- balance sheet products, but exclude amounts related to unused limits.

Past due but performing consumer loans by geographic area (based on outstandings)

			2016	2015
	Residential mortgages	Other retail	Total	Total
Netherlands	945	2	947	1,073
Belgium	901	542	1,443	1,719
Germany	223	28	251	276
Other Europe	346	438	784	768
Americas	2	-	2	2
Asia / Pacific	542	0	542	490
ROW	1	0	1	0
Total	**2,960**	**1,010**	**3,970**	**4,328**

Total past due exposure for consumer loans decreased by EUR 0.36 billion. The decrease is mainly caused by an improved residential mortgages portfolio in Belgium and the Netherlands which is a result of the further improved economic environment and improved arrears. In the Other Europe Residential Mortgage portfolio an increase is observed in past due exposures payments between 1 to 90 days compared to end of 2015. This is mainly caused by the Turkish, Italian, and Romanian residential mortgage portfolios. In Asia / Pacific, the increase is mostly observed in Australia.

Aging of past due exposures

The table below gives an insight in the aging of the Business and Consumer exposures and includes both the performing and non-performing portfolio, while the previous table only includes the past due performing exposures for Consumer. The table is broken down into type of instruments (Loans and Debt Securities). The values displayed are the on balance sheet gross carrying values before impairment, provisions and before write offs, as write offs take place after the provisioning process.

Additional Pillar III information - continued

EU CR1-D: Ageing of past-due exposures

	<= 30 days	>30 days <60 days	> 60 days <90 days	>90 days <180 days	>180 days < 1year	> 1year
Loans	587,310	1,019	3,102	1,217	1,169	6,983
Debt Securities	101,098	31	35	-	-	0
Total exposures	**688,408**	**1,050**	**3,138**	**1,217**	**1,169**	**6,983**

On a total level the ageing of the portfolio improved with EUR 2.5 billion, counting from 30 days and more past due. All buckets show a decrease, except the bucket > 1 year, which increased with EUR 1.1 billion. This means that a part of the customers that were already past due, continue having interest payment arrears.

Off-balance items

Undrawn commitments

The figures below represent the potential exposure that may be drawn by ING Bank's obligors under committed facilities. In most cases, the obligors have the right to make use of these facilities unless an event of default has occurred, or another defined event within the associated credit risk agreement has occurred. In most cases, the obligor pays a commitment fee to ING Bank on the unused portion of these facilities. Pre-Settlement, Money Market and Investment limits are generally not committed.

Undrawn commitments

						2016	2015
	Sovereigns	Institutions	Corporate	Residential mortgages	Other retail	Total	Total
Under SA approach	1	1	1,353	166	3,935	5,456	4,518
Under AIRB Approach	1,285	4,270	80,286	11,617	9,768	107,226	105,687
– 0% risk weight	14	25	376	6		421	206
– >0% - ≤10% risk weight	1,082	1,655	12,893	8,696	5,068	29,394	28,052
– >10% - ≤20% risk weight	138	676	8,950	1,702	1,706	13,172	15,595
– >20% - ≤35% risk weight	47	840	20,523	830	880	23,120	24,878
– >35% - ≤50% risk weight		653	15,516	205	723	17,095	16,120
– >50% - ≤75% risk weight		137	11,564	102	711	12,515	10,961
– >75% - ≤100% risk weight		178	4,296	37	439	4,949	5,077
– >100% - ≤150% risk weight	2	60	4,307	22	181	4,572	3,309
– >150% - ≤200% risk weight	2	42	1,243	10	36	1,333	928
– >200% - <1250% risk weight		4	619	7	24	655	560
– 1250% risk weight	0	0	0	0	0	0	
Total	1,285	4,271	81,640	11,784	13,703	112,683	110,205

If all of the unused commitments were called upon at the same time, ING Bank's credit risks (in terms of outstandings) would increase by 14.5%. As part of its Regulatory EAD models, ING Bank makes an estimate of how much of these unused commitments would be drawn under normal circumstances. The effect is included in the calculation of the RWA, together with a similar effect applied to uncommitted facilities, albeit at a lower rate.
The increase of the undrawn commitments is spread over all the risk weight categories and is in line with the growth of the portfolio in 2016.

Counterparty credit risk (CCR)

The main activities that qualify under counterparty credit risk are derivatives trading activities and securities financing. As part of these activities, ING Bank enters into master agreements such as ISDA master agreements and Global Master Repurchase Agreements (GMRAs). Under the terms contained in sections related to Threshold Amounts and Minimum Transfer Amounts of Credit Support Annexes (CSA) or other similar clauses, both ING Bank and its counterparties may agree to pledge additional collateral to each other. The actual amount that ING Bank may be required to pledge in the future varies based on ING Bank's portfolio composition of both derivatives and securities pledged in securities financing transactions, market circumstances, the number of downgrade notches as well as the terms and conditions of future CSAs or other similar agreements entered into.

CCR risk approach

Analysis of the counterparty credit risk exposure by approach

In the table below the portfolio's counterparty credit risk exposure, calculated according the regulatory requirements, is presented. ING is using the Current Exposure Method (or MTM / Mark to Market) method as described in the CRR (art 274), which is a Standardised Approach. There are no exposures under de Internal Model method. For the calculation of the collateral, ING uses the comprehensive method for Securities Financing Transactions (SFT). There is no Contractual Cross Product netting.

For the regulatory exposure at default (READ) calculation for counterparty default risk, ING uses the Current Exposure Method (or MTM / Mark to market) method as described in the CRR (art 274). The READ measure consist of a MTM part and a regulatory prescribed add-on to reflect the potential future exposure in the trade. The READ is calculated on a daily basis to take into account the changes in the MTM value due to market movements and changes in the portfolio composition. This calculation is done on:

- A gross basis (ignoring any collateral received and ignoring any netting between trades, by applying (max(MTM,0) for each trade).
- A net basis (ignoring any collateral received, but applying netting between trades with a positive and negative MTM in case there is a legally enforceable netting agreement in place).
- A net basis after collateral (subtracting any post haircut value of collateral received, and applying netting between trades with a positive and negative MTM in case there is a legally enforceable netting agreement in place).

The READ together with the other building blocks (PD, LGD and maturity), allow ING Bank to classify a large part of its derivatives exposures under the AIRB approach. READ also takes into account the sum of CVA recognised as an incurred write-down in line with CRR art. 273(6).

EU CCR1 – Analysis of the counterparty credit risk (CCR) exposure by approach

	Replacement cost (floored MtM)	Potential future exposure	EAD post-CRM	RWA
Mark to market (Derivatives)	96,440	9,880	37,530	9,726
Financial collateral comprehensive method (for SFT's)			7,619	1,146
Total	96,440	9,880	45,149	10,872

Excluding exposure class Securitizations

The RWA of ING counterparty credit risk portfolio dropped by 6.6% during the year, mainly due to the increased use of central clearing. In line with regulatory requirement ING novated more trades via qualifying central counterparties (CCPs), which compresses the exposure via the use of the large netting pool of a CCP as well as requires a low risk weight (2%). Additionally RWA dropped by approximately EUR 1 billion due to a change in the regulatory exposure calculation methodology for derivatives.

Standardised approach – CCR exposures by regulatory portfolio and risk

The following table presents the CCR exposures that are calculated according the Standardised approach (SA):

EU CCR3: Standardised approach - CCR exposures by regulatory portfolio and risk

	Risk weight											Total
Exposure Class	0%	2%	4%	10%	20%	50%	70%	75%	100%	150%	Others	
Central governments or central banks												
Regional governments or local authorities												
Institutions					9	554			1			564
Corporates									242	8		250
Retail								1				1
Secured by mortgages on Real Immovable property												
Exposure in default												
Other items												
Total					9	554		1	243	8		815

Excluding exposure class Securitizations

The 100% Risk weight exposure contains mainly interest rate swaps and is related to the Dutch healthcare portfolio. This portfolio was recently moved to the Standardised approach and received a hundred percent risk weight.

IRB – CCR exposures by portfolio and PD scale

The following table shows all relevant parameters used for the calculation of CCR capital requirements for IRB models.

Additional Pillar III information - continued

EU CCR4: IRB-CCR exposures by portfolio and PD scale

	PD Scale	READ	Average pd	Number of obligors	Average LGD	Average maturity	RWA	RWA density
Central Governments and Central Banks	0.00 to < 0.15	2,377	0.03%	128	26%	3.6	184	8%
Central Governments and Central Banks	0.15 to < 0.25	25	0.21%	3	45%	2.3	12	47%
Central Governments and Central Banks	0.25 to < 0.50	33	0.31%	12	45%	3.8	24	73%
Central Governments and Central Banks	0.50 to < 0.75							
Central Governments and Central Banks	0.75 to < 2.50							
Central Governments and Central Banks	2.50 to < 10.00		8.35%	3	31%	4.9	1	181%
Central Governments and Central Banks	10.00 to < 100.00	14	16.32%	2	100%	1.5	55	397%
Central Governments and Central Banks	**sub-total**	**2,450**	**0.09%**	**150**	**27%**	**3.6**	**277**	**11%**
Corporates	0.00 to < 0.15	7,311	0.08%	1,318	28%	1.9	1,154	16%
Corporates	0.15 to < 0.25	1,232	0.21%	820	39%	2.9	567	46%
Corporates	0.25 to < 0.50	3,037	0.36%	2,891	37%	2.4	1,582	52%
Corporates	0.50 to < 0.75	2	0.62%	186	52%	1.8	2	78%
Corporates	0.75 to < 2.50	2,154	1.13%	2,717	43%	2.4	1,920	89%
Corporates	2.50 to < 10.00	192	5.34%	520	40%	3.5	283	147%
Corporates	10.00 to < 100.00	79	26.90%	522	37%	2.9	180	228%
Corporates	default	19	100.00%	147	46%	2.8	108	581%
Corporates	**sub-total**	**14,026**	**0.67%**	**9,121**	**34%**	**2.2**	**5,796**	**41%**
Institutions	0.00 to < 0.15	37,510	0.06%	1,294	34%	3.0	3,366	9%
Institutions	0.15 to < 0.25	3,155	0.21%	129	19%	0.5	455	14%
Institutions	0.25 to < 0.50	558	0.36%	365	27%	2.3	193	35%
Institutions	0.50 to < 0.75							
Institutions	0.75 to < 2.50	391	0.99%	612	22%	1.1	223	57%
Institutions	2.50 to < 10.00	31	4.76%	96	10%	4.1	13	44%
Institutions	10.00 to < 100.00	4	16.32%	105	38%	1.0	4	121%
Institutions	default							
Institutions	**sub-total**	**41,649**	**0.09%**	**2,601**	**33%**	**2.8**	**4,255**	**10%**
Retail	0.00 to < 0.15	8	0.07%	216	53%		1	9%
Retail	0.15 to < 0.25	5	0.17%	84	58%		1	22%
Retail	0.25 to < 0.50	2	0.36%	196	57%		1	34%
Retail	0.50 to < 0.75	2	0.68%	79	67%		1	54%
Retail	0.75 to < 2.50	4	1.11%	160	41%		1	40%
Retail	2.50 to < 10.00	1	3.74%	44	54%		1	79%
Retail	10.00 to < 100.00	2	17.52%	140	60%		2	129%
Retail	default		100.00%	16	61%		2	757%
Retail	**sub-total**	**24**	**2.98%**	**935**	**54%**		**11**	**44%**
Total Portfolio		58,149	0.23%	12,801	33%	2.7	10,338	18%

Excluding exposure class Securitisations. All figures are in millions of EUR, except for the number of obligors. The maturity is not available for the retail exposure class, for all other cells that are left blank, the values are minimal

Derivatives by product type

The table below shows the derivatives exposure by product type, where the exposure measure is based on the regulatory exposure at default (READ) used for counterparty default risk under CRR.

Derivatives by product type in READ

						2016	2015
	Sovereigns	Institutions	Corporate	Residential mortgages	Other retail	Total	Total
Interest Rate Derivatives	1,940	24,435	6,054		10	32,439	33,930
FX Derivative	312	3,574	3,694		8	7,588	5,972
Equity Derivative	3	1,195	415		9	1,622	2,176
Exchange Traded Products		1,370	147			1,516	2,094
Commodity Derivative	4	34	960		0	999	997
Credit Derivative		268	176			443	410
Derivatives Other		72	9			81	187
Total (ALL)	**2,259**	**30,948**	**11,455**		**27**	**44,689**	**45,766**

The derivative portfolio of ING Bank facilitates hedging mortgage lending portfolio facilities as well as hedging for clients. Approximately 73% of the derivatives portfolio is related to interest rate derivatives of which a large part is cleared via CCPs.
The FX derivative portfolio increased by 27% in 2016. This is explained by new client volume as well as expansion in one product (FX Swap) with key counterparties.
At Equity derivatives, ING made efforts to simplify the product line and focus only on the most value-added trades.

Over-the-counter and exchange traded derivatives

This section provides a quantitative and qualitative analysis of ING's credit risk that arises from its derivatives transactions. This quantifies notional derivatives exposure, including whether derivatives are traded over-the-counter (OTC) or traded on recognised exchanges (ETD). Where the derivatives are OTC, the table shows how much is cleared by central counterparties and how much is not, and provides a description of the collateral agreements in place.

Credit risk from derivative transactions

		2016		2015
	Notional	MtM	Notional	MtM
OTC derivatives				
CCP	2,238,106	- 1,804	2,052,352	-2,190
Non-CCP	1,644,126	-1,658	1,759,442	-1,353
ETD derivatives	45,214	-18	46,472	-28
Total	3,927,445	-3,479	3,858,265	-3,571

At the end of 2016, around 57% of the derivative portfolio (based on notional value) was novated via a central counterparty. 24% of the non-cleared trades were uncollateralized, which mainly relate to Corporates with small credit limits and mainly comprises of interest rate derivatives (53%) and FX Derivatives (32%).
Among the collateralised, not cleared trades 84% is under a bilateral CSA. Unilateral CSA agreements relate mainly to agreements that are unilateral against ING and mainly consist of Interest Rate Derivatives with Sovereign counterparties.

Securities financing by product type

The exposures in this table are calculated based on the Financial Collateral Comprehensive Method as described in CRR (art. 223), where the regulatory haircuts are used for exposure and collateral and where netting is applied whenever there is a master netting agreement in place with a positive legal netting opinion.

Securities financing by product type in READ

						2016	2015
	Sovereigns	Institutions	Corporate	Residential mortgages	Other retail	Total	Total
Bond Financing Given	113	5,876	500			6,489	6,983
Equity Financing Given		3,487	1,522			5,009	5,140
Bond Financing Taken	78	1,200	704			1,982	2,363
Equity Financing Taken		702	92			794	1,301
Total (ALL)	191	11,265	2,818			14,275	15,786

Includes both AIRB and SA portfolios; excludes Securitisations, equities and ONCOA.

The securities financing portfolio decreased by around 10% in 2016. The decrease was shared between all product types.

Impact of netting and collateral held on exposure values

Impact of netting

It is common practice in OTC derivatives trading to sign master agreements that allow for close out netting in case one of the parties defaults. In case ING has signed such a master agreement and a positive legal netting opinion is in place, the agreement is deemed to be legally enforceable. For trades done under such a legally enforceable netting agreement, it is possible to calculate the exposure on a net basis.

EU CCR5-A: Impact of netting and collateral held on regulatory exposure values

	Gross positive fair value	Netting benefits	Netted current credit exposure	Collateral held	Net credit exposure
Derivatives by underlying	136,343	91,328	45,015	7,485	37,530
Securities Financing Transactions	37,208	22,933	14,275	6,657	7,619
Cross-product netting					
Total	173,551	114,261	59,290	14,142	45,149

Excluding exposure class securitization

Collaterals

The change in the actual amount that ING Bank had to pledge can be observed in the following table.

EU CCR5-B: Composition of collateral for exposures to counterparty credit risk

		Collateral used in derivative transactions				Collateral used in SFT's	
		Fair value of collateral received		Fair value of posted collateral			
2016		Segregated	Un-Segregated	Segregated	Un-segregated	Fair value of collateral received	Fair value of posted collateral
	Cash	1,460	10,481	-4,058	-13,983		
	Securities		1,760	-716	-3,754		
	Total	1,460	12,241	-4,774	-17,737	102,612	-82,868
2015	Total	396	14,128	-6,379	-22,239	103,311	-90,403

ING's key drivers of the changes to the collateralized derivative portfolio are Interest- and Foreign Exchange Risk.

Central Counterparties

The use of Central Clearing (CCPs) is becoming more important for the derivatives business and as a consequence part of the credit risk is shifting from counterparties to CCPs.

The table below presents the exposures to central counterparties, broken down by qualified (QCCP) and non-qualified CCPs:

EU CCR8: Exposures to central counterparties

	EAD (post-CRM)	RWA
Exposures to QCCPs (total)		
Exposures for trades at QCCPs (excluding initial margin and default fund contributions); of which	17,002	340
(i) OTC derivatives	15,676	314
(ii) Exchange-traded derivatives	631	13
(iii) Securities financing transactions	695	14
(iv) Netting sets where cross-product netting has been approved		
Segregated initial margin		
Non-segregated initial margin		
Pre-funded default fund contributions	159	279
Alternative calculation of own funds requirements for exposures		
Exposures to non-QCCPs (total)		
Exposures for trades at non-QCCPs (excluding initial margin and default fund contributions); of which	229	15
(i) OTC derivatives		
(ii) Exchange-traded derivatives		
(iii) Securities financing transactions	229	15
(iv) Netting sets where cross-product netting has been approved		
Segregated initial margin		
Non-segregated initial margin		
Pre-funded default fund contributions		
Alternative calculation of own funds requirements for exposures		

Note: The status “qualified” is based on the European Securities and Markets Authority (ESMA) qualification. ING clears with the following QCCPs: Banque Centrale de Compensation SA, EUREX Clearing Aktiengesellschaft, KDPW CCP SA, LCH Clearnet Repoclear service and LCH Clearnet Swapclear service.

Voluntary and mandatory clearing has a large impact on the development of EAD and RWA. From an EAD perspective, it should be noted that many trades are concentrated in one netting set (per CCP service), compared to bilateral trading, where trades are ending up in various netting sets. Novating a bilateral traded contract to a CCP therefore typically reduces the amount of EAD.
From an RWA perspective, the novation reduces the amount of RWA even more, due to the fact that the risk weight is only 2% (for QCCP exposure).

During 2016, the total trade exposure EAD (post-credit risk mitigation) for QCCP’s has increased, due to the following reasons:

- Increased cleared trade volumes
- Cleared trades previously reported on INGs clearing brokers, are now reported on the CCP (where the “look-through” approach could be applied as described under CRR art. 305, 2/3).
- In 2016 ESMA has authorised new CCP’s (increase in number of Qualified CCPs). For this reason, the share of QCCPs in the total of cleared trades, has increased.

The trade exposure RWA has decreased, due to the following reasons:

- Exposure previously booked with the regulatory risk weight of the clearing broker, has now been given the 2% risk weight that applies to CCP exposure, based on the same “look-through” approach as described above.
- In 2016 ESMA has authorised new CCP’s (increase in number of Qualified CCPs). For this reason, the risk weight of the newly qualified CCPs could be reduced to 2%.

Note: The exposures to non-QCCPs are predominantly with the entity “The Options Clearing Corporation (OCC)”. Although this US based entity is qualified for the US regulator, it was not so for ESMA as of 31 December 2016.

CVA risk

In 2014 CRR/CRD IV introduced an additional regulatory capital charge for material increases in the CVA, the market price of the credit risk of derivatives. In particular, as credit spreads of ING Bank's counterparties increase, CVA will increase as well and ING Bank will incur a loss. ING Bank follows the standardised approach for calculation of the capital charge to cover CVA Risk (CVA Capital) in accordance with the CRR/CRD IV. The scope of the products and counterparties that the CVA Capital charge is applied to also follows those regulations. The most important factors in the calculation of CVA Capital according to the standardised approach are the CVA Exposure, the CVA Risk Weight and the Maturity. The CVA exposure is similar to the READ, but includes collateral held under collateral agreements. The CVA Risk Weight is prescribed in regulation and depends directly on the risk rating of the counterparty. The Maturity used for CVA Capital is similar to the Maturity used in the calculation of Counterparty Default Risk, but without the 5 years cap.

CVA risk

	CVA Exposure	Average CVA Risk Weight	Average Maturity	CVA RWA
Interest Rate Derivatives	5,100	0.87%	4.13	2,280
FX Derivative	3,409	0.89%	1.76	722
Equity Derivative	1,128	0.93%	2.88	390
Commodity Derivative	46	0.96%	2,44	15
Credit Derivative	357	1.00%	3,12	149
Derivatives Other	55	0.84%	4.40	25
Securities Financing				
Total 2016	10,096	0.89%	3.15	**3,581**
Total 2015	11,680	0.89%	3.78	5,005

Includes both AIRB and SA portfolios; excludes securitisations, equities and ONCOA.

The average credit quality of ING counterparties did not change in 2016 thus the average risk weight remained constant during the period.
CVA Capital Maturity dropped in all the major product lines showing that some long term contracts were closed out and replaced by shorter maturity trades. Additionally the CVA capital was impacted by the regulatory exposure calculation methodology change for derivatives in Q4.
Exposure decreased by 13.6% on average compare to 2015. This reflects ING efforts to move trades to qualifying CCPs, where no CVA Capital charge is required. FX derivative portfolio is an exception where CVA exposure increased by 45% in 2016. This is explained by new client volume as well as expansion in one product (FX Swap) with key counterparties.

Credit default swaps

ING Bank participates in the credit risk derivative trading market, as a net purchaser of credit risk protection from other counterparties.

Credit derivative transactions used for own credit portfolio

Credit derivatives exposures

	Credit derivative hedges	
	Protection bought	Protection sold
Notionals		
Single-name credit default swaps	-1,973	513
Index credit default swaps	-	-
Total return swaps	-	-
Credit options	-	-
Other credit derivatives	-	-
Total notionals	**-1,973**	**513**
Fair values	-6	-1
Positive fair value (asset)	4	
Negative fair value (liability)	-9	-2

Credit derivative transactions used in intermediation activities

Credit derivatives exposures	Credit derivative hedges	
	Protection bought	Protection sold
Notionals		
Single-name credit default swaps	-15,894	14,396
Index credit default swaps	-680	828
Total return swaps	-	-
Credit options	-	-
Other credit derivatives	-	-
Total notionals	**-16,574**	**15,224**
Fair values	-33	97
Positive fair value (asset)	114	179
Negative fair value (liability)	-148	-81

As of 30 December 2016, ING's credit derivative positions are mostly used in intermediation activities. The largest notional is under single-name credit default swap (CDS), and a small notional is under Index CDS. The largest contributor to the fair values comes from sovereign position, followed by corporates and financial institutions.
The remaining small portion of credit derivative positions are used for own credit portfolio. Only single-name CDS is used. The largest contributor to the fair values is from sovereign position, followed by corporates and financial institutions.
Compared to 2015, the absolute total notional for intermediation activities have increased in both protection bought and protection sold. For protection bought, the total fair value changed from positive in 2015 to negative in 2016, mainly due to the decrease in the fair value of the sovereign position. On the other hand, the fair value of protection sold changed from negative in 2015 to positive in 2016, mainly caused by the increase in the fair value of the sovereign and corporate positions.
For the own credit portfolio, the absolute notional amounts of both long and short CDS positions have increased compared to 2015. Especially, the notional for protection bought has increased significantly. The total fair value changed from positive in 2015 to negative in 2016, driven by the decrease in the fair value of the sovereign position and the negative fair value of the corporates exposure.

Credit risk mitigation

ING Bank's lending and investment businesses are subject to credit risk. As such, the creditworthiness of our customers and investments is continually monitored for their ability to meet their financial obligations to ING Bank. In addition to determining the credit quality and creditworthiness of the customer, ING Bank uses various credit risk mitigation techniques and instruments to mitigate the credit risk associated with an exposure and to reduce the losses incurred subsequent to an event of default on an obligation a customer may have towards ING Bank. The most common terminology used in ING Bank for credit risk protection is 'cover'. While a cover can be an important mitigant of credit risk and an alternative source of repayment, generally it is ING Bank's practice to lend on the basis of the customer's creditworthiness rather than exclusively relying on the value of the cover. Within ING Bank, there are two distinct forms of covers: assets and third party obligations.

Cover forms

Assets

The asset that has been pledged to ING Bank as collateral or security gives ING Bank the right to liquidate it in cases where the customer is unable to fulfil its financial obligation. As such, the proceeds can be applied towards full or partial compensation of the customer's outstanding exposure. An asset can be tangible (such as cash, securities, receivables, inventory, plant & machinery and mortgages on real estate properties) or intangible (such as patents, trademarks, contract rights and licenses).

Third party obligation

Third Party Obligation, indemnification or undertaking (either by contract and/or by law) is a legally binding declaration by a third party that gives ING Bank the right to expect and claim from that third party to pay an amount, if the customer fails on its obligations to ING Bank. The most common examples are guarantees (such as parent guarantees and export credit insurances) and letters of comfort.

Cover valuation methodology

General guidelines for cover valuation are established to ensure consistency of the application within ING Bank. These general guidelines also require that the value of the cover needs to be monitored on a regular basis, in principle at least annually. Covers shall be revalued accordingly and whenever there is reason to believe that the market is subject to significant changes in conditions. The frequency of monitoring and revaluation depends on the type of covers.

The valuation method also depends on the type of covers. For asset collateral, the valuation sources can be the customer's balance sheet (e.g. inventory, machinery, and equipment), nominal value (e.g. cash, receivables), market value (e.g. securities and commodities), independent valuer (commercial real estate) and market indices (residential real estate). For third party obligations, the valuation is based on the value which is attributed to the contract between ING Bank and that third party.

For the determination of the Credit Risk applicable amount for Pre-Settlement deals, ING Bank first matches the trades with similar characteristics to determine their eligibility for offsetting. This offsetting effect is called 'compensation'. Subsequently, ING Bank reduces the amount by any legal netting that may be permitted under various types of Master Agreements (such as ISDAs and GMRAs). Lastly, the amount is further reduced by any collateral that is held by ING Bank under CSAs or other similar agreements.

For the other risk types and especially lending, covers are received which is intended to reduce the losses incurred subsequent to an event of default on an obligation a customer may have towards ING Bank. These are subdivided into four groups called collateral values mortgages, cover values cash, cover value guarantees and other physical covers.

The table below presents the ING bank portfolio excluding equities per loan type. Exposures represent the outstandings and a loan is presented as secured by collateral or a guarantee if such a cover exists on a facility type. The secured amounts represent the part of the loan that is covered by the collateral. If a loan would have both collateral and a guarantee than these are both shown in the designated column.

Credit Risk Mitigations techniques – overview
Covers which are received are intended to reduce the losses incurred subsequent to an event of default on an obligation a customer may have towards ING Bank. These are subdivided into four groups called collateral values mortgages, cover values cash, cover value guarantees and other physical covers.

The table below presents the ING bank portfolio excluding pre-settlement, securitisations and equities. Exposures represent the outstandings and a loan is presented as secured by collateral or a guarantee if such a cover exists on a facility type. If a loan would have both collateral and a guarantee than these are both shown in the table below in the designated column.

EU CR3: Credit risk mitigation techniques - overview

	Exposures unsecured: carrying amount	Exposures to be secured	Exposures secured by collateral	Exposures secured by financial guarantees	Exposures secured by credit derivatives
Total loans	142,167	463,478	437,601	82,905	0
Total debt securities	85,497	794	794	107	0
Total exposures	**227,664**	**464,272**	**438,395**	**83,012**	**0**
Of which defaulted	3,426	9,809	8,636	2,933	0

Includes the AIRB and SA portfolios and the Default Fund Contribution, excludes securitisations, CVA RWA, equities and ONCOA.

Maximum exposure to credit risk

The following table present our maximum exposure to Credit Risk in the AIRB and SA portfolios and associated collateral held and other credit enhancements (netting and collateral) that do not qualify for offsetting in our financial statements for the periods specified. The netting credit enhancement component includes the effects of legally enforceable netting agreement as well as the offset of negative mark-to-markets from derivatives against pledged cash collateral. The collateral credit enhancement component which is referred to as Cover Values mainly includes real estate, guarantees and collateral in the form of cash.

ING records collateral value per facility. Those figures are based on original cover values although some business units attempt to update to current market values. This is inherently difficult in volatile markets. Some facilities will have multiple levels of collateral while others have no collateral. The total figures may not reflect the collateral value per facility.

Additional Pillar III information - continued

Maximum Exposure to Credit Risk per 31 December 2016

	Pre-settlement				Cover Values	Cover Values	Cover Values	Cover Values	Cover Values
									Other
	Gross MtM before netting and collateral	MtM after netting	MtM after netting and collateral	Outstanding of which pre-settlement	Total outstanding	Mortgages	Eligible Financial Collateral	Guarantees	Basel II eligible
AIRB									
Sovereigns	6,621	2,502	2,188	2,754	93,898	299	349	1,419	122
Institutions	147,239	41,669	30,302	30,598	73,390	483	14,922	3,929	2,666
Corporates	18,682	14,257	12,270	15,821	260,979	84,908	14,504	58,091	83,036
Res Mortgage secured					274,097	468,123	2,901	27,442	1,497
Other Retail	26	25	25	41	26,495		1,146	1,516	2,312
Securitisations	336	336	336	388	6,151				
Total AIRB	**172,903**	**58,788**	**45,120**	**49,602**	**735,010**	**553,813**	**33,822**	**92,397**	**89,633**
SA									
Sovereigns					2,466	50	2		
Institutions	676	565	91	73	2,316		474	151	
Corporates	305	270	270	323	12,705	8,127	145	411	
Res Mortgage secured					7,824	17,494	18		
Other Retail	3	3	3	6	10,414		201	395	
Total SA	**984**	**838**	**364**	**402**	**35,726**	**25,671**	**840**	**957**	
Total Bank	**173,887**	**59,626**	**45,484**	**50,003**	**770,736**	**579,484**	**34,662**	**93,354**	**89,633**

Excludes equities exposure

The ING Bank portfolio is characterised by significant amounts of secured lending especially in the key areas of residential and commercial mortgages, structured finance and leasing. Amount of collateral often has a significant impact on provisioning and LGD which directly affects risk density. The cover values are pre-haircut but indexed values and exclude any cost of liquidation. Covers can either be valid for all limits, sub-limits or a particular outstanding of a borrower, the latter being the most common. The guarantees for the same portfolio relate to mortgages covered by governmental insurers under the Nationale Hypotheek Garantie (NHG) in the Netherlands.

The Risk Management Paragraph of the Annual Report includes an extensive cover section where exposures are categorised into different Value-to-Loan (LTV) buckets which gives insight in the level of collateralisation of ING Bank's portfolio.

Exposures secured by guarantees received

From time to time, ING Bank extends loans for which it receives a specific financial guarantee from a non-related counterparty or obligor. The figures in the table below represent the READ that has been guaranteed by these non-related parties. It does not include non-guaranteed amounts. For example, if a given credit risk is only partially guaranteed by a third party then only the portion of the amount which is guaranteed is included in the figures. For the Residential Mortgages portfolio the guarantees relate to mortgages covered by governmental insurers under the Nationale Hypotheek Garantie (NHG) in the Netherlands. The NHG guarantees the repayment of a loan in case of a forced property sale.

Exposures secured by third party guarantees received

						2016	2015
	Sovereigns	Institutions	Corporate	Secured by Res. Mortgage	Other retail	Total	Total
Under AIRB Approach	1,419	3,929	58,091	24,858	4,100	92,397	86,826
Total	1.5%	4.3%	62.9%	26.9%	4.4%	100.0%	100.0%

Includes AIRB portfolio only; excludes securitisations, equities and ONCOA.

These figures exclude any guarantees which are received from a party related to the obligor, such as a parent or sister company. The figures also exclude any guarantees that may be implied as a result of credit default swap activities. The figures do include amounts that are guaranteed through an unfunded risk participation construction. The overall level of third party guarantees received increased over the year. However, there were opposite movements within the portfolios. An increase of EUR 6.2 billion was observed in the Corporates portfolio, while the rest of the portfolios witnessed decreases mainly driven by the EUR 4.3 billion decrease in the Residential Mortgages.

Maturity profile

Outstandings by tenor bucket

The table below shows the outstanding of ING Bank by run-off profile. The figures assume that no new credit risks are introduced into the portfolio and that there are no delays in repayments associated with non-performing loans, nor are there write offs associated with provisions. The portfolio tenor is implied by the difference in the figures between two periods.

The assumption is that loans, money market and investments in fixed income securities are fully repaid at their maturity dates and that limits are reduced in conjunction with repayment schedules contained in the associated loan documentation, without regard for potential renewal or extension, or portfolio sales or acquisitions. Pre-Settlement risks are assumed to reduce over the legal maturity of the underlying transactions. However, under mark-to-market plus add-on methodology, it is possible for exposures to increase in time, rather than decrease. This is a function of ING Bank's estimates of future interest rates and foreign exchange rates, as well as potential changes in future obligations that may be triggered by such events. Generally, credit risk outstandings are lower than READ.

Due to an inflow of longer term and an outflow of shorter term lending assets in the bank portfolio, there is a relative increase in assets having a tenor of 5 years and over.

Outstandings by tenor buckets (credit risk outstandings)

						2016	2015
	Sovereigns	Institutions	Corporate	Residential mortgages	Other retail	Total	Total
Current Outstandings	96,365	75,396	265,637	278,576	34,965	750,939	733,880
1 month	82,440	54,913	255,661	278,183	34,734	705,931	683,140
3 month	80,296	47,282	240,627	277,271	34,461	679,937	660,550
6 month	79,703	43,501	225,337	275,752	33,977	658,270	641,577
1 year	72,314	37,135	188,744	272,152	30,175	600,520	572,739
2 years	69,309	31,565	151,999	267,435	25,652	545,960	516,076
3 years	67,818	26,484	120,881	262,002	22,773	499,958	472,762
5 years	65,606	19,109	65,863	247,067	15,479	413,124	378,167
7 years	61,933	16,732	36,836	232,252	10,144	357,898	314,117
10 years	59,237	14,304	18,355	202,798	6,503	301,196	240,312

Includes AIRB portfolio only; excludes securitisations, equities and ONCOA.
Non-performing loans (rating 20-22) are excluded in the figures above.

Securitisations

The following information is prepared taking into account the 'Industry Good Practice Guidelines on Pillar III disclosure requirements for securitisations' (the Guidelines) issued by the European Banking Federation and other industry associations on 31 January 2010 and the CRR/CRD IV disclosure requirements. It includes qualitative and quantitative disclosures addressing both the exposure securitised as well as securitisations positions held. While quantitative disclosures are limited to those securitisations that are used for the purpose of calculating the regulatory capital requirements under the CRR/CRD IV, qualitative information have a broader scope and give a view on ING Bank's entire securitisation activity.

Depending on ING Bank's role as investor, originator, or sponsor the objectives, the involvement and the rules applied may be different. ING Bank is primarily engaged in securitisation transactions in the role of investor (in securitisations arranged by others). To a lesser extent, ING Bank is also an originator or sponsor of securitisations that are usually traded in the public markets. ING does not re-securitise its securitisations exposure and even though ING bank hedges its securitisation positions, such instruments are not recognized as credit risk mitigants for regulatory capital purposes.

Valuation and accounting policies

ING Bank's activities regarding securitisations are described in Note 44 'Structured entities' in the annual accounts. The applicable accounting policies are included in the section 'Accounting policies for the consolidated annual accounts of ING Bank' in the annual accounts. The most relevant accounting policies for ING Bank's own originated securitisation programmes are 'Derecognition of financial assets' and 'Consolidation'. Where ING Bank acts as investor in securitisation positions, the most relevant accounting policy is 'Classification of financial instruments'.

Regulatory capital method used and Rating Agencies

ING Bank has implemented the AIRB approach for credit risk. As a consequence, ING Bank uses the Rating Based Approach (RBA) for investments in tranches of asset-backed securities (ABS) and mortgage-backed securities (MBS) which have been rated by external rating agencies. Rating agencies which are used by ING Bank under the RBA include Standard & Poor's, Fitch and Moody's. The securitisation exposure for which each rating agency is used is given in the following table. In case of multiple ratings, the worst rating is used

ING Bank uses the Internal Assessment Approach (IAA) for the support facilities it provides to Asset Backed Commercial Paper (ABCP) conduit Mont Blanc Capital Corp., based on externally published rating agency methodologies. Under the IAA approach, the unrated position is assigned by the institution to an internal rating grade, which is estimated using an ING developed model. The position is then attributed a derived rating by mapping the internal rating grade to an externally published credit assessments corresponding to that rating grade.

Securitisation exposure per rating agency used

						2016	2015
	S&P	Fitch	Moody's	IAA approach	Other	Total	Total
Asset Backed Securities	1,716	2,000	160	0	0	**3,875**	3,056
Residential Mortgage Backed Securities	393	990	166	0	0	**1,549**	3,331
Securitisation Liquidity	0	0	0	720	0	**720**	846
Interest Rate Derivatives	0	0	0	330	0	**330**	423
Other	32	7	10	401	0	**450**	474
Total	**2,141**	**2,996**	**336**	**1,451**	**0**	**6,924**	**8,130**

Under the RBA, the risk-weighted assets (RWA) are determined by multiplying the amount of the exposure by the appropriate regulatory risk weights, which depend on: the external rating or an available inferred rating, the seniority of the position and the granularity of the position.

Securitisations - credit risk disclosure in READ

	2016	2015	Delta %
Geography	**6,924**	**8,130**	**-17.4%**
America	2,908	3,388	-16.5%
Asia	35	38	-9.6%
Australia	19	13	31.9%
Europe	3,962	4,692	-18.4%
Europe	3,962	4,692	-18.4%
Germany	1,556	888	43.0%
Netherlands	943	768	18.5%
Spain	730	1,452	-98.9%
United Kingdom	463	919	-98.6%
Rest of Europe	269	664	-146.6%
Product Type	**6,924**	**8,130**	**-17.4%**
Asset Backed Securities	3,875	2,897	25.2%
Residential Mortgage Backed Securities	1,549	3,286	-112.2%
Securitisation Liquidity (1)	720	846	-17.5%
Interest Rate Derivatives	330	423	-28.1%
Other	450	678	-50.8%
Exposure Class (2)	**6,924**	**8,130**	**-17.4%**
Securitisation Investor	5,476	6,442	-17.6%
Securitisation Sponsor	1,448	1,688	-16.6%

Excludes equities and ONCOA.

1 These are structured financing transactions by ING for clients by assisting them in obtaining sources of liquidity by selling the clients' receivables or other financial assets to an SPV.

2 Securitisation benefits are excluded. Own originated securitisations are explained in a separate section.

During 2016 the exposure to securitisations decreased from EUR 8.1 billion to EUR 6.9 billion mainly caused by repayments in the RMBS portfolio. The biggest increase was observed in the exposure in German assets. During 2016 the liquidity portfolio in ABS grew moderately mainly in Auto-ABS from Western Europe, the majority of Auto-ABS is based on German Assets. All assets in the securitisation portfolio are performing.

Investor securitisations

ING Bank's goal is to maintain a portfolio of high quality liquid assets that meets the regulatory requirements of CRR/CRD IV and the Delegated Act of October 2014 regarding liquidity. ING invests in high quality Residential Mortgage Backed Securities (RMBS) and Asset Backed Securities (ABS) keeping close track of the securitisation investment positions via monthly monitoring reports and weekly update calls. Additionally, ING may invest in securitisation positions in order to facilitate client business from its Global Capital Markets Unit.

In the table below, the investor securitisations are given, broken down by underlying exposure.

Investor securitisation activities

	Traditional	Synthetic	2016 Total	2015 Total
Retail	**4,617**		**4,617**	**6,114**
Of which residential mortgage	1,568		1,568	3,340
Of which credit card				
Of which other retail exposures	3,049		3,049	2,774
Of which re-securitisation				
Wholesale	**859**		**859**	**327**
Of which loans to corporates	10		10	18
Of which commercial mortgage	32		32	36
Of which lease and receivables	817		817	274
Of which re-securitisation				
Total	**5,476**		**5,476**	**6,442**

In 2016 the securitisation activities with underlying retail exposure decreased by EUR 1.5 billion to EUR 4.6 billion, while the securitisations with underlying Wholesale Banking exposure increased by EUR 0.5 billion to EUR 0.9 billion.

The following table provides the breakdown of current exposures by risk weight bands. The amount of securitisation positions is based on the regulatory exposure values calculated according to the CRR/CRD IV after consideration of credit conversion factors (CCFs) where applicable as used for the purpose of Pillar I, but prior to the application of credit risk mitigates on securitisation positions. Given the focus on high quality securitisations the portfolio composition is shifting to the lower risk band.

Investor securitisation activities

	2016 READ	2016 RWA	2015 READ	2015 RWA
Risk weight band 1 <= 10%	5,112	383	5,493	421
Risk weight band 2 >10% and <= 18%	147	21	146	19
Risk weight band 3 >18% and <= 35%	191	41	419	116
Risk weight band 4 >35% and <= 75%	1	0	289	165
Risk weight band 5 >75% and <1250%	7	18	23	50
Risk weight 1250%	19	232	72	903
Total	**5,476**	**695**	**6,442**	**1,674**

Capital requirements for investment positions in securitisations

		Traditional securitisation: Total traditional	Of which retail underlying	Of which non-retail underlying	Total exposure 2016	Total exposure 2015
Exposure values (by RW bands)	<= 20% RW	5,303	5,271	32	5,303	5,835
	>20% to 50% RW	147	147	0	147	237
	>50% to 100% RW	4	4	0	4	288
	>100% to <1250% RW	3	3	0	3	10
	1250% RW	19	19	0	19	72
	Total	**5,476**	**5,444**	**32**	**5,476**	**6,442**
Exposure values (by regulatory approach)	IRB RBA (incl. IAA)	5,457	5,425	32	5,457	6,370
	1250% Risk Weight	19	19	0	19	72
	Total	**5,476**	**5,444**	**32**	**5,476**	**6,442**
RWA (by regulatory approach)	IRB RBA (incl. IAA)	462	456	7	462	772
	1250% Risk Weight	232	232	0	232	903
	Total	**695**	**688**	**7**	**695**	**1,674**
Capital charge after cap	IRB RBA (incl. IAA)	37	36	1	37	62
	1250% Risk Weight	19	19	0	19	72
	Total Capital	**56**	**55**	**1**	**56**	**134**

Excludes equities and ONCOA. ING does not have any re-securitisation in its books.

In the table above an overview of Investor Securitization exposures and their respective capital requirements are shown. In line with ING's policy and Risk Appetite the vast majority of positions are rated AA- and above, and almost the entire portfolio remains within the investment grade. Positions that have deteriorated in credit quality have been adequately provisioned and have been reduced significantly.

Sponsor securitisations

In the normal course of business, ING Bank structures financing transactions for its clients by assisting them in obtaining sources of liquidity by selling the clients' receivables or other financial assets to a Special Purpose Vehicle (SPV). The senior positions in these transactions are funded by the ING administered multi seller Asset Backed Commercial Paper (ABCP) conduit Mont Blanc Capital Corp. (rated A-1/P-1). Mont Blanc Capital Corp. funds itself externally in the ABCP markets.

In its role as administrative agent, ING Bank facilitates these transactions by acting as administrative agent, swap counterparty and liquidity provider to Mont Blanc. ING Bank also provides support facilities (liquidity) backing the transactions funded by the conduit. The types of asset currently in the Mont Blanc conduit include trade receivables, consumer finance receivables, car leases and residential mortgages.

ING Bank supports the commercial paper programmes by providing Mont Blanc Capital Corp. with short-term liquidity facilities. Once drawn these facilities bear normal credit risk.

The liquidity facilities, provided to Mont Blanc are EUR 812.3 million. There was no drawn liquidity amount at 31 December 2016. Mont Blanc has no investments in securitisation positions that ING Bank has securitised.

The standby liquidity facilities are reported under irrevocable facilities. All facilities, which vary in risk profile, are granted to the SPE subject to normal ING Bank credit and liquidity risk analysis procedures. The fees received for services provided and for facilities are charged subject to market conditions. Mont Blanc is consolidated by ING Bank. These transactions are therefore on-balance sheet arrangements.

In line with the Internal Assessment Approach, which has been approved for use by ECB for ING in relation to the ING sponsored ABCP conduit, Mont Blanc Capital Corp, the credit quality of the positions are internally assessed by following publicly available assessment methodology of external rating agencies. This includes differing stress factors for different asset classes as outlined by rating agencies as well as assessing the entire structure of the transaction including additional quantitative and qualitative features. This will result in the calculation of a certain credit enhancement. Other protections in a transaction (eligibility criteria, early amortization triggers, commingling protections etc.) are factored in that results in an internal rating. This rating is then directly mapped to an external rating for the liquidity facilities provided by ING to support the transactions and is outlined in a defined approach. Any changes to rating agency methodology is tracked annually with a procedure in place with the credit risk measurement department verifying that any changes are captured in an update to the approach.

The credit approval process for individual transactions follows ING's standard credit approval procedures. At inception, initial data is required to be received outlining the historical performance of the assets. Due diligence is carried out on the underlying asset pool. Following ING policy, each transaction is reviewed (including reassessing the internal assessment approach analysis for that transaction) on at least an annual basis or on a more frequent basis if deemed necessary. The performance of each transaction is closely monitored on an ongoing basis through a.o. detailed transaction reports.

Originator securitisations

ING Bank originates own securitisation transactions for economic and regulatory capital purposes, as well as liquidity and funding purposes. As of 31 December 2016, there were no synthetic transactions.

Liquidity and funding

Although the most senior tranches in securitisations are no longer efficient to release regulatory capital under CRR/CRD IV, they are used to obtain funding and improve liquidity. To be eligible as collateral for central banks securitised exposures must be sold to a Special Purpose Vehicle (SPV) which, in turn, issues securitisation notes ('traditional securitisations') in two tranches, one subordinated tranche and one senior tranche, rated AAA by a rating agency. The AAA tranche can then be used by ING Bank as (stand-by) collateral in the money market for secured borrowings.

ING Bank has created a number of these securitisations with a 31 December 2016 position of approximately EUR 75.5 billion of AAA rated notes and unrated subordinated notes. The underlying exposures are residential mortgages in the Netherlands, Germany, Belgium, Spain, Italy and Australia and SME Loans in the Netherlands and Belgium.

As long as the securitisation exposures created are not transferred to third parties, the regulatory capital remains unchanged. These are not detailed hereunder. Apart from the structuring and administration costs of these securitisations, these securitisations are profit / loss neutral.

Additional Pillar III information - continued

Simple risk weight method

A small part of ING's portfolio – some of the equity exposure – is subject to the simple risk weight method for calculating the regulatory capital. The table below shows more details on the equity exposure for which this method is used.

Equity exposure – Simple risk weight approach

	On balance sheet amount		Off balance sheet amount		RW	Exposure amount		RWA		Capital requirements	
	2016	2015	2016	2015		2016	2015	2016	2015	2016	2015
Exchange traded equity exposures	770	1,224	-	-	290%	770	1,224	2,233	3,548	179	284
Private equity exposures	490	556	-	-	190%	490	556	930	1,057	74	85
Other equity exposures	-	-	-	-	370%	-	-	-	-	-	-
Total	1,260	1,780	-	-		1,260	1,780	3,163	4,605	253	368

In September 2016 ING announced the sale of 46.7 million ordinary shares of Kotak Mahindra Bank (Kotak). The sale reduced ING's stake in Kotak from 6.4% to 3.9%. ING obtained its stake in Kotak through the merger of ING Vysya Bank with Kotak Mahindra Bank, which was effective from 1 April 2015. This transaction significantly reduced ING equity exposure amount and as a result the RWA.

Market risk

Market RWA under the internal model approach (IMA)

The table below explains the changes in Market RWA under the internal model approach (IMA) during 2016 and provides additional information by linking the impact of changes in portfolio composition, model changes and shifts in the risk environment on Market RWA.

EU MR2-B: RWA flow statements of market risk exposures under the IMA

amounts in EUR millions

		VaR	SVaR	IRC	CRM	Other	Total RWA	Total capital requirements
1	RWA at previous year end	1,797	2,931	3,579			8,307	665
1a	*Regulatory adjustment*	1,262	1,962	239			3,464	277
1b	*RWA at previous year-end (end of the day)*	535	969	3,339			4,844	387
2	Movement in risk levels	-86	85	-1,839			- 1,840	-147
3	Model updates/changes							
4	Methodology and policy							
5	Acquisitions and disposals							
6	Foreign exchange movements							
7	Other							
8a	*RWAs at the end of the reporting period (end of the day)*	449	1,054	1,500			3,003	240
8b	*Regulatory adjustment*	674	1,492	409			2,575	206
8	RWA at the end of the reporting period	1,123	2,546	1,910			5,579	446

* It is required to fill in Rows 1a/1b and 8a/8b when the RWA/capital requirement for any of the columns (VaR, SVaR, IRC) is the 60-day average (for VaR and SVaR) or the 12-week average measure (for IRC) and not the RWA/capital requirement at the end of the period. According to regulatory guidelines the values in rows 1a/8b are calculated as differences between values in rows 1 and 1b and 8 and 8a, respectively.
** Movement in risk levels: Changes due to position changes between end-of-day values for two reporting periods in question.

Key changes

Over the year, the ING Bank Market RWA under Internal Model Approach decreased by EUR 2.7 billion to EUR 5.6 billion, the key changes being a decrease in exposures to sovereign issuers that decreased IRC, and a change in risk positions during 2016 that resulted in decreases in VaR and Stressed VaR. The main changes in risk positions throughout the year were in equity derivatives portfolio and CVA hedge portfolio. The CVA hedges are capitalized under market risk framework, while CVA is capitalized under credit risk framework according to Basel rules.

Disclosures on Market risk under Internal Model Approach (table EU MR2-A), Internal Model Approach values for CAD2 trading portfolios (table EU MR3) and Market risk under Standardised Approach (table EU MR1) are presented in “Market risk in trading books” section of the Annual Report.

Economic capital for market risk

Economic capital for market risk is the economic capital necessary to withstand unexpected value movements due to changes in market variables and model risk.

Risk profile

Economic and Regulatory Capital by risk type

	Economic capital		Regulatory capital	
	2016	2015	2016	2015
Trading	224	307	446	665
Interest rate risk in the banking books	3,651	3,555		
Foreign exchange	556	894	87	106
Real Estate	230	369		
Equity Investments*	3,313	3,456		
Market risk	**7,974**	**8,581**	**533**	**771**

* Regulatory capital for equity investments are reported under credit risk regulatory capital.

The market risk Economic Capital is higher than the Regulatory Capital primarily due to the inclusion of the interest rate risk in banking books and equity investments in Economic Capital. The main drivers of the Market Risk Economic Capital are the linear interest rate risk positions of Capital Investments and the strategic Equity Investments in the banking books.

Year-on-year variance analysis

During 2016, market risk economic capital decreased from EUR 8.6 billion to EUR 8.0 billion. The main driver of the decrease is the sale of shares in Kotak Mahindra Bank, with a value of 490 million euro. The foreign exchange Economic Capital also decreased markedly, mainly due to the position change in INR, GBP and USD currencies, and the lower volatility (of CNY, RUB and USD) in the time period used in the Historical Value-at-risk calculation..

Capital at Risk

Capital at Risk measures the impact of predefined instant shocks of market risk factors such as interest rates, credit spreads, foreign exchange rates, equity prices and real estate prices on the volatility of IFRS-EU and common equity Tier-1.

Main Drivers

The main market risk sensitivities of capital are interest rate and credit spread driven, resulting from cash flow hedges and available for sale debt securities. Furthermore the sensitivity of the currency translation reserve is an intended open position to stabilise the common equity tier1 ratio for foreign exchange movements, as the RWA are impacted as well by these market movements.

Risk profile

Capital Elements & Market Risk Impact on Capital

Market Risk Sensitivity (before tax)			Interest Rate	Credit Spread	Equity Prices	Real Estate	Foreign Exchange
	IFRS-EU	CRR/CRD IV*	+100bp	+40bp	-10%	-10%	+10%
Capital elements							
Reserve							
Property revaluation reserve	●	●				-88	
Cash flow hedge reserve	●		-2,057				
Available-for-sale reserve							
- Debt securities	●	●	-521	-1,263			
- Equity securities	●	●			-391		-368
Currency translations reserve	●	●					-972
P&L							
All items impacting P&L, excluding DVA	●	●	-48	-73	-88	-16	-144
DVA own issued debt/structured notes	●			165			
DVA derivatives	●		-1	45			-3
Impact on capital							
IFRS-EU Equity			-2,627	-1,126	-479	-104	-1,486
Common equity Tier 1 (CRR/CRD IV, fully loaded)			-569	-1,336	-479	-104	-1,483

* CRR/CRD IV on a fully loaded basis, no phase in assumed.
● Indicates the item has an impact on the capital as indicated in that column.

Revaluation Reserve Impact
The revaluation reserve for real estate, debt securities, equity securities and for currency translations will be part of CRR/CRD IV equity. The revaluation reserve for cash flow hedges will not be part of CRR/CRD IV equity. The interest rate sensitivity shown for debt securities is the unhedged interest rate sensitivity, i.e. debt securities in hedge accounting relations are excluded.

P&L Impact
Items on fair value which revalue through P&L, excluding debit valuation adjustments, impact IFRS-EU equity as well as CRR/CRD IV equity. Debit valuation adjustments of own issued debt only impacts IFRS-EU equity and not CRR/CRD IV equity. Debit valuation adjustments of derivatives will not be part of CRR/CRD IV equity.

Funding & liquidity risk
Funding and liquidity risk is the risk that ING Bank or one of its subsidiaries cannot meet its financial liabilities when they come due, at reasonable cost and in a timely manner.

To protect ING Bank and its depositors against liquidity risks, ING Bank maintains a liquidity buffer, which is based on the liquidity needs across all entities under stressed conditions. ALCO Bank ensures that sufficient liquidity is maintained, in accordance with Bank and regulatory rules and standards, including a buffer of unencumbered, high quality liquid assets.

As part of the liquidity buffer management, ING Bank also monitors the existing asset encumbrance. Encumbered assets represent the on- and off-balance sheet assets that are pledged or used as collateral for ING Bank's liabilities. The presented templates of ING Bank's encumbered and unencumbered assets are based on the CRR (Part Eight) and the related guidance from the European Banking Authority (EBA).

In 2016, the median asset encumbrance ratio for ING Bank was 19% compared to 18% in 2015.

Asset encumbrance ING Bank

2016 median in EUR million	Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of unencumbered assets	Fair value of unencumbered assets
Assets of ING Bank	106,258		761,865	
Equity instruments	5,450	5,450	8,593	8,593
Debt securities	15,782	15,745	99,422	99,391
Other assets	706		73,546	

Asset encumbrance ING Bank

2015 median in EUR million	Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of unencumbered assets	Fair value of unencumbered assets
Assets of ING Bank	104,305		748,958	
Equity instruments	6,551	6,551	12,326	12,326
Debt securities	11,477	11,394	106,763	106,697
Other assets	660		69,784	

Collateral received ING Bank

2016 median in EUR million	Fair value of encumbered collateral received or own debt securities issued	Fair value of collateral received or own debt securities issued available for encumbrance
Collateral received by ING Bank	79,098	34,397
Equity instruments	12,339	3,357
Debt securities	66,759	30,920
Other collateral received		120
Own debt securities issued other than own covered bonds or ABSs		

Collateral received ING Bank

2015 median in EUR million	Fair value of encumbered collateral received or own debt securities issued	Fair value of collateral received or own debt securities issued available for encumbrance
Collateral received by ING Bank	69,988	40,384
Equity instruments	16,076	5,891
Debt securities	53,911	34,033
Other collateral received		460
Own debt securities issued other than own covered bonds or ABSs		

Encumbered assets/collateral received and associated liabilities ING Bank

2016 median in EUR million	Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered
Carrying amount of selected financial liabilities	116,394	162,319

Encumbered assets/collateral received and associated liabilities ING Bank

2015 median in EUR million	Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and ABSs en-cumbered
Carrying amount of selected financial liabilities	108.536	146.697

Information on importance of encumbrance ING Bank

ING Bank manages it balance sheet prudently whereby a variety of funding sources is readily available. Given this situation, the level of encumbrance of ING Bank's balance sheet is relatively low.

Encumbered assets on ING Bank's balance sheet comprise to a large extent mortgages and other loans which are used as cover pool for covered bond programs issued by subsidiaries in the Netherlands, Belgium and Germany, as well as external securitisations and other types of collateralized deposits. Of the total encumbered assets of the Group, EUR 77 billion are loans and advances, mostly mortgages, that serve as collateral for these type of liabilities. The cover pool assets are not considered encumbered when the securities are retained within ING Bank. The issued securitisations and especially the covered bonds have over collateralisation, meaning that the assets in the cover pool are higher than the issuance.

Furthermore, assets are encumbered as a result of the repo- and securities lending business and cash and securities collateral posted for derivative and clearing transactions in which pledging collateral is a requirement. As part of its normal securities financing and derivatives trading activities ING enters into standard master agreements such as ISDA and Global Master Repurchase Agreements (GMRA), which contain Credit Support Annexes (CSA) or other similar clauses. Under the terms of these contracts ING could be required to provide additional collateral in the event ING is downgraded by one of the established rating agencies. Refer to the paragraph Counterparty Credit Risk.

The main part of ING Bank's repo- and reverse repo activities are short-term dated. Repo transactions are mostly conducted with securities which have been obtained as collateral in reverse repo transactions, which are not recognized on the balance sheet. Where securities recognized on the balance sheet have been used in a repo transaction, these remain recognized on the balance sheet and are reported as encumbered. Of the unencumbered other assets included in the table 'Assets', the vast majority of the assets is not available for encumbrance. This category comprises assets such as derivative receivables, tax assets, property and equipment, intangible assets and investments in associates and joint ventures.

Non-Financial Risk

The table below shows the distribution of the gross loss amount for non-financial risk events by the Basel risk categories. The Basel risk categories (i.e. Basel event type classifications) include the risk areas set out in the Non-Financial Risk chapter. The event loss is presented in the year of discovery of the individual events.

Distribution of gross loss* by risk category	2016	2015**
Business disruption and systems failures	1	4
Clients, products and business practices	10	207
Damage to physical assets	5	3
Employment practices and workplace safety	3	38
Execution, delivery and process management	68	29
External fraud	63	38
Internal fraud	2	3
Total	**152**	**322**

* Loss amounts for events with an individual loss ≥ €10,000.
** Due to recoveries and the development of loss amounts over time, the figures of previous years can be subject to change.

In 2016, losses occurred mainly in the risk categories *Execution, delivery and process management* and *External fraud*. Over 50% of losses for *Execution, delivery and process management* were from multiple events in the home markets of the BeNeLux countries. For *External fraud,* 60% of losses were caused by two events in Wholesale Banking.
In 2015, losses were mainly in the category *Clients, products and business practices.* This was mostly related to the compensation of Small and Medium-sized Enterprise (SME) customers with Interest Rate Derivative contracts in the Netherlands. These contracts were all sold before 2012.

Whistleblower

ING deems it important that any employee can report, anonymously or not, alleged irregularities ('Concerns') regarding accounting or auditing matters, as well as Concerns of a general, operational and financial nature within the company, in accordance with its Whistleblower Policy. ING exercises the utmost care with regard to the confidentiality of such a report or the anonymity of the employee, within the limits as defined by applicable laws and regulations. ING will not discharge, demote, suspend, threaten, harass or in any other way harm the employment status of a Whistleblower who has reported a Concern in good faith or of an employee who participates or has participated in an investigation following a reported Concern.

Concerns are recorded in accordance with specific categories, as represented in the table. The Concerns are reported periodically (in numbers and on content, if necessary) via the Head of Compliance up to the level of the Supervisory Board.

Whistleblower concerns		
Number of cases	2016	2015
Breach of Orange code or unethical behaviour	37	14
Fraud / Theft	3	13
Privacy or (client) confidentiality	3	2
Bribery / Corruption	5	2
Other breach of any external law / regulation	42	39
Retaliation		1
Total	**90**	**71**

Disclaimer

Certain of the statements contained herein are not historical facts, including, without limitation, certain statements made of future expectations and other forward-looking statements that are based on management's current views and assumptions and involve known and unknown risks and uncertainties that could cause actual results, performance or events to differ materially from those expressed or implied in such statements. Actual results, performance or events may differ materially from those in such statements due to a number of factors, including, without limitation: (1) changes in general economic conditions, in particular economic conditions in ING's core markets, (2) changes in performance of financial markets, including developing markets, (3) potential consequences of European Union countries leaving the European Union or a break-up of the euro, (4) changes in the availability of, and costs associated with, sources of liquidity such as interbank funding, as well as conditions in the credit and capital markets generally, including changes in borrower and counterparty creditworthiness, (5) changes affecting interest rate levels, (6) changes affecting currency exchange rates, (7) changes in investor and customer behaviour, (8) changes in general competitive factors, (9) changes in laws and regulations and the interpretation and application thereof, (10) geopolitical risks and policies and actions of governmental and regulatory authorities, (11) changes in standards and interpretations under International Financial Reporting Standards (IFRS) and the application thereof, (12) conclusions with regard to purchase accounting assumptions and methodologies, and other changes in accounting assumptions and methodologies including changes in valuation of issued securities and credit market exposure, (13) changes in ownership that could affect the future availability to us of net operating loss, net capital and built-in loss carry forwards, (14) changes in credit ratings, (15) the outcome of current and future legal and regulatory proceedings, (16) ING's ability to achieve its strategy, including projected operational synergies and cost-saving programmes and (17) the other risks and uncertainties detailed in the most recent annual report of ING Groep N.V. (including the Risk Factors contained therein) and ING's more recent disclosures, including press releases, which are available on www.ING.com. Many of those factors are beyond ING's control.

Any forward looking statements made by or on behalf of ING speak only as of the date they are made, and ING assumes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information or for any other reason.

Projects may be subject to regulatory approvals. Insofar as they could have an impact in Belgium, all projects described are proposed intentions of the bank. No formal decisions will be taken until the information and consultation phases with the Work Council have been properly finalised.

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