ING Bank Annual Report 2017

Empowering people

ING

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Composition on 31 December 2017

- R.A.J.G. (Ralph) Hamers (51)
  CEO, chairman of Management Board Banking
- J.V. (Koos) Timmermans (57)
  CFO, Vice-chairman
- S.J.A. (Steven) van Rijswijk (47)
  CRO, Management Board Banking
- M.I. (Isabel) Fernandez Niemann (49)
  Head of Wholesale Banking
- R.M.M. (Roel) Louwhoff (52)
  COO/CTO, Management Board Banking
- (Aris) Bogdaneris (54)
  Head of Challengers & Growth Markets
- R.B. (Roland) Boekhout (54)
  Head of Market Leaders

Supervisory Board

Composition on 31 December 2017

J. (Jeroen) van der Veer (70)
Chairman
H.J.M (Hermann-Josef) Lamberti (61)
Vice-chairman
J.P. (Jan Peter) Balkenende (61)
E.F.C.B. (Eric) Boyer de la Giroday (65)
H. W. (Henk) Breukink (67)
M. (Mariana) Gheorghe (61)
M. (Margarete) Haase (64) (currently an observer, SB membership becomes effective 1 May 2018)
R.W.P. (Robert) Reibestein (61)
G.J. (Hans) Wijers (66)

Committees of the Supervisory Board

Composition on 31 December 2017

Audit Committee

H.J.M (Hermann-Josef) Lamberti
Chairman
E.F.C.B. (Eric) Boyer de la Giroday
M. (Margarete) Haase (currently an observer, SB membership becomes effective 1 May 2018)
G.J. (Hans) Wijers
R.W.P. (Robert) Reibestein

Risk Committee

R.W.P. (Robert) Reibestein
Chairman
J.P. (Jan Peter) Balkenende
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
G.J. (Hans) Wijers

Nomination Committee

J. (Jeroen) van der Veer
Chairman
H. (Henk) Breukink
G.J. (Hans) Wijers

About ING

Our strategy and progress

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

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

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

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

Accelerating the Think Forward strategy

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

Digitalisation is increasing, changing how people interact with service providers and their expectations as customers. Fintechs and other new entrants to the market are taking advantage of new regulations and the easy access and low-cost delivery available through the internet to compete for key parts of banks' value chains.

Tech giants like China's Alibaba and Tencent (owner of WeChat) now even have banking licenses, making them direct competitors of banks. And continued low interest rates and increasing regulation are pressuring banks' profitability. Banks need to look beyond traditional business models for new ways to offer value to customers.

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

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

To achieve this, we are accelerating our Think Forward strategy and transforming our organisation.

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

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

Our strategy on a page

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

Purpose

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

Customer Promise

Clear and Easy | Anytime, Anywhere | Empower | Keep Getting Better

Strategic Priorities

Creating a differentiating customer experience

1 Earn the primary relationship
2 Develop analytics skills to understand our customers better
3 Increase the pace of innovation to serve changing customer needs
4 Think beyond traditional banking to develop new services and business models

Enablers

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

Financial developments ING Bank

ING Bank posted a strong set of results in 2017. The net result rose to EUR 5,019 million from EUR 4,227 million in 2016, which included EUR -799 million of special items after tax, primarily comprising restructuring charges and impairments related to the digital transformation programmes as announced in October 2016. In 2017, there was one special item related to a EUR 121 million tax charge at ING Australia Holdings Ltd, for which a full reimbursement is expected to be received from NN Group. Although the bottom-line impact for ING Bank was nil, it affected both the tax and 'other income' lines.

The underlying net result of ING Bank marginally decreased to EUR 5,019 million from EUR 5,026 million in 2016, due to a higher underlying effective tax rate of which approximately half was caused by the tax reforms in Belgium and the US. Underlying net result is derived from total net result by excluding the impact from divestments and special items.

The underlying result before tax rose 2.6 percent to EUR 7,283 million in 2017 from EUR 7,095 million in 2016, primarily driven by continued business growth at resilient interest margins, higher commission income and lower risk costs. This was achieved despite lower one-off gains and volatile items and an increase in operating expenses. Commercial performance was robust in 2017: ING Bank grew net core lending (adjusted for currency impacts and excluding Bank Treasury and the run-off portfolios) by EUR 26.9 billion, or 4.8 percent, and net customer deposits rose by EUR 19.0 billion compared to year-end 2016. ING Bank grew the retail customer base by 1.6 million to 37.4 million during 2017, including a 900,000 increase in the number of primary clients to 10.8 million.

Total underlying income increased 1.4 percent to EUR 17,755 million from EUR 17,514 million in 2016, despite lower one-off gains and volatile items in 2017. The underlying interest result rose 3.5 percent to EUR 13,782 million, due to an increase of the net interest margin to 1.55 percent from 1.53 percent in 2016, combined with a slightly higher average balance sheet total. The increase of the average balance sheet was limited as continued growth in net core lending and customer deposits was largely offset by declines in investments and debt securities in issue. The interest result on customer lending activities increased driven by higher volumes at resilient margins. The interest result on customer deposits declined, as the impact of volume growth was more than 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 Bank Treasury and the Corporate Line, with part of the increase being structural due to a gradual redemption of the isolated legacy funding costs. Commission income rose 11.5 percent to EUR 2,714 million. The increase was recorded in most segments and products, with the relatively strongest growth in the Retail Challengers & Growth Markets. Investment and other income fell to EUR 1,259 million from EUR 1,763 million in 2016. The decline was mainly caused by lower one-off gains (2016 included among others a EUR 200 million gain on the sale of Visa shares in Retail Banking and releases from revaluation reserves at Corporate Line) and negative hedge ineffectiveness results.

Underlying operating expenses increased 3.7 percent to EUR 9,795 million from EUR 9,445 million in 2016. In 2017, expenses included EUR 901 million of regulatory expenses compared with EUR 845 million in 2016. Excluding regulatory costs, expenses were up 3.4 percent mainly due to strategic projects (including an acceleration in digital investments), higher costs to support business growth and some one-offs. The underlying cost/income ratio increased to 55.2 percent from 53.9 percent in 2016.

The net addition to the provision for loan losses declined 30.6 percent to EUR 676 million from EUR 974 million in 2016. Risk costs were 22 basis points of average risk-weighted assets, which is well below ING Bank's through-the-cycle average of 40-45 basis points.

The underlying return on IFRS-EU equity of ING Bank was 11.6 percent in 2017 versus 11.7 percent in 2016.

Regulatory developments

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

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

Retail Banking

ING's Retail business serves 37.4 million consumers.

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

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

Financial Performance in 2017

Total Retail Banking

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

The higher pre-tax result was driven by lower risk costs, reflecting positive economic conditions in most of our markets. Underlying income increased slightly as higher net interest income and strong fee income (supported by continued volume growth and an increased retail customer base), was largely offset by a decline in investment and other income due to lower one-offs and volatile items (2016 included a EUR 200 million gain on the sale of Visa shares and higher revenues from Bank Treasury).

Customer lending at Retail Banking increased by EUR 9.4 billion to EUR 398.9 billion compared with a year ago. Adjusted for currency impacts and excluding Bank Treasury and the WestlandUtrecht Bank run-off portfolio, net growth in Retail's core lending book was EUR 14.2 billion. Net customer deposits (also excluding Bank Treasury and currency impacts) grew by EUR 17.9 billion in 2017.

Underlying operating expenses increased 2.1 percent compared with 2016. Excluding regulatory costs, expenses were up 1.8 percent, mainly related to strategic projects and selective business growth in the Retail Challengers & Growth Markets, and higher expenses in Retail Belgium after the one-off expense adjustment in 2016. These increases were largely offset by lower expenses in Retail Netherlands supported by the benefits from the ongoing cost-saving initiatives. The underlying cost/income ratio increased to 56.9 percent from 56.0 percent in 2016.

Market Leaders

Retail Netherlands

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

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

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

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

Retail Belgium

Retail Belgium includes Record Bank and ING in Luxembourg.

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

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

Operating expenses rose by EUR 146 million, or 10.2 percent to EUR 1,584 million, mainly due to higher expenses related to the transformation programmes and the EUR -95 million one-off expense adjustment in 2016.

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

Challengers & Growth Markets

Retail Germany

Retail Germany includes Interhyp and ING in Austria.

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

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

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

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

Retail Other

Retail Other consists of the other challenger countries & growth markets, including the Asian stakes.

Retail Other's underlying result before tax decreased 3.8 percent to EUR 825 million in 2017, from EUR 858 million in 2016, which was supported by some one-off gains.

Total underlying income increased by EUR 169 million, or 5.9 percent, to EUR 3,028 million. Excluding the gain on Visa shares in 2016, underlying income grew by 10.1 percent. This increase was driven by strong commercial results across most countries. Net interest income rose 15.7 percent to EUR 2,437 million due to continued volume growth and higher margins on lending, partly offset by lower margins on savings and current accounts. The net production (excluding currency effects and Bank Treasury) in customer lending was EUR 9.3 billion, of which EUR 5.1 billion was in mortgages and EUR 4.2 billion in other lending (mainly consumer loans). The net production in customer deposits was EUR 8.1 billion. Commission income rose 20.0 percent on the back of continued client and volume growth in most countries. Investment and other income was significantly lower, as the previous year included a EUR 109 million gain on Visa shares and a EUR 32 million gain from the reduction of ING's stake in Kotak Mahindra Bank.

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

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

Wholesale Banking

Through the Wholesale Banking business we also serve corporate clients and financial institutions.

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

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

Financial Performance in 2017

Wholesale Banking posted a good set of 2017 results on the back of continued strong performance in Industry Lending, steady volume growth across industries and products, and a low level of risk costs. The net result rose to EUR 1,950 million from EUR 1,754 million in 2016, which included restructuring charges and impairments related to the digital transformation programmes. Excluding these charges, underlying net result rose by EUR 47 million, or 2.5 percent, to EUR 1,950 million.

The underlying result before tax was EUR 2,846 million, up 6.7 percent from 2016, driven by income growth in Industry Lending and General Lending & Transaction Services, and lower risk costs. This was in part offset by higher expenses.

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

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

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

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

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

Regulatory Context

Regulatory landscape and continuing uncertainty

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

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

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

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

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

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

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

ING's regulatory costs increased to EUR 901 million from the already elevated level of EUR 845 million in 2016. This was due to ING's contribution to local deposit guarantee schemes, the European resolution fund and bank taxes.
2017 marked the kick-off of Brexit negotiations. ING is monitoring these closely to make Britain's exit from the EU as smooth as possible for our business and customers.

Competitive landscape

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

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

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

Risk and Capital Management

Managing risks to protect and enable our business

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

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

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

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

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

A consistent approach to capital management

ING's overall approach to capital management is intended to ensure that capital is adequate to cover the (economic) risks at all levels and to ensure compliance with regulations. ING challenges these levels constantly to ensure its optimal use. The continued strength of ING's capital position, the adequacy of our financial position and our risk management effectiveness are essential to achieving our purpose to empower people and businesses to realise their goals, as well as to increase ING's lending capabilities, pay dividend on common shares to shareholders and invest in new technologies and best practices. In this way, ING aims to deliver shareholder returns while it also invests in further innovation of products and services.

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

Capital developments at ING Bank

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

ING Bank's fully-loaded CET1 ratio was 13.1% at the end of 2017. The Bank's phased-in CET1 ratio at the end of the year increased to 13.1%, up from 12.6% in 2016, as risk-weighted assets decreased slightly (mainly due to positive risk migration and FX impacts) and available CET1 capital increased by EUR 1.3 billion compared with year-end 2016.

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 2017 which was audited by ING Group's external auditor. For more information, please refer to the 2017 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 Banking. Thereto, annually, the Supervisory Board assesses the composition of the Management Board Banking. 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 Banking members. However, because of the fact that ING Bank needs to balance several other relevant selection criteria when composing its Management Board Banking, the composition of the Management Board Banking did not meet the abovementioned gender balance in 2017 (14% women). ING Bank will continue to strive for an adequate and balanced composition of its Management Board Banking 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 Banking

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

(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 Banking of ING Bank N.V. and the Executive Board of ING Groep N.V.

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

J.V. (Koos) Timmermans, Chief Financial Officer ("CFO") and vice-chairman

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

Koos Timmermans was appointed vice-chairman of the Management Board Banking as of 1 October 2011 and appointed as CFO since 8 May 2017. 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:
Vice-chairman and CFO of the Management Board Banking of ING Bank N.V. and of the Executive Board of ING Groep N.V., member of the Management Board of ING Support Holding B.V. and member of the Supervisory Board of Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V. ('FMO', Entrepreneurial Development Bank)

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

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

S.J.A. (Steven) van Rijswijk, member and Chief Risk Officer ("CRO")
(Born 1970, Dutch nationality, male; appointed in 2017)

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

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

R. (Roland) Boekhout, member and head of Market Leaders
(Born 1963, Dutch nationality, male; appointed in 2017)

Roland Boekhout was appointed a member of the Management Board Banking since 8 May 2017. He is also head of Market Leaders. As head of Market Leaders, he is responsible for ING Bank's operations in the Benelux, and the intended integration of ING's banking platform in the Netherlands and Belgium. In addition, he is responsible for Advanced Analytics. Furthermore, he is a non- executive director of ING Belgium N.V./S.A.

Roland Boekhout holds a master's degree in business economics from Erasmus University Rotterdam, the Netherlands.

Relevant positions pursuant to CRD IV:
Member of the Management Board Banking of ING Bank N.V. and Non-Executive Director of ING Belgium N.V./S.A.

Other relevant ancillary positions:
Member of the board of (Vorstandsmitglied) of the Deutsch-Niederländische Handelskammer, member of the Euronext advisory board, member of the advisory council of the Maatschappelijke Alliantie (the Netherlands), chairman of the Supervisory Council ING Netherlands and chairman of Stichting ING Nederland Fonds (foundation).

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 Banking 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 Banking of ING Bank N.V.

Other relevant ancillary positions:
Member of the board of Stichting het Nationale Ballet Fonds and member of the Supervisory Council ING Netherlands

R.M.M. (Roel) Louwhoff, member and COO/CTO Management Board Banking
(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 of the Management Board Banking of ING Bank N.V.

Supervisory Board
ING Group 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 2018)
Former position: chief executive officer of Royal Dutch Shell plc.

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

Other relevant ancillary positions:
Chairman of Stichting Het Concertgebouw Fonds (foundation) and chairman of the Supervisory Council of the Delft University of Technology and senior advisor at Mazarine Energy B.V.

H.J.M. (Hermann-Josef) Lamberti (Vice-Chairman)
(Born 1956, German nationality, male; appointed in 2013, term expires in 2021)
Former position: chief operating officer of Deutsche Bank AG.

Relevant positions pursuant to CRD IV:
Vice-chairman of the Supervisory Board of ING Bank N.V./ING Groep N.V., non-executive member of the Board of Directors of Airbus Group N.V., chairman of the Supervisory Board of Addiko Bank and director of Frankfurt Technology Management GmbH.

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

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

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

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

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

E.F.C.B. (Eric) Boyer de la Giroday
(Born 1952, Belgian nationality, male: appointed in 2014, term expires in 2018)
Former position: member of the Executive Board of ING Bank N.V. and ING Groep N.V.

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

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

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

Relevant positions pursuant to CRD IV:

Member of the Supervisory Board of ING Bank N.V./ING Groep N.V., non-executive director of Brink Groep B.V. and executive director of Executive Development Dialogue B.V.

M. (Mariana) Gheorghe

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

Relevant positions pursuant to CRD IV:
Member of the Supervisory Board of ING Bank N.V./ING Groep N.V., chief executive officer of OMV Petrom S.A., chairwoman of the Supervisory Board of OMV Petrom Marketing, chairwoman of the Supervisory Board of OMV Petrom Gas and member of the Supervisory Board of OMV Petrom Global Solutions.

M. (Margarete) Haase

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

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

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

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

R.W.P. (Robert) Reibestein

(Born 1956, Dutch nationality, male; appointed in 2012 as an observer, full member as of 2013, term expires in 2021)
Former position: senior partner of McKinsey & Company.

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

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

G.J. (Hans) Wijers

(Born 1951, Dutch nationality, male, appointed in 2017, term expires in 2021)
Former position: chief excecutive officer and member of the Executive Board of AkzoNobel N.V.

Relevant positions pursuant to CRD IV:
Member of the Supervisory Board of ING Bank N.V./ING Groep N.V. per 1 September 2017, chairman of the Supervisory Board and chairman of the Preparatory Committee and Selection & Appointment Committee of Heineken N.V., non-executive director and deputy chairman of the Board of Directors and chairman of the Corporate and Social Responsibility Committee of Royal Dutch Shell Plc, and member of the Supervisory Board of Hal Investments Plc.

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

Dutch Banking Code

The Dutch Banking Code, as revised in 2014, is applicable to ING Bank N.V.. 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 that ensure that all major financial information is known to the Management Board Banking, 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. 2017 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. 2017 Annual Report gives a true and fair view of the position at the balance sheet date, the development and performance of the business during the financial year 2017 of ING 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, 5 March 2018
the Management Board Banking

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

J.V. (Koos) Timmermans
CFO and vice-chairman

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

R. (Roland) Boekhout
Head of Market Leaders

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

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

R.M.M. (Roel) Louwhoff
COO/CTO

Report of the Supervisory Board

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

The Supervisory Board met nine times in 2017. On average, 99 percent of the Supervisory Board members were present at the meetings. This attendance rate illustrates that the members of the Supervisory Board are engaged with ING and are able to devote sufficient time and attention to oversee ING's affairs. The Management Board Banking were present during each Supervisory Board meeting. For part of the meetings only the chief executive officer was present; this was dependent on the nature of the topics addressed. The Supervisory Board also met in closed sessions, with Supervisory Board members only, in advance of the regular Supervisory Board meetings. The purpose of these pre-meetings is to have a Supervisory Board only reflection moment on the to-be-dealt with agenda items and to provide an opportunity for airing concerns in advance of the regular meetings. The Supervisory Board members continued to interact with senior management outside the regular Supervisory Board meetings for discussion and information sharing. This included speed-meet sessions, which contribute to a better mutual understanding of and alignment on what matters most to ING and the Supervisory Board. To take the interaction even further, the Supervisory Board met with local country management teams and several senior managers during its annual business visit. After having visited the local teams in the US and Asia in the previous two years, in September 2017 the Supervisory Board's focus was the Benelux, where it met with the local teams in Amsterdam and Brussels. It will continue this practice of meeting with local teams in the future. The Supervisory Board finds it important to strike a balance between the interests of all the stakeholders and to maintain an open dialogue on this with all sections within ING.

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

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

Please refer to the legal proceedings paragraph set out in Note 42 to the Consolidated annual accounts of ING Bank for more information.

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

Permanent education

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

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

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

Strategy based on long-term value creation

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

The global transformation programme approved in 2016 was further developed to realise the acceleration of the Think Forward strategy. The basic starting point of the programme was ING's value proposition, captured in multiple work streams.

Throughout the year, the Supervisory Board discussed the progress of this programme and, as part of this, had an active dialogue with the Management Board Banking. ING's strategy together with the transformation programme includes an overarching view and a number of initiatives to further improve the customer experience, further grow primary customers and lending, and increase efficiency. Other aspects of the programme were discussed and approved. Important drivers of the programme were addressed such as the future of banking, the journey of convergence, maintaining commercial momentum, how to fund and drive the transformation, as well as risk management. The Supervisory Board acknowledges it is important to take into account the duty of care towards those stakeholders of the Bank who may be impacted by the transition.

Financial and risk reporting

ING Bank's Annual Report was reviewed and the annual accounts and were approved.

The quarterly results were reviewed and discussed in January, May, August and October 2017, including the relevant press releases. The full year financial results were discussed in March. These discussions included the related press releases and also reports from the external auditor. The Management Board Banking's assessment of the adequacy and effectiveness of the risk management and control systems was also discussed. ING Bank paid EUR 3,176 million dividend to ING Groep N.V.

The Supervisory Board approved the annual review of the risk appetite framework that reflects recent regulatory changes. This included updates to the solvency risk appetite statements (RASs) taking into account the draft Supervisory Review and the draft ECB SREP decision. Also, the sector concentration RAS was added as this was a new boundary in the new system in which RASs are divided into boundaries and supporting instruments.

The Supervisory Board was informed in detail throughout the year of the potential risks for ING, including those relating to Brexit and to political and economic developments in various countries and regions, and discussed how these could best be mitigated.

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

Throughout the year the Supervisory Board was updated on and discussed regulatory risk including the associated operational and anticipated financial impact. Since the start of ECB supervision the increase in regulatory reporting has been significant. Reporting timelines have become shorter and the granularity of the data being requested has increased. In addition, local requirements need to be met. ING aims to safeguard that all reporting processes and data quality remains up to standard. The aggregate impact of upcoming regulatory reporting and additional capital requirements is expected to be substantial. The Supervisory Board also received updates on the possible impact on ING of the new Dutch coalition agreement.

Internal Supervisory Board meetings

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

The Supervisory Board self-assessment was also on the agenda. The action points resulting from last year's self-assessment were acted upon during the year. As in previous years, an independent external party facilitated the 2017 self-assessment process for the (members of the) Supervisory Board and its committees by drafting the questionnaires as well as the reports with the results. The questionnaires were based on those from the previous year and were designed in such a way that a comparison between two consecutive years could be made. As in 2016, input was also requested from several executives who regularly interact with the Supervisory Board and attend Supervisory Board meetings. Following completion of the questionnaires in December 2017, bilateral meetings were held in January 2018 between the chairman of the Supervisory Board and each member. For the chairman, the vice-chairman held a meeting with the other Supervisory Board members before a bilateral meeting was held between the vice-chairman and the chairman. The respective committee results were then discussed in each committee meeting, with the overall results and conclusions being discussed in the internal Supervisory Board meeting (without the Management Board Banking members present). In general, the performance of the committees was rated highly and the performance of the Supervisory Board was considered to at least have been maintained and even improved in several areas since last year's review. A number of suggestions were made as priorities for improving the performance of the Supervisory Board over the coming year, such as increasing the focus on business issues, having more in-depth discussion time, and addressing the delegation of matters to be dealt with between the Supervisory Board and its committees. Additional key priorities identified were continued close monitoring and assessment of the developments in the regulatory and external supervision landscape as well as in the areas of non-financial risk, compliance and internal control. Attention will also continue to be paid to the Supervisory Board's role as challenger and counterbalance to the Management Board Banking.

Audit Committee meetings

The Audit Committee met five times in 2017. On average, 96 percent of the members were present at the scheduled meetings.

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

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

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

Risk Committee meetings

The Risk Committee met five times in 2017, compared with four times in previous years. On average, 93 percent of the members were present at the scheduled meetings. As with the meetings of the other committees, all relevant items discussed by the Risk Committee were reported to the Supervisory Board, with the Supervisory Board approving those items as required from a governance perspective.

In each Risk Committee meeting both the financial and non-financial risk reports were discussed, including the status of ING's metrics with regard to solvency, liquidity, credit risk, country risk, market risk, and non-financial/compliance risk. Stress testing scenarios, including the impact of Brexit and of a potential break-up of the Eurozone were also discussed.

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

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

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

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

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

Nomination and Corporate Governance Committee meetings

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

The Nomination and Corporate Governance Committee discussed future succession scenarios in general terms for the Management Board Banking, as well as the future composition of the Supervisory Board. Various diversity-related aspects were taken into account, such as the minimum and optimal size of a Supervisory Board combined with a sound and reasonable balance in representation of geographies, gender, and financial and generalist expertise. Several potential candidates were discussed for various positions, taking ING's diversity policy into account. Following the unexpected early resignation of Ms Ann Sherry as Supervisory Board member from 14 September 2017 because of personal circumstances, the Nomination and Corporate Governance Committee immediately started the process of finding a successor. In cooperation with an external agency, a short list of potential candidates was compiled. Finding a suitable candidate is challenging, as various requirements must be met in relation to the composition of the Supervisory Board, regulatory requirements, outside positions, independence, no conflicts of interest, availability, etc.

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

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

Furthermore, the Committee discussed, Management Board Banking and Supervisory Board charters that were updated, in the light of the new Dutch Corporate Governance Code requirements. Also the profiles of the Supervisory Board were updated due to new Dutch Corporate Governance Code requirements.

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

Remuneration Committee meetings

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

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

Furthermore, the Committee discussed the application of variable remuneration cap of 200 percent (instead of 100 percent) for select (no more than one percent of) ING global staff, as approved in the 2017 Annual General Meeting.

The ING Bank remuneration regulations framework was updated as part of an annual review. This included the alignment of responsibilities of the Risk Committee and the Remuneration Committee in light of regulatory changes. In light of the renewal of the CLA and the employee changes in the Netherlands, the social plan was also discussed. Furthermore, the disclosure of the CEO pay ratio was discussed and approved for inclusion in this Annual Report, following the requirements of the new Dutch Corporate Governance Code.

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

Composition of the Management Board Banking

At the Annual General Meeting on 8 May 2017, Roland Boekhout was appointed as member of the Management Board Banking, to succeed Koos Timmermans as head of Market Leaders, immediately following the Annual General Meeting.

Steven van Rijswijk was appointed as member of the Management Board Banking as per 8 May 2017, immediately following the Annual General Meeting. He succeeded Wilfred Nagel as CRO as per 1 August 2017.

Composition of the Supervisory Board

At the Annual General Meeting on 8 May 2017, Isabel Martín Castellá stepped down, having reached the ING age limit for Supervisory Board members. Furthermore, Hans Wijers, Jan Peter Balkenende and Margarete Haase were appointed to the Supervisory Board. Jan Peter Balkenende started as an observer per 9 May 2017. His membership became effective (i.e. granted voting power) as per 1 September 2017. He also became a member of the Risk Committee. The membership of Hans Wijers became effective per 1 September 2017 and he then also became a member of the Audit Committee, the Nomination and Corporate Governance Committee, and Remuneration Committee. As per 1 October 2017, Margarete Haase has been present as an observer at the meetings of the Audit Committee, Supervisory Board and Internal Supervisory Board. Her membership will become effective as per 1 May 2018. By then she will have reduced her (non) executive directorships meeting the CRD IV requirements. Margarete Haase has also completed an extensive induction programme.
Robert Reibestein and Hermann-Josef Lamberti were reappointed; the appointment term will end as per the end of the 2021 Annual General Meeting. Jeroen van der Veer was reappointed; the appointment term will end as per the end of the 2018 Annual General meeting as it is the intention of the Supervisory Board that Hans Wijers will succeed Jeroen van der Veer as chairman of the Supervisory Board at that time. In 2017 Ann Sherry became a member of the Nomination and Corporate Governance Committee and remained in that position until her unexpected resignation as an ING Supervisory Board member per 14 September 2017 because of personal circumstances. A suitable replacement is (still) being searched for.

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

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

The members of the Supervisory Board are requested to assess annually whether or not they are independent as set out in the Corporate Governance Code and to confirm this in writing. On the basis of these criteria, all members of the Supervisory Board, with the exception of Eric Boyer de la Giroday, are to be regarded as independent on 31 December 2017. Eric Boyer de la Giroday is considered not independent because of his position as Chairman of the Board of Directors of ING Belgium S.A./N.V. and his former positions as member of the Executive Board of ING Groep N.V. and vice-chairman of the Management Board Banking of ING Bank N.V. On the basis of the NYSE listing standards, all members of the Supervisory Board are to be regarded as independent.

Appreciation for the Management Board Banking and ING employees

The Supervisory Board would like to thank the members of the Management Board Banking for their hard work in 2017. Important milestones were the steps taken towards creating a globally scalable digital platform for customers and further digitalising our offering. This took place against a backdrop of increasing regulation, legal and Know Your Customer requirements.

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

Amsterdam, 5 March 2018
The Supervisory Board

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Consolidated annual accounts

Consolidated statement of financial position

as at 31 December

in EUR million	2017	2016
Assets		
Cash and balances with central banks 2	21,989	18,144
Loans and advances to banks 3	28,746	28,872
Financial assets at fair value through profit or loss 4		
– trading assets	116,763	114,512
– non-trading derivatives	2,185	2,309
– designated as at fair value through profit or loss	4,242	5,099
Investments 5		
– available-for-sale	69,730	82,912
– held-to-maturity	9,343	8,751
Loans and advances to customers 6	574,899	562,873
Investments in associates and joint ventures 7	947	1,003
Property and equipment 8	1,801	2,002
Intangible assets 9	1,469	1,484
Current tax assets	324	252
Deferred tax assets 33	818	1,000
Other assets 10	13,062	14,706
Total assets	**846,318**	**843,919**
Liabilities		
Deposits from banks 11	36,821	31,964
Customer deposits 12	552,690	531,096
Financial liabilities at fair value through profit or loss 13		
– trading liabilities	73,596	83,167
– non-trading derivatives	2,346	3,585
– designated as at fair value through profit or loss	11,215	12,266
Current tax liabilities	774	546
Deferred tax liabilities 33	752	919
Provisions 14	1,713	2,028
Other liabilities 15	15,972	16,793
Debt securities in issue 16	90,231	101,305
Subordinated loans 17	15,831	16,104
Total liabilities	**801,941**	**799,773**
Equity 18		
Share capital and share premium	17,067	17,067
Other reserves	4,304	5,835
Retained earnings	22,291	20,638
Shareholders' equity (parent)	**43,662**	**43,540**
Non-controlling interests	715	606
Total equity	**44,377**	**44,146**
Total liabilities and equity	**846,318**	**843,919**

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

Consolidated statement of profit or loss

for the years ended 31 December

in EUR million	2017	2017	2016	2016	2015	2015
Interest income	43,988		44,221		46,397	
Interest expense	–30,206		–30,904		–33,653	
Net interest income 19		13,782		13,317		12,744
Commission income	3,864		3,581		3,420	
Commission expense	–1,150		–1,148		–1,100	
Net commission income 20		2,714		2,433		2,320
Valuation results and net trading income 21		672		1,093		1,333
Investment income 22		192		421		127
Share of result from associates and joint ventures 7		166		77		493
Result on disposal of group companies 23		1		1		2
Other income 24		349		172		51
Total income		**17,876**		**17,514**		**17,070**
Addition to loan loss provisions 6		676		974		1,347
Staff expenses 25		5,198		5,036		4,962
Other operating expenses 26		4,598		5,567		4,346
Total expenses		**10,472**		**11,577**		**10,655**
Result before tax		**7,404**		**5,937**		**6,415**
Taxation 33		2,303		1,635		1,684
Net result (before non-controlling interests)		**5,101**		**4,302**		**4,731**
Net result attibutable to Non-controlling interests		82		75		72
Net result attributable to shareholder of the parent		**5,019**		**4,227**		**4,659**
Dividend per ordinary share (in euros)		6.83		2.89		4.73
Total amount of dividend paid (in millions of euros)		3,176		1,345		2,200

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

Consolidated statement of comprehensive income

for the years ended 31 December

in EUR million	2017	2016	2015
Net result (before non-controlling interests)	5,101	4,302	4,731
Other comprehensive income			
Items that will not be reclassified to the statement of profit or loss:			
Realised and unrealised revaluations property in own use	26	2	35
Remeasurement of the net defined benefit asset/liability 32	–29	–65	64
Items that may subsequently be reclassified to the statement of profit or loss:			
Unrealised revaluations available-for-sale investments and other revaluations	–284	189	288
Realised gains/losses transferred to the statement of profit or loss	–92	–272	–17
Changes in cash flow hedge reserve	–526	68	–218
Exchange rate differences	–861	–273	95
Share of other comprehensive income of associates and joint ventures and other income	3	5	–9
Total comprehensive income	**3,338**	**3,956**	**4,969**
Comprehensive income attributable to:			
Non-controlling interests	109		46
Shareholders of the parent	3,229	3,956	4,923
	3,338	**3,956**	**4,969**

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

Reference is made to Note 33 'Taxation' for the disclosure on the income tax effects on each component of the other comprehensive income.

Consolidated statement of changes in equity

in EUR million	Share capital and share premium	Other reserves	Retained earnings	Share-holders' equity (parent)	Non-controlling interests	Total equity
Balance as at 1 January 2017	17,067	5,835	20,638	43,540	606	44,146
Unrealised revaluations available-for-sale investments and other revaluations		–294		–294	10	–284
Realised gains/losses transferred to the statement of profit or loss		–90		–90	–2	–92
Changes in cash flow hedge reserve		–515		–515	–11	–526
Realised and unrealised revaluations property in own use			26	26		26
Remeasurement of the net defined benefit asset/liability 32		–29		–29		–29
Exchange rate differences		–891		–891	30	–861
Share of other comprehensive income of associates and joint ventures and other income		135	–132	3		3
Total amount recognised directly in other comprehensive income		**–1,684**	**–106**	**–1,790**	**27**	**–1,763**
Net result from continuing and discontinued operations		153	4,866	5,019	82	5,101
Total comprehensive income		**–1,531**	**4,760**	**3,229**	**109**	**3,338**
Dividends			–3,176	–3,176		–3,176
Employee stock option and share plans			69	69		69
Balance as at 31 December 2017	**17,067**	**4,304**	**22,291**	**43,662**	**715**	**44,377**

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 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 32		–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 from continuing and discontinued operations		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'.

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 32		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 cash flows

for the years ended 31 December

in EUR million		2017	2016	2015
Cash flows from operating activities				
Result before tax		7,404	5,937	6,415
Adjusted for:	– depreciation and amortisation	520	536	614
	– addition to loan loss provisions	676	974	1,347
	– other	708	1,580	–227
Taxation paid		–1,753	–1,555	–1,306
Changes in:	– loans and advances to banks, not available on demand	–3,306	–1,168	6,760
	– trading assets	–1,605	16,976	5,485
	– non-trading derivatives	–2,403	1,725	–742
	– other financial assets at fair value through profit or loss	441	–3,400	–282
	– loans and advances to customers	–21,397	–29,668	–21,143
	– other assets	–663	–1,280	1,106
	– deposits from banks, not payable on demand	6,320	–346	5,175
	– customer deposits	22,960	23,682	19,600
	– trading liabilities	–9,575	–5,634	–8,276
	– other financial liabilities at fair value through profit or loss	–566	–432	–1,254
	– provisions and other liabilities	854	1,030	1,689
Net cash flow from/(used in) operating activities		**–1,385**	**8,957**	**14,961**
Cash flows from investing activities				
Investments and advances:	– associates and joint ventures	–79	–49	–24
	– available-for-sale investments	–21,601	–27,003	–43,092
	– held-to-maturity investments	–3,609	–1,731	–3,457
	– property and equipment	–264	–351	–326
	– assets subject to operating leases	–40	–64	–37
	– other investments	–264	–288	–256
Disposals and redemptions:	– group companies (including cash in company disposed)			
	– associates and joint ventures	245	54	119
	– available-for-sale investments	32,788	31,165	48,232
	– held-to-maturity investments	2,675	630	1,219
	– property and equipment	65	63	73
	– assets subject to operating leases	14	12	17
	– loans	1,815	1,295	3,590
	– other investments	9	9	3
Net cash flow from/(used in) investing activities 27		**11,754**	**3,742**	**6,061**

Consolidated statement of cash flows of ING Bank - continued

in EUR million	2017	2016	2015
Net cash flow from/(used in) operating activities	**–1,385**	**8,957**	**14,961**
Net cash flow from/(used in) investing activities 27	**11,754**	**3,742**	**6,061**
Cash flows from financing activities			
Proceeds from debt securities28	89,369	106,174	133,290
Repayments of debt securities 28	–95,077	–121,998	–140,120
Proceeds from issuance of subordinated loans 28	2,314	1,085	2,085
Repayments of subordinated loans 28	–1,246	–961	–4,244
Dividends paid	–3,176	–1,345	–2,200
Net cash flow from/(used in) financing activities	**–7,816**	**–17,045**	**–11,189**
Net cash flow	**2,553**	**–4,346**	**9,833**
Cash and cash equivalents at beginning of year	16,163	20,354	10,863
Effect of exchange rate changes on cash and cash equivalents	260	155	–342
Cash and cash equivalents at end of year 29	**18,976**	**16,163**	**20,354**

As at 31 December 2017, Cash and cash equivalents includes cash and balances with central banks of EUR 21,989 million (2016: EUR 18,144 million; 2015: EUR 21,458 million). The increase in cash and balances with central banks reflects ING's liquidity management. Reference is made to Note 29 '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[1]

	2017	2016	2015
Interest received	45,039	44,879	47,067
Interest paid	–30,978	–31,621	–34,214
	14,061	**13,258**	**12,853**
Dividend received[2]	208	208	137
Dividend paid	–3,176	–1,345	–2,200

1 All interest and dividend paid and received from trading positions are included. 2016 and 2015 interest and dividend received have been restated to align to current year presentation.
2 Includes dividends received as recognized within Investment Income, from equity securities included in the Financial assets at fair value through profit or loss, and from Investments in associates and joint ventures.

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

Notes to the Consolidated annual accounts

amounts in millions of euros, unless stated otherwise

Notes to the accounting policies

Reporting entity

ING Bank N.V. is a company domiciled in Amsterdam, the Netherlands. Commercial Register of Amsterdam, number 33031431. These Consolidated annual accounts, as at and for the year ended 31 December 2017, comprise ING Bank N.V. (the Parent company) and its subsidiaries, together referred to as ING Bank. ING Bank is a global financial institution with a strong European base, offering a wide range of retail and wholesale banking services to customers in over 40 countries.

Authorisation of the Consolidated annual accounts

The ING Bank Consolidated annual accounts, as at and for the year ended 31 December 2017, were authorised for issue in accordance with a resolution of the Management Board Banking on 5 March 2018. The Management Board Banking may decide to amend the annual accounts as long as these are not adopted by the General Meeting of Shareholders. The General Meeting of Shareholders may decide not to adopt the annual accounts, but may not amend these.

Basis of preparation of the Consolidated annual accounts

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

IFRS as adopted by the EU are IFRS Standards and IFRS Interpretations as issued by the International Accounting Standards Board (IASB) and the IFRS Interpretations Committee (IFRIC) with some limited modifications such as the temporary 'carve-out' from IAS 39 'Financial Instruments: Recognition and Measurement' (herein, referred to as IFRS).

Under the EU carve-out, ING 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', d) Principles of valuation and determination of results and Note 35 'Derivatives and hedge accounting'.

The ING Bank Consolidated annual accounts have been prepared on a going concern basis.

1 Accounting policies

ING Bank has consistently applied its accounting policies to all periods presented in these Consolidated annual accounts.

a) Changes in IFRS effective in 2017

ING Bank has applied a number of amendments to standards for the first time during the year ended 31 December 2017. The implementation of these changes had an insignificant impact on the consolidated financial position, net result, other comprehensive income, cash flows, and related disclosures of ING Bank. The amendment to IAS 7 now requires a disclosure of changes in liabilities arising from financing activities, reference is made to Note 28 'Changes in liabilities arising from financing activities'. ING Bank has not early adopted any other standard, interpretation or amendment which has been issued, but is not yet effective.

b) Upcoming changes in IFRS after 2017

Changes to IFRS effective in 2018 and onwards expected to have no significant impact on ING Bank

The following published amendments are not mandatory for 2017 and have not been early adopted by the bank. ING Bank is still currently assessing the detailed impact of these amendments, however the implementation of these amendments is expected to have no significant impact on ING Bank's Consolidated annual accounts.

The list of upcoming changes to IFRS, which are applicable for ING Bank
<u>Effective in 2018 (* - endorsed by the EU, the rest not yet endorsed by the EU):</u>

- *Amendments to IFRS 2 'Share-based Payment': Classification and Measurement of Share-based payment transactions
- Amendments to IAS 40 'Investment Property': Transfers of Investment Property;
- *Annual improvements cycle 2014 – 2016: Amendments to IAS 28 'Investments in Associates and Joint Ventures'; and
- IFRIC 22 'Foreign Currency Transactions and Advance Consideration'.

<u>Effective in 2019 (not yet endorsed by the EU):</u>

- IFRIC 23 'Uncertainty over Income Tax Treatments';
- Amendments to IAS 28: 'Investments in Associates and Joint Ventures': Long-term Interests in Associates and Joint Ventures;
- Annual improvements cycle 2015 – 2017: Amendments to IFRS 3 'Business Combinations', IFRS 11 'Joint Arrangements', IAS 12 'Income Taxes', IAS 23 'Borrowing Costs'; and
- Amendments to IAS 19: 'Employee Benefits': Plan Amendment, Curtailment or Settlement.

IASB has also issued IFRS 17 'Insurance Contracts' effective in 2021, however it is not applicable for ING Bank.

Major new IFRSs
IFRS 9 'Financial Instruments'
IFRS 9 'Financial Instruments' was issued by the IASB in July 2014 and endorsed by the EU in November 2016. IFRS 9 replaces IAS 39 'Financial Instruments: Recognition and Measurement' and includes requirements for the classification and measurement of financial assets and liabilities, impairment of financial assets, and hedge accounting. The new requirements are effective for annual periods beginning on or after 1 January 2018 and will be applied by ING Bank as of 1 January 2018. ING Bank applies the classification, measurement, and impairment requirements retrospectively by adjusting the opening balance sheet and opening equity at 1 January 2018, and has decided not to restate comparative periods and not to early apply the changed own credit risk requirements, as permitted by IFRS 9. In October 2017, the IASB issued an amendment to IFRS 9 with regard to prepayment features with negative compensation. This change allows financial assets with prepayment features that permit or require a party to a contract either to pay or receive reasonable compensation for the early termination of the contract, to be measured at amortised cost or at fair value through other comprehensive income. The amendment will be effective for annual period beginning or after 1 January 2019. If the amendment is endorsed by the EU, ING will early adopt the amendment to IFRS 9 as of 1 January 2018 as permitted. Based on the assessments carried out, ING Bank does not expect that this change will have an impact.

ING decided to continue applying IAS 39 for hedge accounting including the application of the EU carve out as explicitly permitted by IFRS 9. The revised hedge accounting disclosures as required by IFRS 7 'Financial Instruments: Disclosures' as per 1 January 2018 will be implemented across ING Bank.

IFRS 9 program governance and status
The IFRS 9 program was initiated in 2015 and was set-up based on the three pillars of the IFRS 9 standard: Classification and Measurement, Impairment, and Hedge Accounting. These central work streams consisted of experts from Finance, Risk, Bank Treasury, Operations, and the Business. The IFRS 9 Technical Board consisted of the heads of various Finance and Risk functions supporting the IFRS 9 Steering Committee by reviewing the interpretations of IFRS 9, the central guidance, and instructions as prepared by the central work streams. The IFRS 9 Steering Committee was the key decision making body and consists of senior managers from Finance, Risk, Bank Treasury and Wholesale Banking Lending Services. The Management Board Banking and the Audit Committee were periodically updated about IFRS 9 and the key decisions.

In 2017 the program's focus was on:
- Performing three 'parallel runs' to test readiness of systems, processes and a number of controls for transition to IFRS 9 as per 1 January 2018;
- Developing and validating of the new expected credit loss models;
- Developing and implementing processes for staging and using forward looking economic guidance in the Expected Credit Losses models;
- Finalising technical interpretation of the IFRS 9 standard;
- Finalising the business model assessment and solely payments of principal and interest testing for Classification and Measurement purposes;
- Implementing and testing system changes;
- Updating the policies, governance, and control frameworks that are impacted by IFRS 9 and starting to embed these changes into everyday business and financial reporting cycles;
- Preparing the IFRS 9 transition disclosure plan.

During 2017, the IFRS 9 program was subject to reviews by supervisors and audits by ING's internal audit department.

ING has almost completed the implementation of IFRS 9. The main procedures that are in the process of being finalised are the transfer of program activities, further embedding internal controls in the processes, and the last model validations.

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

Two criteria are used to determine how financial assets should be classified and measured at amortised cost (AC), fair value through other comprehensive income (FVOCI) or fair value through profit or loss (FVPL):
1. The business model assessment, performed to determine how a portfolio of financial instruments as a whole is managed in order to classify the business model as Hold to Collect (HtC), Hold to Collect & Sell (HtC&S), or other; and
2. The contractual cash flow characteristics test, performed to determine whether the financial instruments give rise to cash flows that are Solely Payments of Principal and Interest (SPPI). Principal is defined as the fair value of the financial asset on initial recognition. Interest is defined as consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period and for other basic lending risk and costs as well as margin.

A financial asset is measured at AC if it is held within a HtC business model, the contractual cash flows are solely SPPI and if it is not designated as at FVPL. A financial asset is measured at FVOCI if it is held within a HtC&S business model, the contractual cash flows are solely SPPI and if it is not designated at FVPL. Financial assets not classified as AC or FVOCI are measured at FVPL.

ING's business models are based on the existing management structure of the bank, and refined based on an analysis of how businesses are evaluated and reported, how their specific business risks are managed and on historic and expected future sales. The SPPI testing was carried out on a sample basis conducted after the financial assets within the business models were stratified based on an analysis of product characteristics. In performing the SPPI testing, ING considered the contractual terms of the instruments. This included assessing whether the financial assets contained a contractual term that would change the amount or timing of contractual cash flows such that they would no longer be SPPI compliant. In making the assessment, terms such as the following were considered:
- Prepayment terms. For example a prepayment of an outstanding principal amount plus a penalty capped to three or six months of interest;
- Leverage features, which increase the variability of the contractual cash flows with the result that they do not have the economic characteristics of interest. An example is a Libor contract with a multiplier of 1.3;
- Terms that limit the groups claim to cash flows from specified assets – e.g. non-recourse asset arrangements. This could be the case if payments of principal and interest are met solely by the cash flows generated by the underlying asset, for example in real estate, shipping and aviation financing;
- Features that modify consideration for the time value of money. These are contracts with for example an interest rate which is reset every month to a one-year rate.

A number of key accounting policy choices were required for the Classification and Measurement of ING's financial assets, such as the level of permissible sales in a HtC business model, the FVOCI option for equity investments and accounting prepayments. The decision making process for such policy choices followed the IFRS 9 programme governance, with technical matters researched, decisions documented, and conclusions proposed by ING's IFRS 9 Technical Board for approval by the IFRS 9 Steering Committee.

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities. However, under IAS 39 all fair value changes of financial liabilities designated at FVPL are recognised in the statement of profit or loss (SOPL), whereas under IFRS 9 the fair value changes are presented as follows:
- The amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in the Statement of other comprehensive income (SOCI). Upon derecognition this Debt Valuation Adjustment (DVA) impact shall not be recycled from other comprehensive income (OCI) to the SOPL; and
- The remaining amount of change in the fair value is presented in the SOPL.

The impact of this change is that an amount of approximately EUR 0.2 billion will be reclassified within equity from Retained earnings to OCI.

Impact
As a result of the combined application of the business model analysis and SPPI test, the classification and measurement of the following portfolios will change:
- The most significant change is the reclassification of a part of the available-for-sale (AFS) investment portfolio, which will be split into a portfolio classified at AC and a portfolio at FVOCI. Approximately EUR 35.5 billion of debt securities previously classified at AFS under IAS 39 will be measured at AC based on the IFRS 9 HtC business model. The reclassification from AFS to AC will result in a reduction of the unrealised revaluation gains in equity at transition date of approximately EUR 0.6 billion.
- For a mortgage portfolio of EUR 3.4 billion, the measurement will change from AC to FVOCI as it meets the HtC&S business model requirements. As the fair value of the portfolio is higher than the AC, this wil have a positive impact on equity of EUR 0.2 billion.
- Approximately EUR 1.3 billion of debt securities and loans previously booked at AC or AFS will be measured at FVPL as the cash flows do not meet the SPPI test. This measurement change has a limited negative impact on equity at transition date.

Furthermore, there are a few portfolios for which only the classification on ING's Consolidated statement of financial position will change without impacting equity:
- ING has a portfolio of equity securities amounting to EUR 4.0 billion. For strategic equity instruments amounting to EUR 3.9 billion; ING has decided to apply the option to irrevocably designate these at FVOCI, instead of the IFRS 9 default measurement of FVPL. FVOCI equity investments will have no recycling of the revaluation reserve anymore to the SOPL upon disposal. For these instruments only dividend income continues to be recognised in the SOPL; and
- Certain reverse repurchase portfolios amounting to EUR 54.8 billion will be classified as financial assets 'Mandatorily at FVPL' instead of Held for trading. ING will use the fair value option for the related repurchase financial liabilities amounting to EUR 37.2 billion.

Impairment

The implementation of IFRS 9 has a significant impact on ING's impairment methodology. The Expected Credit Loss (ECL) model is a forward-looking model. The ECL estimates are unbiased, probability-weighted, and include supportable information about past events, current conditions, and forecasts of future economic conditions. ING's ECL model reflects three macroeconomic scenarios via a baseline, up and down scenario, and include the time value of money. The model applies to on-balance sheet financial assets accounted for at AC and FVOCI such as loans, debt securities and lease receivables, as well as off-balance sheet items such as undrawn loan commitments, certain financial guarantees, and undrawn committed revolving credit facilities. Compared to the scope under IAS 39, the main change is the inclusion of off-balance sheet exposures and HtC&S financial assets. ING aligned the definition of credit impaired under IFRS 9 with the definition of default for prudential purposes.

ING's approach leveraged the existing regulatory capital models that use the Advanced Internal Ratings Based (AIRB) models for regulatory purposes. For other portfolios that use the Standardized Approach (SA) to calculate regulatory capital, ING developed new ECL models.

Three stage approach

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

- Stage 1: 12 month ECL – No significantly increased credit risk.
  Financial instruments that have not had a significant increase in credit risk since initial recognition require, at initial recognition a provision for ECL associated with the probability of default events occurring within the next 12 months (12 month ECL). For those financial assets with a remaining maturity of less than 12 months, a Probability of Default (PD) is used that corresponds to the remaining maturity.
- Stage 2: Lifetime ECL – Significantly increased credit risk
  In the event of a significant increase in credit risk since initial recognition, a provision is required for the lifetime ECL representing losses over the life of the financial instrument (lifetime ECL).
- Stage 3: Lifetime ECL – Defaulted
  Financial instruments that move into Stage 3 once credit impaired and purchases of credit impaired assets will require a lifetime provision.

Significant increase in credit risk

A financial asset moves from Stage 1 to Stage 2 when there is a significant increase in credit risk since initial recognition. ING Bank established a framework which incorporates quantitative and qualitative information to identify this on an asset level applying a relative assessment. Each financial asset will be assessed at the reporting date on the triggers for significant deterioration. ING Bank assesses significant increase in credit risk using:

- Delta in the lifetime default probability;
- Forbearance status;
- Watch list status. Loans on the watchlist are individually assessed for Stage 2 classification;
- Intensive care management;
- Internal rating;
- Arrears; and the
- More than 30 days past due backstop for Stage 1 to Stage 2 transfers.

The delta in lifetime probability of default is the main trigger for movement between Stage 1 and Stage 2. The trigger compares lifetime probability of default at origination versus lifetime probability of default at reporting date, considering the remaining maturity. Assets can move in both directions, meaning that they will move back to Stage 1 or Stage 2 when the Stage 2 or Stage 3 triggers are not applicable anymore (taking into account the regulatory probation periods). The stage allocation is implemented in the central credit risk systems.

Macroeconomic scenarios

ING has established a quarterly process whereby forward-looking macroeconomic scenarios and probability weightings are developed for ECL calculation purposes. ING applies predominantly data from a leading service provider enriched with the internal ING view. To reflect an unbiased and probability-weighted ECL amount, a baseline, an up-scenario, and a down-scenario are determined. As a baseline scenario, ING applies the market-neutral view combining consensus forecasts for economic variables such as unemployment rates, GDP growth, house prices, commodity prices, and short-term interest rates. Applying market consensus in the baseline scenario ensures unbiased estimates of the expected credit losses.

The alternative scenarios are based on observed forecast errors in the past, adjusted for the risks affecting the economy today, and the forecast horizon. The probabilities assigned are based on the likelihoods of observing the three scenarios and are derived from confidence intervals on a probability distribution. The scenarios are adjusted on a quarterly basis.

As the inclusion of forward-looking macroeconomic scenarios requires judgement, a Macroeconomic scenarios team and a Macroeconomic scenarios expert panel were established. The Macroeconomic scenarios team is responsible for the macroeconomic scenarios used for IFRS 9 ECL purposes with a challenge by the Macroeconomic scenarios expert panel. This ensures that the macroeconomic scenarios are sufficiently challenged and that key economic risks, including immediate short term risks, are taken into consideration when developing the macroeconomic scenarios used in the calculation of ECL. The Macroeconomic scenarios expert panel is a diverse team composed of senior management representatives from the Business, Risk, Finance, and an external party.

Measurement

The calculation of IFRS 9 ECL leverages on ING Bank's expected loss models (PD, LGD, EAD) currently used for regulatory capital, economic capital, and collective provisions in the current IAS 39 framework. These models are adjusted for 1) removal of embedded prudential conservatism (such as floors), 2) provide forward-looking point in time estimates based on macroeconomic predictions and 3) a 12 months or lifetime view of credit risk where needed. Lifetime features are default behaviour over a longer horizon, full behaviour after the default moment, repayment schedules and early settlements. For most financial instruments, the expected life is limited to the remaining maturity. For overdrafts and certain revolving credit facilities, such as credit cards, open ended assumptions are taken as these do not have a fixed term or repayment schedule.

To measure ECL, ING Bank applies a PD x EAD x LGD approach incorporating the time value of money. For Stage 1 assets a forward-looking approach on a 12 month horizon will be applied. For Stage 2 assets a lifetime view on the credit is applied. The Lifetime Expected Loss (LEL) is the discounted sum of the portions of lifetime losses related to default events within each time window of 12 months till maturity. For Stage 3 assets the PD equals 100% and the Loss Given Default (LGD) and Exposure At Default (EAD) represent a lifetime view of the losses based on characteristics of defaulted facilities.

Impact

As a result of the new IFRS 9 impairment requirements, ING expects that the loan loss provisions (LLP) to increase by approximately EUR 0.6 billion (pre-tax). The split of the ECL to different stages of our portfolio is further detailed in the table below. The increase in the level of impairments due to the IFRS 9 transition is mainly the result of IFRS 9 Stage 2 loans for which lifetime expected credit losses need to be calculated.

Estimated IFRS 9 transition impact impairments as at 1 January 2018[1]

In billions of euros	IAS 39 LLP	IFRS 9 impairment stages	Estimated IFRS 9 ECL increase	Estimated IFRS 9 ECL
Incurred but Not Reported (IBNR)	0.7	Stage 1- 12 month ECL	0.1	0.4
		Stage 2 – Lifetime ECL	0.5	0.9
Individual provisions (ISFA, INSFA)	3.9	Stage 3 – Lifetime ECL	0.0[2]	3.9
Total	**4.6**	**Total**	**0.6**	**5.2**

1 Includes provisions for contingent liabilities
2 The change for Stage 3 financial assets is rounded.

IFRS 9 Impact on capital and other regulatory requirements

IFRS 9 will impact ING Bank's reported capital as a result of the transition adjustments recorded in shareholders' equity on transition date. The Basel Committee on Banking Supervision (BCBS) pointed out that the treatment of provisions under both the SA and the AIRB frameworks remains, but allows jurisdictions the option to choose whether to apply a transitional arrangement for the impact of impairment under IFRS 9. As a result, the EU introduced transitional arrangements for mitigating the impact of the introduction of IFRS 9 impairment on own funds in the Capital Requirements Regulations (CRR). ING has decided not to apply the IFRS 9 impairment transitional arrangements. The increase in provisions will have limited impact on ING's CET1 ratio as for the AIRB portfolios it will be offset by the existing regulatory provision shortfall per 31 December 2017.

The estimated impact of the adoption of IFRS 9 on shareholders' equity is approximately EUR -0.9 billion and -18 basis points on CET1 capital ratio at implementation date 1 January 2018, consisting of:

Estimated impact of adopting IFRS 9 on shareholders' equity as at 1 January 2018

In billions of euros	Estimated impact on shareholders' equity
Loan loss provisions[1]	–0.4
Investment portfolio[2]	–0.6
Mortgages held in HtC&S portfolio[3]	0.2
Other[4]	–0.1
Total impact	**–0.9**

1 The EUR -0.4 billion is the post-tax impact on equity of the estimated IFRS 9 ECL increase amounting to EUR 0.6 billion. The capital impact is for the AIRB portfolios offset by the release of expected loss elements currently included in the calculation of regulatory capital per 31 December 2017.
2 Main impact of approximately EUR -0.6 billion from the reclassification of a part of the investment portfolio from the AFS (FVOCI) debt securities under IAS 39 to the HtC portfolio (AC) under IFRS 9.
3 A portfolio of mortgages will be measured at FVOCI under IFRS 9 instead of AC under IAS 39 resulting in an impact of approximate EUR 0.2 billion impact on CET1 capital.
4 This item mainly relates to the estimated impact of reporting loans and debt instruments at fair value through the SOPL because the cash flows of these assets do not represent SPPI.

The impact on other regulatory ratios is not expected to be material.

IFRS 15 'Revenue from Contracts with Customers'

IFRS 15 'Revenue from Contracts with Customers' is effective for annual periods beginning on or after 1 January 2018 and has been endorsed by the EU. IFRS 15 introduces a five-step approach for recognising revenue as and when the agreed performance obligations are satisfied. Agreed performance obligations are individual promises made to the customer that deliver benefit from the customer's perspective. Revenue should either be recognised at a point-in-time or over-time depending on the service being delivered to the customer.

ING assessed the impact of IFRS 15 and expects that it will have no significant effect on ING Bank's Net result and/or Other comprehensive income and Shareholders' equity.

IFRS 16 'Leases'

IFRS 16 'Leases' is effective for annual periods beginning on or after 1 January 2019 and has been endorsed by the EU. IFRS 16 is the new accounting standard for leases and will replace IAS 17 'Leases' and IFRIC 4 'Determining whether an Arrangement contains a Lease'. The new standard removes the distinction between operating or finance leases for lessee accounting, resulting in all leases being treated as finance leases. All leases will be recognised on the statement of financial position with the optional exceptions for short-term leases with a lease term of less than 12 months and leases of low-value assets (for example mobile phones or laptops). A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. The main reason for this change is that this approach will result in a more comparable representation of a lessee's assets and liabilities in relation to other companies and, together with enhanced disclosures, will provide greater transparency of a lessee's financial leverage and capital employed. The standard permits a lessee to choose either a full retrospective or a modified retrospective transition approach. Furthermore the standard provides some practical options and exemptions to ease the costs of transition. Lessor accounting remains substantially unchanged. ING will adopt the standard at its effective date planning to use the modified retrospective approach, however ING is still currently assessing the detailed impact of this standard.

c) Significant judgements and critical accounting estimates and assumptions

The preparation of the Consolidated annual accounts requires management to make judgements in the process of applying its accounting policies and to use estimates and assumptions. The estimates and assumptions affect the reported amounts of the assets and liabilities and the amounts of the contingent liabilities at the balance sheet date, as well as reported income and expenses for the year. The actual outcome may differ from these estimates. The process of setting assumptions is subject to internal control procedures and approvals.

ING Bank has identified areas that require management to make significant judgements and use critical accounting estimates and assumptions based on the information and financial data that may change in future periods. These areas are:

- The determination of the fair values of financial assets and liabilities;
- Loan loss provisions; and
- Provisions.

For further discussion of the significant judgements and critical accounting estimates and assumptions in these areas, reference is made to the relevant parts in section d) 'Principles of valuation and determination of results' and the applicable notes to the Consolidated annual accounts.

d) Principles of valuation and determination of results

Consolidation

ING Bank (the Bank) comprises ING Bank N.V. (the Parent Company) and all other subsidiaries. Subsidiaries are entities controlled by ING Bank N.V. Control exists if ING Bank N.V. is exposed or has rights to variable returns and has the ability to affect those returns through the power over the investee. Control is usually achieved through situations including, but not limited to:

- Ownership, directly or indirectly, of more than half of the voting power;
- Ability to appoint or remove the majority of the board of directors;
- Power to govern operating and financial policies under statute or agreement; and
- Power over more than half of the voting rights through an agreement with other investors.

The existence and effect of potential voting rights that are currently exercisable or convertible are considered in assessing whether ING 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.

A list of principal subsidiaries is included in Note 44 'Principal subsidiaries'.

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

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

A subsidiary which ING 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. 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.

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 annual accounts 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 annual accounts 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.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

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

Exchange rate differences in the statement of profit or loss are generally included in 'Valuation results and net trading income'. Reference is made to Note 21 'Valuation results and net trading income', which discloses the amounts included in the statement of profit or loss. Exchange rate differences relating to the disposal of available-for-sale debt and equity securities are considered to be an inherent part of the capital gains and losses recognised in Investment income. As mentioned below, in 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.

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

Classification of financial instruments

Financial assets and liabilities at fair value through profit or loss

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

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

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

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

Investments

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

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

Held-to-maturity investments
Non-derivative financial assets with fixed or determinable payments and fixed maturity for which the 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 some categories of Other assets and are reflected in these line items in the Statement of financial position. Interest income from loans and receivables is recognised in Interest income in the statement of profit or loss using the effective interest method.

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

Preference shares, which carry a mandatory coupon or are redeemable on a specific date or at the option of the shareholder, are classified as financial liabilities. The dividends on these preference shares are recognised in the profit or loss account as interest expense using the effective interest method.

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

If the 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.

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

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

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

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

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

Significant judgements and critical accounting estimates and assumptions:
Even if market prices are available, when markets are less liquid there may be a range of prices for the same security from different price sources. Selecting the most appropriate price requires judgement and could result in different estimates of fair value.

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

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

Reference is made to Note 34 'Fair value of assets and liabilities' and the section 'Risk management – Market risk', paragraph 'Fair values of financial assets and liabilities' for the basis of the determination of the fair value of financial instruments and related sensitivities.

Credit risk management classification and maximum credit risk exposure

Credit risk management disclosures are provided in the section 'Risk management – Credit risk' paragraph 'Credit risk categories'.

The maximum credit risk exposure for items in the statement of financial position is generally the carrying value for the relevant financial assets. For the off-balance sheet items the maximum credit exposure is the maximum amount that could be required to be paid. Reference is made to Note 41 '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'.

Derivatives and hedge accounting

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

Certain derivatives embedded in other contracts are measured as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract, the host contract is not carried at fair value through profit or loss, and if a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative. These embedded derivatives are measured at fair value with changes in fair value recognised in the statement of profit or loss. An assessment is carried out when the 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 annual accounts. The counterparty liability is included in Deposits from banks, Customer deposits, or Trading, as appropriate.

Securities purchased under agreements to resell (reverse repos) are not recognised in the statement of financial position. The consideration paid to purchase those securities is recognised as Loans and advances to customers, Loans and advances to banks, or Financial assets at fair value through profit or loss - Trading assets, as appropriate. The difference between the sale and repurchase price is treated as interest and amortised over the life of the agreement using the effective interest method.

Impairments of financial assets at amortised cost (loan loss provisions)
ING 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 such cases, the net present value of the postponement and/or reduction of loan and/or interest payments is taken into account in the determination of the appropriate level of impairment loss as described below. If the forbearance results in a substantial modification of the terms of the loan, the original loan is derecognised and a new loan is recognised at its fair value at the modification date. The Bank determines whether there has been a substantial modification using both quantitative and qualitative factors.

Losses expected as a result of future events, no matter how likely, are not recognised.

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

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

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

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

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

Significant judgements and critical accounting estimates and assumptions:
Considerable judgement is exercised in determining the extent of the loan loss provision (impairment) for financial assets assessed for impairment both individually and collectively. Judgement is exercised in management's evaluation of whether there is objective evidence that an impairment loss on an asset has been incurred, the risk in the portfolio, current economic conditions, loss experience in recent years and credit, industry, geographical, and concentration trends. Changes in such judgements and analyses may lead to changes in the loan loss provisions over time.

ING Bank estimates individual impairment provisions for individually significant financial assets that have objective evidence of impairment. The key judgement exercised in this area is determination of when an impairment event has occurred. Key assumptions in determining the amount of the individual provision are the expected future cash flows from the financial asset in question.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated. The collective evaluation of impairment includes the application of a loss emergence period to default probabilities (also referred to as loss identification period). The loss emergence period is a concept which recognises that there is a period of time between the emergence of impairment triggers and the point in time at which those events are captured by the 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.

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

Reference is made to Note 6 'Loans and advances to customers' and the section 'Risk management – Credit risk' for further details.

Impairment of available for sale financial assets

At each balance sheet date, the 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 is the ability to participate in the financial and operating policies of the investee. It generally results from a shareholding of between 20% and 50% of the voting rights or through situations including, but not limited to one or more of the following:

- Representation on the board of directors;
- Participation in the policymaking process; and
- Interchange of managerial personnel.

Joint ventures are entities over which the 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 long-term interests in the associate like uncollateralised loans that are neither planned nor likely to be settled in the foreseeable future, 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 done by independent qualified valuers or internal valuers, similar to appraisals of real estate investments. Subsequent expenditure is included in the asset's carrying amount when it is probable that future economic benefits associated with the item will flow to the 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 and the changes in fair value will be recognised in the statement of profit or loss. Changes in the fair value of the contingent consideration classified as equity, are not recognised.

Where a business combination is achieved in stages, ING 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.

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

Goodwill impairment

ING assesses at each reporting period, whether there is an indication that an intangible asset may be impaired. Irrespective of whether there is an indication of impairment, intangible assets with an indefinite useful life, including goodwill acquired in a business combination, and intangible assets not yet available for use, are tested annually for impairment. Goodwill is allocated to groups of CGUs (that is, the group of cash generating units or CGUs) for the purpose of impairment testing. These groups of CGUs represent the lowest level at which goodwill is monitored for internal management purposes. Goodwill is tested for impairment by comparing the carrying value of the group of CGUs to the recoverable amount of that group of CGUs. The carrying value is determined as the IFRS net asset value including goodwill. In compliance with IAS 36 'Impairment of assets', the carrying value is determined on a basis that is consistent with the way in which the recoverable amount of the CGU is determined. When the carrying values need to be allocated between Retail and Wholesale solvency, (risk-weighted assets) are used as a basis. The recoverable amount is estimated as the higher of fair value less costs of disposal and value in use. Several methodologies are applied to arrive at the best estimate of the recoverable amount. Impairment of goodwill, if applicable, is included in the statement of profit or loss in Other operating expenses.

Computer software

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

Other intangible assets

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

Taxation

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

Deferred income tax

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

Deferred tax assets are recognised where it is probable that future taxable profit will be available against which the temporary differences can be utilised. Deferred income tax is provided on temporary differences arising from investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the 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.

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

Uncertain tax positions are assessed continually by ING 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 is classifieds as discontinued operations. Upon classification of a business as held for sale and discontinued operations the individual income and expenses are presented within the Total net result from discontinued operations instead of being presented in the usual line items in the Consolidated statement of profit or loss. All comparative years in the Consolidated statement of profit or loss are restated and presented as discontinued operations for all periods presented. Furthermore, the individual assets and liabilities are presented in the Consolidated statement of financial position as Assets and liabilities held for sale and are no longer included in the usual line items in the Consolidated statement of financial position. Changes in assets and liabilities as a result of classification as held for sale are included in the notes in the line Changes in composition of the group and other changes.

Provisions, contingent liabilities and contingent assets

A provision is a present obligation arising from past events, the settlement of which is expected to result in an outflow of resources embodying economic benefits, however the timing or the amount is uncertain. Provisions are discounted when the effect of the time value of money is significant using a pre-tax discount rate.

Reorganisation provisions include employee termination benefits when the 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.

A contingent liability is a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of ING Bank; or a present obligation that arises from past events but is not recognised because it is either not probable that an outflow of economic benefits will be required to settle the obligation or the amount of the obligation cannot be measured reliably. Contingent liabilities are not recognised in the statement of financial position, but are rather disclosed in the notes unless the possibility of the outflow of economic benefits is remote.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of ING Bank. Contingent assets are recognised in the statement of financial position only when realisation of the income that arises from such an asset is virtually certain. Contingent assets are disclosed in the notes when an inflow of economic benefits is probable.

Significant judgements and critical accounting estimates and assumptions:
The recognition and measurement of provisions is an inherently uncertain process involving using judgement to determine when a present obligation exists and estimates regarding probability, amounts and timing of cash flows.

ING Bank may become involved in legal proceedings. The degree of uncertainty and the method of making the accounting estimate depends on the individual case, its nature and complexity. Legal cases are usually one of a kind. Judgment is required to estimate the probability of an unfavourable outcome and the amount of potential loss. For the assessment of litigation provisions the Group consults with legal experts. Even taking into consideration legal experts' advice, the probability of an outflow of economic benefits can still be uncertain and the amount provisioned can remain sensitive to the assumptions used which may have a broad range of outcomes. Reference is made to Note 14 'Provisions'. For legal proceedings where it is not possible to make a reliable estimate of the expected financial effect, that could result from the ultimate resolution of the proceedings, no provision is recognised, however disclosure is included in the annual accounts. Reference is made to Note 42 'Legal proceedings'.

Key assumptions for the reorganisation provision are in estimating the amounts and timing of cash flows as the announced transformation initiatives are implemented over a period of several years. Reference is made to Note 14 'Provisions'.

Other liabilities

Defined benefit plans

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

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

Changes in plan assets that effect Shareholders' equity and/or Net result, include mainly:
- Return on plan assets using a high quality corporate bond rate at the start of the reporting period which are recognised as staff costs in the statement of profit or loss; and
- Remeasurements which are recognised in Other comprehensive income (equity).

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

Changes in the defined benefit obligation that effects Shareholders' equity and/or Net result, include mainly:
- Service cost which are recognised as staff costs in the statement of profit or loss;
- Interest expenses using a high quality corporate bond rate at the start of the period which are recognised as staff costs in the Statement of profit or loss; and
- Remeasurements which are recognised in Other comprehensive income (equity).

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

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

Defined contribution plans
For defined contribution plans, the 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. 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.

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

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

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

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

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

Liabilities arising from financing activities are debt securities and subordinated loans.

e) Parent company accounts
The parent company accounts of ING 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	2017	2016
Amounts held at central banks	19,687	16,408
Cash and bank balances	2,302	1,736
	21,989	**18,144**

In 2017, the movement in Cash and balances with central banks reflects ING's liquidity management. Amounts held at central banks reflect on demand balances.

Reference is made to Note 38 'Assets not freely disposable' for restrictions on Cash balances with central banks.

3 Loans and advances to banks

Loans and advances to banks	Netherlands		International		Total	
	2017	2016	2017	2016	2017	2016
Loans	7,834	10,380	20,916	18,483	28,750	28,863
Cash advances, overdrafts and other balances	1	18	3	2	4	20
	7,835	**10,398**	**20,919**	**18,485**	**28,754**	**28,883**
Loan loss provisions	–1		–7	–11	–8	–11
	7,834	**10,398**	**20,912**	**18,474**	**28,746**	**28,872**

Loans include balances (mainly short-term deposits) with central banks amounting to EUR 4,032 million (2016: EUR 2,880 million).

As at 31 December 2017, Loans include receivables related to securities in reverse repurchase transactions amounting to EUR 4,637 million (2016: EUR 2,992 million) and receivables related to finance lease contracts amounting to EUR 65 million (2016: EUR 88 million). Reference is made to Note 39 'Transfer of financial assets' for information on securities lending as well as sale and repurchase transactions. Reference is made to Note 6 'Loans and advances to customers' for information on finance lease receivables.

As at 31 December 2017, the non-subordinated receivables amount to EUR 28,703 million (2016: EUR 28,804 million) and the subordinated receivables amount to EUR 43 million (2016: EUR 68 million).

Reference is made to Note 38 'Assets not freely disposable' for restrictions on Loans and advances to banks.

No individual loans and advances to banks has terms and conditions that significantly affect the amount, timing or certainty of consolidated cash flows of the 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	2017	2016
Trading assets	116,763	114,512
Non-trading derivatives	2,185	2,309
Designated at fair value through profit or loss	4,242	5,099
	123,190	**121,920**

Reference is made to Note 39 'Transfer of financial assets' for information on securities lending as well as sale and repurchase transactions.

Trading assets

Trading assets by type	2017	2016
Equity securities	13,681	9,521
Debt securities	7,477	9,863
Derivatives	27,444	38,230
Loans and receivables	68,161	56,898
	116,763	**114,512**

As at 31 December 2017, Trading assets include receivables of EUR 67,138 million (2016: EUR 56,020 million) with regard to reverse repurchase transactions.

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

Non-trading derivatives

Non-trading derivatives by type	2017	2016
Derivatives used in		
– fair value hedges	671	1,012
– cash flow hedges	617	438
– hedges of net investments in foreign operations	29	73
Other non-trading derivatives	868	786
	2,185	**2,309**

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

Designated as at fair value through profit or loss

Designated as at fair value through profit or loss by type	2017	2016
Equity securities	4	3
Debt securities	1,739	1,669
Loans and receivables	2,499	3,427
	4,242	**5,099**

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

The notional value of the related credit derivatives is EUR 232 million (2016: EUR 260 million). The change in fair value of the credit derivatives attributable to changes in credit risk since the loans were first designated, amounts to EUR –6 million (2016: EUR –8 million) and the change for the current year amounts to EUR 2 million (2016: EUR 1 million).

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

As at 31 December 2017, Loans and receivables designated at fair value through profit or loss includes EUR 2,095 million (2016: EUR 3,001 million) with regard to reverse repurchase transactions.

5 Investments

Investments by type

	2017	2016
Available-for-sale		
– equity securities - shares in third party managed structured entities	168	170
– equity securities - other	3,815	3,854
	3,983	**4,024**
– debt securities	65,747	78,888
	69,730	**82,912**
Held-to-maturity		
– debt securities	9,343	8,751
	9,343	**8,751**
	79,073	**91,663**

Exposure to equity securities

Available-for-sale equity securities - Listed and Unlisted

	2017	2016
Listed	3,518	3,539
Unlisted	465	485
	3,983	**4,024**

Listed equity securities are primarily made up of Bank of Beijing and Mahindra Kotak Bank.

Exposure to debt securities

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

Debt securities	2017	2016
Available-for-sale investments	65,747	78,888
Held-to-maturity investments	9,343	8,751
Loans and advances to customers	5,099	7,471
Loans and advances to banks	201	952
Available-for-sale investments and Assets at amortised cost	**80,390**	**96,062**
Trading assets	7,477	9,863
Designated as at fair value through profit or loss	1,739	1,669
Financial assets at fair value through profit or loss	**9,216**	**11,532**
	89,606	**107,594**

ING Bank's total exposure to debt securities included in available-for-sale investments and assets at amortised cost of EUR 80,390 million (2016: EUR 96,062 million) is specified as follows by type of exposure:

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

	Available-for-sale investments		Held-to-maturity investments		Loans and advances to customers		Loans and advances to banks		Total	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Government bonds	34,844	41,985	7,462	6,688	828	858			43,134	49,531
Sub-sovereign, Supranationals and Agencies	17,215	20,484	1,255	1,613	245	267			18,715	22,364
Covered bonds	8,737	11,297	100	100	418	1,820	154	882	9,409	14,099
Corporate bonds	1,284	1,345			970	791			2,254	2,136
Financial institutions' bonds	1,701	2,020	311		429	351	43	70	2,484	2,441
ABS portfolio	1,966	1,757	215	350	2,209	3,384	4		4,394	5,491
Bond portfolio	**65,747**	**78,888**	**9,343**	**8,751**	**5,099**	**7,471**	**201**	**952**	**80,390**	**96,062**

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

99% (2016: 97%) of the exposure in the ABS portfolio is externally rated AAA up to and including A-.

There are no borrowed debt securities recognised in the statement of financial position.

Reference is made to Note 39 'Transfer of financial assets' for information on securities lending as well as sale and repurchase transactions.

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

Changes in available-for-sale and held-to-maturity investments	Available-for-sale equity securities		Available-for-sale debt securities		Held-to-maturity		Total	
	2017	2016	2017	2016	2017	2016	2017	2016
Opening balance	4,024	4,434	78,888	82,566	8,751	7,826	91,663	94,826
Additions	325	80	21,276	27,073	3,609	1,731	25,210	28,884
Amortisation			-146	-144	-46	-87	-192	-231
Transfers and reclassifications	7	-92					7	-92
Changes in unrealised revaluations[1]	21	363	-1,030	-102	-64	-70	-1,073	191
Impairments	-6	-13					-6	-13
Reversal of impairments			3				3	
Disposals and redemptions	-79	-682	-32,709	-30,483	-2,675	-630	-35,463	-31,795
Exchange rate differences	-308	-72	-535	-16	-232	-19	-1,075	-107
Changes in the composition of the group and other changes	-1	6		-6			-1	
Closing balance	**3,983**	**4,024**	**65,747**	**78,888**	**9,343**	**8,751**	**79,073**	**91,663**

1 Changes in unrealised revaluations include changes on hedged items which are recognised in the statement of profit or loss.

In 2017 available-for-sale debt securities decreased by EUR 13 billion and is mainly related to lower positions in Government bonds, Subsovereign Supranationals and Agencies, and covered bonds.

In 2017 ING participated in the private placement by Bank of Beijing (BoB). ING participated in the offering for an aggregate amount of around EUR 240 million representing 265 million shares.

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

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

6 Loans and advances to customers

Loans and advances to customers by type	Netherlands[1]		International[1]		Total	
	2017	2016	2017	2016	2017	2016
Loans to, or guaranteed by, public authorities	26,975	27,746	19,397	18,634	46,372	46,380
Loans secured by mortgages	121,702	126,885	204,883	195,328	326,585	322,213
Loans guaranteed by credit institutions	279	236	1,722	944	2,001	1,180
Personal lending	3,162	3,236	20,074	18,722	23,236	21,958
Asset backed securities			2,209	3,380	2,209	3,380
Corporate loans	38,550	38,848	140,461	134,092	179,011	172,940
	190,668	**196,951**	**388,746**	**371,100**	**579,414**	**568,051**
Loan loss provisions	-1,693	-2,349	-2,822	-2,829	-4,515	-5,178
	188,975	**194,602**	**385,924**	**368,271**	**574,899**	**562,873**

1 In 2017, Loans and advances to customers by type as at 31 December 2016 have been restated to conform to current year presentation.

As at 31 December 2017, Loans and advances to customers includes receivables with regard to securities which have been acquired in reverse repurchase transactions amounting to EUR 421 million (2016: EUR 47 million).

Reference is made to Note 39 'Transfer of financial assets' for information on securities lending as well as sale and repurchase transactions.

Notes to the Consolidated annual accounts of ING Bank - continued

Loans and advances to customers by subordination	2017	2016
Non-subordinated	574,419	562,399
Subordinated	480	474
	574,899	**562,873**

No individual loan or advance has terms and conditions that significantly affect the amount, timing or certainty of the consolidated cash flows of the 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	2017	2016
Maturities of gross investment in finance lease receivables		
– within 1 year	2,729	2,492
– more than 1 year but less than 5 years	6,215	6,282
– more than 5 years	2,897	3,114
	11,841	**11,888**
Unearned future finance income on finance leases	–1,082	–1,254
Net investment in finance leases	**10,759**	**10,634**
Maturities of net investment in finance lease receivables		
– within 1 year	2,474	2,210
– more than 1 year but less than 5 years	5,652	5,635
– more than 5 years	2,633	2,789
	10,759	**10,634**
Included in Loans and advances to banks	65	88
Included in Loans and advances to customers	10,694	10,546
	10,759	**10,634**

An allowance for uncollectable finance lease receivables of EUR 337 million as at 31 December 2017 (2016: EUR 282 million is included in the loan loss provision.

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

Notes to the Consolidated annual accounts of ING Bank - continued

Loan loss provisions by type

	Netherlands		International		Total	
	2017	2016	2017	2016	2017	2016
Loans to, or guaranteed by, public authorities			3	7	3	7
Loans secured by mortgages	347	550	526	638	873	1,188
Loans guaranteed by credit institutions	2	2	7	12	9	14
Personal lending	118	122	746	620	864	742
Asset backed securities			9	2	9	2
Corporate loans and Credit Facilities	1,268	1,738	1,602	1,617	2,870	3,355
	1,735	**2,412**	**2,893**	**2,896**	**4,628**	**5,308**
The closing balance is included in						
– Loans and advances to banks	1		7	11	8	11
– Loans and advances to customers	1,693	2,349	2,822	2,829	4,515	5,178
– Other provisions other	41	63	64	56	105	119
	1,735	**2,412**	**2,893**	**2,896**	**4,628**	**5,308**

Changes in loan loss provisions

	2017	2016
Opening balance	5,308	5,786
Write-offs	–1,279	–1,494
Recoveries	59	94
Increase in loan loss provisions	676	974
Exchange rate differences	–136	–55
Changes in the composition of the group and other changes		3
Closing balance	**4,628**	**5,308**

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

7 Investments in associates and joint ventures

Investments in associates and joint ventures

2017	Interest held (%)	Fair value of listed invest-ment	Balance sheet value	Total assets	Total liabilities	Total income	Total expenses
TMB Public Company Limited	25	842	737	21,251	19,004	711	507
Other investments in associates and joint ventures			210				
			947				

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				

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 of ING Bank's financial interest and other arrangements, such as participation in the Board of Directors.

The reporting dates of certain associates and joint ventures can differ from the reporting date of the Bank, but by no more than three months.

Accumulated impairments of EUR 33 million (2016: EUR 48 million) have been recognised. The values presented in the tables above could differ from the values presented in the individual annual accounts of the associates and joint ventures, due to the fact that the individual values have been brought in line with ING 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

	2017	2016
Opening balance	1,003	842
Additions	79	49
Transfers to and from Investments/Other assets and liabilities	–1	75
Revaluations	–8	29
Share of results	166	80
Dividends received	–29	–33
Disposals	–245	–54
Impairments		–3
Exchange rate differences	–18	18
Closing balance	**947**	**1,003**

In 2017, Transfers to and from Investments/Other assets and liabilities of EUR –1 million (2016: 75 million) included EUR 5 million reclassification from Available-for-sale equity securities to associates (2016: EUR 82 million) and EUR –6 million reclassification from/to other assets and other liabilities (2016: EUR –7 million).

In 2017, Revaluations as presented in the table above of EUR –8 million relates to several smaller revaluations. In 2016 revaluations of EUR 38 million includes EUR 45 million relating to TMB, EUR 17 million relating to Equens SE, and EUR –31 million due to other revaluations.

In 2017, Share of results from associates and joint ventures of EUR 166 million as presented in the statement of profit or loss and the table above, is mainly attributable to includes to results of TMB, EUR 56 million and a gain of EUR 97 million on the sale of shares in Appia Group Ltd UK.

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

In 2017, Disposals of EUR 245 million is mainly attributable to the sale of Appia Group Ltd UK of EUR 146 million and other several smaller divestments in associates. In 2016, Disposals of EUR 54 million is mainly attributable to the sale of Enterprise Center of EUR 40 million and capital repayment CBRE Asia Value Fund of EUR 10 million.

8 Property and equipment

Property and equipment by type	2017	2016
Property in own use	774	881
Equipment	917	1,015
Assets under operating leases	110	106
	1,801	**2,002**

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

Changes in property in own use	2017	2016
Opening balance	881	982
Additions	5	9
Reclassifications		
- Transfers to and from Investment properties		8
		8
Amounts recognised in the statement of profit or loss for the year		
- Depreciation	–13	–15
- Impairments	–8	–64
- Reversal of impairments	24	5
	3	–74
Revaluations recognised in equity during the year	42	11
Disposals	–145	–38
Exchange rate differences	–12	–17
Closing balance	**774**	**881**
Gross carrying amount as at 31 December	1,324	1,656
Accumulated depreciation as at 31 December	–376	–504
Accumulated impairments as at 31 December	–174	–271
Net carrying value as at 31 December	**774**	**881**
Revaluation surplus		
Opening balance	256	273
Revaluation in the year	23	–17
Closing balance	**279**	**256**

The cost or the purchase price amounted to EUR 1,044 million (2016: EUR 1,400 million). Cost or the purchase price less accumulated depreciation and impairments would have been EUR 495 million (2016: EUR 625 million) had property in own use been valued at cost instead of at fair value.

In 2017, disposals of EUR –145 million is mainly attributable to the sale of office buildings in Belgium.

Changes in equipment

	Data processing equipment		Fixtures and fittings and other equipment		Total	
	2017	2016	2017	2016	2017	2016
Opening balance	323	263	692	708	1,015	971
Additions	129	161	130	181	259	342
Disposals	–1	–5	–12	–20	–13	–25
Depreciation	–133	–137	–174	–178	–307	–315
Impairments			–2		–2	
Exchange rate differences	–8	–5	–5	–5	–13	–10
Changes in the composition of the group and other changes	–19	46	–3	6	–22	52
Closing balance	**291**	**323**	**626**	**692**	**917**	**1,015**
Gross carrying amount as at 31 December	1,275	1,274	2,249	2,432	3,524	3,706
Accumulated depreciation as at 31 December	–983	–950	–1,623	–1,740	–2,606	–2,690
Accumulated impairments as at 31 December	–1	–1			–1	–1
Net carrying value as at 31 December	**291**	**323**	**626**	**692**	**917**	**1,015**

9 Intangible assets

Changes in intangible assets

	Goodwill		Software		Other		Total	
	2017	2016	2017	2016	2017	2016	2017	2016
Opening balance	903	985	571	567	10	15	1,484	1,567
Additions			72	93			72	93
Capitalised expenses			192	195			192	195
Amortisation			–173	–182	–6	–5	–179	–187
Impairments			–30	–45			–30	–45
Exchange rate differences	–87	–82		–1			–87	–83
Disposals			–9	–9			–9	–9
Changes in the composition of the group and other changes			25	–47	1		26	–47
Closing balance	**816**	**903**	**648**	**571**	**5**	**10**	**1,469**	**1,484**
Gross carrying amount as at 31 December	816	903	1,902	1,756	30	29	2,748	2,688
Accumulated amortisation as at 31 December			–1,225	–1,147	–23	–17	–1,248	–1,164
Accumulated impairments as at 31 December			–29	–38	–2	–2	–31	–40
Net carrying value as at 31 December	**816**	**903**	**648**	**571**	**5**	**10**	**1,469**	**1,484**

Goodwill
Goodwill is allocated to groups of cash generating units (CGU) as follows:

Goodwill allocation to group of CGUs

Group of CGU's	Method used for recoverable amount	Discount rate	Long term growth rate	Goodwill 2017	Goodwill 2016
Retail Belgium	Values in use	8.95%	1.30%	50	50
Retail Germany	Values in use	8.10%	1.30%	349	349
Retail Growth Markets[1]	Fair value less cost of disposal	-	-	307	375
Wholesale Banking[1]	Values in use	9.54%	2.12%	110	129
				816	**903**

1 Goodwill related to Growth Countries is allocated across two groups of CGUs, EUR 307 million to Retail Growth Markets and EUR 90 million to Wholesale Banking (2016: EUR 375 million to Retail Growth Markets and EUR 109 million to Wholesale Banking). The fair value less cost of disposal is based on Level 1 and Level 2 inputs.

No goodwill impairment was recognised in 2017 (2016: nil). Changes in the goodwill per group of CGUs in 2017 is due to changes in currency exchange rates.

Methodology
Several methodologies are applied to arrive at the best estimate of the recoverable amount. In line with IFRS, the recoverable amount is determined as the higher of the fair value less costs of disposal and Value in Use (VIU). Fair value less costs of disposal is based on observable share prices (Level 1 inputs in the fair value hierarchy), observable Price-to-Book multiples of relevant peer banks (Level 2), or based on a discounted free cash flow model (Level 3). The VIU calculation is based on a Dividend Discount model using five year management approved plans. When estimating the VIU of a CGU, local conditions and requirements determine the capital requirements, discount rates, and terminal growth rates. These local conditions and requirements determine the ability to upstream excess capital and profits to ING 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 recoverable amount exceeds the carrying value of the CGUs for 2017 and 2016 and therefore no impairment is required.

Sensitivity of key assumptions
Key assumptions in the goodwill impairment test model are the Price-to-Book ratios, level 1 inputs (e.g. share price of a listed subsidiary), and the local parameters for CET1, discount rate, and long term growth rates. The model was tested for sensitivity by changing the key parameters in the model to more conservative values. The sensitivity analysis did not trigger additional impairment considerations.

Software
Software, includes internally developed software amounting to EUR 477 million (2016: EUR 395 million).

10 Other assets

Other assets by type	2017	2016
Net defined benefit assets	542	609
Investment properties	65	65
Property development and obtained from foreclosures	137	184
Accrued interest and rents	4,533	5,589
Other accrued assets	753	884
Amounts to be settled	4,072	4,804
Other	2,960	2,571
	13,062	**14,706**

Disclosures in respect of Net defined benefit assets are provided in Note 32 ‘Pension and other post-employment benefits’.

Property development and obtained from foreclosures

Property development and obtained from foreclosures	2017	2016
Property under development		
Property developed	63	109
Property obtained from foreclosures	74	75
	137	**184**
Gross carrying amount as at 31 December	417	469
Accumulated impairments as at 31 December	–280	–285
Net carrying value	**137**	**184**

The total amount of borrowing costs relating to Property development and obtained from foreclosures, capitalised in 2017 is nil (2016: nil).

Accrued interest and rents
As at 31 December 2017, the line item includes accrued interest of EUR 1,375 million (2016: EUR 1,939 million) on trading derivative assets and EUR 2,511 million (2016: EUR 2,773 million) on loans and available-for-sale bonds. Accrued interest on trading derivative assets should be considered together with accrued interest on trading derivative liabilities as included in Other liabilities. Reference is made to Note 15 ‘Other liabilities’. The remainder of the balance relates mainly to accrued interest on cash flow hedges, fair value hedges and other non-trading derivatives.

Amounts to be settled
Amounts to be settled are primarily transactions not settled at the balance sheet date. They are short term in nature and are expected to settle shortly after the balance sheet date. The decrease in 2017 is attributable to lower market activity compared to prior year end.

Other
Other assets - Other relates mainly to other receivables in the normal course of business. For 2017, this includes a receivable at the Dutch level (from NN Group) regarding tax due by ING Australia Holdings Ltd related to the years 2007-2013, for which a full reimbursement is expected to be received from NN Group. In 3Q 2017 a receivable was booked for the tax amount of EUR 121 million. In 4Q 2017 a cash payment was received and reduced this amount due from NN Group to EUR 70 million.

Liabilities

11 Deposits from banks

Deposits from banks include non-subordinated debt from banks, except for amounts in the form of debt securities.

Deposits from banks by type

	Netherlands		International		Total	
	2017	2016	2017	2016	2017	2016
Non-interest bearing	181		363	449	544	449
Interest bearing	17,230	13,778	19,047	17,737	36,277	31,515
	17,411	**13,778**	**19,410**	**18,186**	**36,821**	**31,964**

In 2016, ING participated in the new targeted longer-term refinancing operations (TLTRO II) with EUR 10.7 billion. In 2017, ING participated in the targeted longer-term refinancing operations (TLTRO II) with an additional EUR 7 billion.

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

Reference is made to Note 39 'Transfer of financial assets' for information on securities lending as well as sale and repurchase transactions.

12 Customer deposits

Customer deposits

	2017	2016
Savings accounts	319,659	315,697
Credit balances on customer accounts	186,455	173,346
Corporate deposits	39,655	40,725
Other	6,921	1,328
	552,690	**531,096**

Customer deposits by type

	Netherlands		International		Total	
	2017	2016	2017	2016	2017	2016
Non-interest bearing	15,963	13,579	21,688	16,911	37,651	30,490
Interest bearing	164,140	159,557	350,899	341,049	515,039	500,606
	180,103	**173,136**	**372,587**	**357,960**	**552,690**	**531,096**

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 39 'Transfer of financial assets' for information on securities lending as well as sale and repurchase transactions.

13 Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss

	2017	2016
Trading liabilities	73,596	83,167
Non-trading derivatives	2,346	3,585
Designated at fair value through profit or loss	11,215	12,266
	87,157	**99,018**

Trading liabilities

Trading liabilities by type	2017	2016
Equity securities	601	1,975
Debt securities	5,126	4,146
Funds on deposit	41,956	37,753
Derivatives	25,913	39,293
	73,596	**83,167**

Reference is made to Note 39 'Transfer of financial assets' for information on securities lending as well as sale and repurchase transactions.

Non-trading derivatives

Non-trading derivatives by type	2017	2016
Derivatives used in:		
– fair value hedges	1,083	1,888
– cash flow hedges	339	671
– hedges of net investments in foreign operations	71	33
Other non-trading derivatives	853	993
	2,346	**3,585**

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

Designated as at fair value through profit or loss

Designated as at fair value through profit or loss by type	2017	2016
Debt securities	8,896	10,736
Funds entrusted	1,780	969
Subordinated liabilities	539	561
	11,215	**12,266**

In 2017, the change in the fair value of financial liabilities designated at fair value through profit or loss attributable to changes in credit risk is EUR 78 million (2016: EUR 50 million) and EUR 248 million (2016: EUR 170 million) on a cumulative basis. This change has been determined as the amount of change in fair value of the financial liability that is not attributable to changes in market conditions that gave rise to market risk (i.e. mainly interest rate risk based on yield curves).

The amount that ING 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 10,733 million (2016: EUR 11,720 million).

14 Provisions

Provisions by type	2017	2016
Reorganisation provisions	1,097	1,482
Other provisions	616	546
	1,713	**2,028**

Reorganisation provisions

Changes in reorganisation provisions	2017	2016
Opening balance	1,482	670
Additions	53	1,202
Unused amounts reversed	–58	–13
Utilised	–369	–365
Exchange rate differences	–1	–5
Other changes	–10	–7
Closing balance	**1,097**	**1,482**

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

In 2017, changes in the reorganisation provisions were mainly attributable to existing initiatives following the intended digital transformation programmes of ING Bank.

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

Other provisions

Changes in other provisions	Litigation		Other		Total	
	2017	2016	2017	2016	2017	2016
Opening balance	353	187	193	107	546	294
Additions	186	235	135	120	321	355
Unused amounts reversed	–90	–46	–73	–6	–163	–52
Utilised	–82	–28	–23	–19	–105	–47
Exchange rate differences	–3	–1	–8	–1	–11	–2
Other changes	1	6	27	–8	28	–2
Closing balance	**365**	**353**	**251**	**193**	**616**	**546**

In 2017, Other provisions – other includes a provision related to Letters of Credit/Guarantees of EUR 104 million. As at 31 December 2017, amounts expected to be settled within twelve months, amount to EUR 448 million. The amounts included in Other provisions are based on best estimates with regard to amounts and timing of cash flows required to settle the obligation.

Included in Other provisions – Litigation in 2017 and 2016, is a provision related to floating interest rate derivatives that were sold in the Netherlands. Also included in this line in 2017, is a provision recognised for reimbursement of expenses associated to the formalization of mortgages at ING Spain and a provision recognised for a discontinued business in ING Luxembourg. Reference is made to Note 26 'Other operating expenses' and Note 42 'Legal proceedings'.

15 Other liabilities

Other liabilities by type	2017	2016
Net defined benefit liability	476	521
Other post-employment benefits	87	87
Other staff-related liabilities	504	472
Other taxation and social security contributions	479	494
Accrued interest	3,601	4,373
Costs payable	2,600	2,243
Amounts to be settled	4,993	6,391
Other	3,232	2,212
	15,972	**16,793**

Disclosures in respect of Net defined benefit liabilities are provided in Note 32 'Pension and other post-employment benefits'.

Other staff-related liabilities

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

Amounts to be settled

Amounts to be settled decreased compared to 31 December 2017 as a result of lower market activity.

Other

Other liabilities – Other relates mainly to year-end accruals.

16 Debt securities in issue

Debt securities in issue relate to debentures and other issued debt securities with either fixed interest rates or interest rates based on floating interest rate levels, such as certificates of deposit and accepted bills issued by ING 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 normal course of business. The maturities of the debt securities are as follows:

Debt securities in issue – maturities

	2017	2016
Fixed rate debt securities		
Within 1 year	29,296	25,458
More than 1 year but less than 2 years	7,084	12,151
More than 2 years but less than 3 years	7,629	7,365
More than 3 years but less than 4 years	8,369	7,893
More than 4 years but less than 5 years	5,432	8,674
More than 5 years	8,038	14,537
Total fixed rate debt securities	**65,848**	**76,078**
Floating rate debt securities		
Within 1 year	15,091	13,278
More than 1 year but less than 2 years	3,932	2,724
More than 2 years but less than 3 years	1,341	4,168
More than 3 years but less than 4 years	278	793
More than 4 years but less than 5 years	150	320
More than 5 years	3,591	3,944
Total floating rate debt securities	**24,383**	**25,227**
Total debt securities	**90,231**	**101,305**

In 2017, the decrease in Debt securities in issue of EUR 11.1 billion is mainly attributable to a decrease in long term maturity bonds of EUR 9.9 billion, a decrease of EUR 3.8 billion in certificates of deposit, a decrease of EUR 2.8 billion in covered bonds, and decrease in other debt securities in issue EUR 0.9 billion, partially offset by an increase in commerical paper of EUR 6.3 billion.

As at 31 December 2017, ING Bank has unused lines of credit available including the payment of commercial paper borrowings relating to debt securities in issue of EUR 5,750 million (2016: EUR 12,015 million).

17 Subordinated loans

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

Subordinated loans include loans that qualify as Tier 1 capital. These loans have been placed with ING Bank N.V. by ING Groep N.V.

Changes in subordinated loans

	2016	2015
Opening balance	16,104	15,920
New issuances	2,314	1,085
Repayments	–1,246	–961
Exchange rate differences and other	–1,341	60
Closing balance	**15,831**	**16,104**

In February 2017, ING issued EUR 750 million securities that qualify as subordinated CRD IV Tier 2 notes with coupon 2.50% till 24 February 2024. In September 2017, ING issued EUR 1,000 million securities that qualify as subordinated CRD IV Tier 2 notes with coupon 1.625% till 26 September 2024. In 2017 ING issued other private placements with total notional amounts of JPN 22,000 million and USD 260 million. All new issued loans have been placed by ING Groep N.V.

The average interest rate on subordinated loans is 4.65% (2016: 4.82%). The interest expense during the year 2017 was EUR 756 million (2016: EUR 780 million).

Equity
18 Equity

Total equity

	2017	2016	2015
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	3,449	3,832	3,896
- Revaluation reserve: Cash flow hedge	263	777	675
- Revaluation reserve: Property in own use	201	201	326
- Net defined benefit asset/liability remeasurement reserve	–400	–371	–306
- Currency translation reserve	–1,682	–791	–540
- Share of associates and joint ventures and other	2,473	2,187	1,733
	4,304	**5,835**	**5,784**
Retained earnings	**22,291**	**20,638**	**18,006**
Shareholders' equity (parent)	**43,662**	**43,540**	**40,857**
Non-controlling interests	715	606	638
Total equity	**44,377**	**44,146**	**41,495**

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 (par value EUR 1.13)					
	Number x 1,000			Amount		
	2017	2016	2015	2017	2016	2015
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 2017, 2016 and 2015.

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 2017, 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 2017, 7 preference shares were issued and fully paid (2016: 7 preference shares; 2015: 7 preference shares) amounting to EUR 8 (2016: EUR 8; 2015: 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

	2017	2016	2015
Opening balance	3,832	3,896	3,615
Unrealised revaluations	–293	208	298
Realised gains/losses transferred to the statement of profit or loss	–90	–272	–17
Closing balance	**3,449**	**3,832**	**3,896**

In 2017, the available-for-sale revaluation reserve decreased by EUR 383 million mainly due to the revaluation of shares in Bank of Beijing EUR –479 million, partly offset by revaluation of shares in Kotak Mahindra Bank EUR 302 million.

Following the purchase of VISA Europe by VISA Inc. in 2016, the available-for-sale equity securities were derecognised from the statement of financial position with a corresponding release of the available-for-sale revaluation reserve recognised in Equity of EUR 154 million. Reference is made to Note 7 'Investments in associates and joint ventures, and Note 34 'Fair value of assets and liabilities'.

Revaluation reserve: Cash flow hedge

Changes in revaluation reserve: Cash flow hedge

	2017	2016	2015
Opening balance	777	675	875
Changes in cash flow hedge reserve	–514	102	–200
Closing balance	**263**	**777**	**675**

Revaluation reserve: Property in own use

Changes in revaluation reserve: Property in own use

	2017	2016	2015
Opening balance	201	326	291
Unrealised revaluations	26	2	35
Changes in composition of the group and other changes	–26	–127	
Closing balance	**201**	**201**	**326**

In 2017 and 2016 respectively the EUR –26 million and EUR –127 million is a transfer of revaluation reserve to retained earnings.

Net defined benefit asset/liability remeasurement reserve
Reference is made to Note 32 'Pension and other post-employment benefits'.

Currency translation reserve

Changes in currency translation reserve

	2017	2016	2015
Opening balance	–791	–540	–609
Unrealised revaluations	192	–76	–231
Exchange rate differences	–1,083	–175	300
Closing balance	**–1,682**	**–791**	**–540**

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

The hedging strategy is to hedge the CET1 ratio. The net decrease in currency translation reserve of EUR 891 million is mainly caused by exchange rate differences in TRY, USD and AUD, which are not or only partly hedged.

Share of associates, joint ventures and other reserves

Changes in share of associates, joint ventures and other reserves

	2017	2016	2015
Opening balance	2,187	1,733	1,677
Result for the year	153	124	131
Changes in composition of the group and other changes	133	330	–75
Closing balance	**2,473**	**2,187**	**1,733**

Retained earnings

Changes in retained earnings

	2017	2016	2015
Opening balance	20,638	18,006	15,518
Result for the year	4,866	4,103	4,528
Dividend	–3,176	–1,345	–2,200
Employee stock options and share plans	69	72	70
Changes in composition of the group and other changes	–106	–198	90
Closing balance	**22,291**	**20,638**	**18,006**

In 2017, a cash dividend of EUR 3,176 million was paid to ING Group.

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

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

Notes to the Consolidated statement of profit or loss

19 Net interest income

Net interest income	2017	2016	2015
Interest income on loans	18,351	18,388	19,177
Interest income on impaired loans	54	69	42
Negative interest on liabilities	526	191	66
Total interest income on loans	**18,931**	**18,648**	**19,285**
Interest income on available-for-sale securities	1,340	1,659	1,785
Interest income on held-to-maturity securities	154	97	101
Interest income on trading derivatives	16,109	16,081	17,151
Interest income on other trading portfolio	1,028	728	677
Interest income on non-trading derivatives (no hedge accounting)	629	666	849
Interest income on non-trading derivatives (hedge accounting)	5,660	6,213	6,394
Other interest income	137	129	155
Interest income	**43,988**	**44,221**	**46,397**
Interest expense on deposits from banks	301	283	302
Interest expense on customer deposits	2,766	3,161	4,180
Interest expense on debt securities	1,910	2,174	2,390
Interest expense on subordinated loans	756	780	820
Interest expense on trading derivatives	16,118	16,263	17,408
Interest expense on other trading liabilities	744	210	207
Interest expense on non-trading derivatives (no hedge accounting)	929	766	781
Interest expense on non-trading derivatives (hedge accounting)	5,946	6,720	7,181
Other interest expense	329	363	344
Negative interest on assets	407	184	40
Interest expense	**30,206**	**30,904**	**33,653**
Net interest income	**13,782**	**13,317**	**12,744**

In 2017, the modest increase in total average assets combined with an improvement of the net interest margin, lead to an increase of EUR 465 million in net interest income. The modest increase in total average assets was mainly attributable to an increase in customer lending and cash and balances with central banks, largely offset by a decline in investments.

In 2016, the increase in total average assets (with the cash pool balances until March 2016 still calculated on a net basis in order to provide consistent information), combined with an improvement of the net interest margin, lead to an increase of EUR 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.

20 Net commission income

Fee and commission income	2017	2016	2015
Funds transfer	1,171	1,103	1,014
Securities business	532	497	570
Insurance broking	176	181	185
Asset management fees	116	91	77
Brokerage and advisory fees	548	477	436
Other	1,321	1,232	1,138
	3,864	**3,581**	**3,420**

Included in Other, are commission fees of EUR 209 million (2016: EUR 202 million; 2015: EUR 171 million) in respect of bank guarantees, commission fees of EUR 52 million (2016: EUR 44 million; 2015: EUR 30 million) in respect of underwriting syndication loans, structured finance fees of EUR 136 million (2016: EUR 110 million; 2015: EUR 87 million), and collective instruments distributed but not managed by ING of EUR 165 million (2016: EUR 145 million; 2015: EUR 145 million).

Fee and commission expenses	2017	2016	2015
Funds transfer	436	403	385
Securities business	150	166	158
Insurance broking	4	8	18
Asset management fees	5	5	8
Brokerage and advisory fees	192	166	140
Other	363	400	391
	1,150	**1,148**	**1,100**

21 Valuation results and net trading income

Valuation results and net trading income	2017	2016	2015
Securities trading results	656	–369	1,352
Derivatives trading results	59	706	600
Change in fair value of derivatives relating to			
– fair value hedges	729	241	1,243
– cash flow hedges (ineffective portion)	44	–16	31
– other non-trading derivatives	–1,147	1,709	–164
Change in fair value of assets and liabilities (hedged items)	–824	–223	–1,308
Valuation results on assets and liabilities designated at fair value through profit or loss (excluding trading)	–56	–79	372
Foreign exchange transactions results	1,202	–900	–859
Other	9	24	66
	672	**1,093**	**1,333**

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

The portion of trading gains and losses relating to trading securities still held as at 31 December 2017 amounts to EUR –68 million (2016: EUR –232 million; 2015: EUR 147 million).

Net trading income relates to trading assets and trading liabilities which include assets and liabilities that are classified under IFRS as Trading but are closely related to servicing the needs of the clients of ING. ING offers products that are traded on the financial markets to institutional clients, corporate clients, and governments. A significant part of the derivatives in the trading portfolio are related to servicing corporate clients in their risk management to hedge for example currency or interest rate exposures. In addition, ING provides its customers access to equity and debt markets for issuing their own equity or debt securities (securities underwriting). Although these are presented as Trading under IFRS, these are directly related to services to ING's customers. Loans and receivables in the trading portfolio mainly relate to (reverse) repurchase agreements, which are comparable to collateralised borrowing (lending). These products are used by ING as part of its own regular treasury activities, but also relate to the role that ING plays as intermediary between different professional customers. From a risk perspective, the gross amount of trading assets must be considered together with the gross amount of trading liabilities, which are presented separately on the statement of financial position. However, IFRS does not allow netting of these positions in the statement of financial position. Reference is made to Note 4 'Financial assets at fair value through profit or loss' and Note 13 'Financial liabilities at fair value through profit or loss' for information on trading liabilities.

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

ING 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 2017, Derivatives trading results includes EUR 47 million CVA/DVA adjustments on trading derivatives, compared with EUR 36 million CVA/DVA adjustment in 2016 (2015: EUR 98 million).

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

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

Valuation results and net trading income are reflected in the Consolidated statement of cash flows in the line Result before tax - Adjusted for: other.

The Valuation results on assets and liabilities designated as at fair value through profit or loss includes fair value changes on certain issued debt securities. Valuation results on assets and liabilities designated at fair value through profit or loss were mainly due to changes in the fair value of financial liabilities driven by changes in market conditions and changes in own credit risk as disclosed in Note 13 'Financial liabilities at fair value through profit or loss'. Market conditions include in particular credit spread developments.

In 2017, Valuation results on assets and liabilities designated at fair value through profit or loss (excluding trading) includes fair value adjustments on own issued notes amounting to EUR –105 million (2016: EUR –70 million; 2015: EUR 404 million), of which DVA adjustment on own issued notes in 2017 amounted to EUR –79 million (2016: EUR –50 million; 2015: EUR 163 million).

22 Investment income

Investment income	2017	2016	2015
Dividend income	**80**	**87**	**63**
Realised gains/losses on disposal of debt securities	64	107	127
Impairments of available-for-sale debt securities			–17
Reversal of impairments of available-for-sale debt securities	3		
Realised gains/losses and impairments of debt securities	**67**	**107**	**110**
Realised gains/losses on disposal of equity securities	48	236	67
Impairments of available-for-sale equity securities	–6	–13	–117
Realised gains/losses and impairments of equity securities	**42**	**223**	**–50**
Income from and fair value gains/losses on investment properties	3	4	4
Investment income	**192**	**421**	**127**

In 2016, Dividend income includes EUR 16 million received as a result of the merger between Equens SE and Worldline. Reference is made to Note 5 'Investments'.

In 2016, Realised gains/losses on disposal of equity securities includes mainly EUR 163 million comprising the gain on disposal of the shares held in VISA Europe Limited. For further information on the disposal of shares held in VISA Europe Limited, reference is made to Note 7 'Investments in associates and joint ventures', and Note 18 'Equity'.

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

Impairments and reversals of impairment on investments per segment		Impairments			Reversal of impairments	
	2017	2016	2015	2017	2016	2015
Retail Belgium			–5			
Wholesale Banking	–5	–8	–129	3		
Corporate Line Banking	–1	–5				
	–6	**–13**	**–134**	**3**	**–**	**–**

23 Result on disposal of group companies

Result on disposal of group companies	2017	2016	2015
Baring Private Equity Partners	1	1	7
ING Lease UK			–5
	1	**1**	**2**

In 2017, 2016 and 2015 the Result on disposal of group companies included realised deferred profits on divestments in prior periods related to Baring Private Equity Partners. In addition, 2015 includes a release of goodwill related to the disposal of the remaining portfolios of ING Lease (UK). Reference is made to Note 9 'Intangible assets'.

24 Other income

In 2017, Other income of EUR 349 million (2016: EUR 172 million; 2015: 51 million) includes EUR 121 million related to a tax charge at ING Australia Holdings Ltd, for which a full reimbursement is expected to be received from NN Group and EUR 2 million net operating lease income (2016: EUR 2 million). Net operating lease income comprises income of EUR 24 million (2016: EUR 21 million; 2015: EUR 19 million) and depreciation of EUR 22 million (2016: EUR 19 million; 2015: EUR 17 million). The remainder of the Other income is mainly impacted by positive results on the sale of loans and property, and increased renegotiations of mortgages.

In 2015, Other income – Other was mainly impacted by positive results on the sale of loans and property, partly offset by non-recurring charges related to increased prepayments and renegotiations of mortgages.

25 Staff expenses

Staff expenses

	2017	2016	2015
Salaries	3,273	3,224	3,221
Pension costs and other staff-related benefit costs	381	344	275
Social security costs	499	512	514
Share-based compensation arrangements	70	72	70
External employees	716	636	634
Education	76	70	68
Other staff costs	183	178	180
	5,198	**5,036**	**4,962**

Number of employees

	Netherlands			International			Total		
	2017	2016	2015[1]	2017	2016	2015[1]	2017	2016	2015[1]
Total average number of employees at full time equivalent basis	**13,141**	13,660	14,586	**38,363**	38,283	38,134	**51,504**	51,943	52,720

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, Management Board Banking and Supervisory Board

Reference is made to Note 46 '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 Banking, general managers and other officers nominated by the Management Board Banking), and to a considerable number of employees of ING Bank. 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, which form part of the variable remuneration offering via the Long term Sustainably Performance Plan (LSPP). The entitlement to the share awards is granted conditionally. If the participant remains in employment for an uninterrupted period between the grant date and the vesting date, the entitlement becomes unconditional, with the exception of the upfront shares which are immediately vested upon grant. In addition to the employment condition, the performance shares require a performance condition that needs to be satisfied before a vest can occur. The number of ING shares that would ultimately be vested at the end of a performance period is dependent on ING's performance over that period. Upfront and deferred shares awarded to the Management Board Banking members as well as identified staff, have a retention obligation that must be adhered to upon vesting, a minimum retention of 12 months applies. ING has the authority to apply a hold back to awarded but unvested shares and a claw-back to vested shares.

In addition to the LSPP share awards, ING also pays a number of senior employees fixed shares. The number of shares are determined each month from a cash value that forms part of the employee fixed remuneration. The shares are immediately vested to the employee, but have a minimum holding requirement of two years before the employee can dispose of the shares. The fixed shares are not subject to holdback or clawback.

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

In 2017, 159,217 share awards (2016: 232,281; 2015: 106,013) were granted to the members of the Management Board Banking. To senior management and other employees 4,846,903 share awards (2016: 6,590,039; 2015: 6,088,240) were granted.

Every year, the ING Group Executive Board decides whether the option and share schemes are to be continued and, if so, to what extent. In 2010, the Group Executive Board decided not to continue the option scheme as from 2011. The existing option schemes, up and until 2010, will be run off in the coming years.

The option rights are valid for a period of ten years. Option rights that are not exercised within this period, lapse. Option rights granted will remain valid until the expiry date, even if the option scheme is discontinued. The option rights are subject to certain conditions, including a pre-determined continuous period of service. The exercise prices of the options are the same as the quoted prices of ING Groep N.V. shares at the date on which the options are granted.

The obligations with regard to the existing stock option plan and the share plans will be funded either by cash or by newly issued shares at the discretion of ING Group.

Changes in option rights outstanding

	Options outstanding (in numbers)			Weighted average exercise price (in euros)		
	2017	2016	2015	2017	2016	2015
Opening balance	15,838,152	22,939,049	32,146,647	15.53	17.52	16.84
Exercised	–1,290,392	–929,529	–2,400,791	6.05	6.20	6.97
Forfeited	–97,188	–140,278	–210,860	14.13	15.83	16.34
Expired	–4,877,835	–6,031,090	–6,595,947	24.09	24.54	18.08
Closing balance	**9,572,737**	**15,838,152**	**22,939,049**	**12.46**	15.53	17.52

The weighted average share price at the date of exercise for options exercised during 2017 is EUR 13.81 (2016: EUR 10.43; 2015: 13.62). All option rights are vested.

Summary of stock options outstanding and exercisable

	Options outstanding and exercisable as at 31 December			Weighted average remaining contractual life			Weighted average exercise price		
Range of exercise price in euros	2017	2016	2015	2017	2016	2015	2017	2016	2015
0.00 – 5.00	1,342,436	1,771,080	2,146,930	1.21	2.21	3.22	2.87	2.87	2.88
5.00 – 10.00	2,496,862	3,401,679	4,001,835	2.21	3.21	4.21	7.39	7.38	7.38
10.00 – 15.00	75,399	97,258	99,973	0.71	1.71	2.72	14.35	14.35	14.35
15.00 – 20.00	5,658,040	5,973,986	6,446,077	0.21	1.21	2.22	16.94	16.93	16.98
20.00 – 25.00		4,247,605	4,476,049		0.23	1.24		24.58	24.58
25.00 – 30.00		346,544	5,768,185		0.38	0.34		25.42	25.18
	9,572,737	**15,838,152**	**22,939,049**						

All options outstanding are exercisable. As at 31 December 2017, the aggregate intrinsic value of options outstanding and exercisable is EUR 37 million (2016: EUR 39 million; 2015: EUR 41 million).

Changes in share awards

	Share awards (in numbers)			Weighted average grant date fair value (in euros)		
	2017	2016	2015	2017	2016	2015
Opening balance	8,362,851	8,648,781	10,751,796	10.44	10.07	7.52
Granted	5,006,120	6,822,320	6,194,253	13.20	10.20	13.00
Performance effect	379,805	542,749	533	10.47	8.68	8.50
Vested	–6,309,714	–7,493,664	–8,070,866	11.41	9.67	8.94
Forfeited	–218,420	–157,335	–226,935	10.83	10.50	9.07
Closing balance	**7,220,642**	**8,362,851**	**8,648,781**	11.46	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 Bank used to determine ING's Total Shareholder Return (TSR) ranking.

As at 31 December 2017, total unrecognised compensation costs related to share awards amount to EUR 37 million (2016: EUR 41 million). These costs are expected to be recognised over a weighted average period of 1.4 years (2016: 1.4 years).

26 Other operating expenses

Other operating expenses	2017	2016	2015
IT related expenses[1]	737	740	753
Office expenses	586	580	618
Advertising and public relations	455	169	166
Travel and accommodation expenses	178	404	418
External advisory fees	350	319	240
Audit and non-audit services	22	19	18
Postal charges	50	48	56
Depreciation of property and equipment	319	330	327
Amortisation of intangible assets	179	187	270
Impairments and reversals on property and equipment and intangibles	18	107	28
Regulatory costs	901	845	620
Addition/(unused amounts reversed) of provision for reorganisations and relocations	–5	1,189	165
Addition/(unused amounts reversed) of other provisions	167	213	7
Contributions and subscriptions	87	79	66
Other	554	338	594
	4,598	**5,567**	**4,346**

1 Computer costs is renamed to IT related expenses

Other operating expenses include lease and sublease payments in respect of operating leases of EUR 307 million (2016: EUR 310 million; 2015: EUR 281 million) in which ING 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 the ING Bank.

Audit and non-audit services
Audit and non-audit services include fees for services provided by the Bank's auditors. Increase in audit fees in 2017 relates primarily to audit activities for the implementation of IFRS 9.

Regulatory costs
Regulatory costs represent contributions to the Deposit Guarantee Schemes (DGS), The Single Resolution Fund (SRF) and local bank taxes. As of 1 January 2016, the new ex-ante DGS in the Netherlands and the SRF came into effect resulting in increased Regulatory costs for the period. Included in Regulatory costs for 2017, are contributions to DGS of EUR 341 million (2016: EUR 316 million; 2015: EUR 233 million) mainly related to the Netherlands, Germany, Belgium, Poland, and Spain and contributions to the SRF of EUR 179 million (2016: EUR 176 million; 2015: EUR 143 million) related to National Resolution Funds.

In 2017 local bank taxes increased by EUR 30 million from EUR 351 million to EUR 381 million mainly due to a full year Polish bank tax and higher taxes in the UK.

Addition/(unused amounts reversed) of provision for reorganisations and relocations
Included in Addition/(unused amounts reversed) of provision for reorganisations and relocations reference is made to the disclosure on the reorganisation provision in Note 14 'Provisions'.

Tangible and Intangible impairments and reversals

Impairments and reversals of property and equipment and intangibles

	Impairment losses			Reversals of impairments			Total		
	2017	2016	2015	2017	2016	2015	2017	2016	2015
Property and equipment	10	65	17	–24	–5	–14	–14	60	3
Property development	2	3	9				2	3	9
Software and other intangible assets	30	44	15				30	44	15
(Reversals of) other impairments	**42**	**112**	**41**	**–24**	**–5**	**–14**	**18**	**107**	**27**

In 2017, impairment losses on software and intangible assets mainly include software that was impaired to is Value in Use, related to the acceleration of the Think Forward Strategy.

Other

Included in Other operating expenses – Other in 2017, is a net charge for the provision recognised in relation to floating interest rate derivatives that were sold in the Netherlands. Also included in this line, is a charge related to the provision recognised for reimbursement of expenses associated to the formalization of mortgages at ING Spain and a charge related to the provision recognised for a discontinued business in ING Luxembourg. Reference is made to Note 14 ‘Provisions’ and Note 42 ‘Legal proceedings’.

Other operating expenses – Other in 2016 included a EUR 116 million one-off procured cost savings in Belgium.

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 43 ‘Consolidated companies and businesses acquired and divested’.

28 Changes in liabilities arising from financing activities

Changes in liabilities arising from financing activities

	2016	Cash Flows		Non cash changes					2017
		Additions	Redemptions / Disposals	Aquisitions	Amor-tisation	Other	Changes in FV	Foreign exchange movement	
Debt securities in issue	101,305	89,369	–95,077		132	–40	–866	–4,592	90,231
Subordinated Loans	16,104	2,314	–1,246		89		–274	–1,156	15,831
Total Liabilities from financing activities	**117,409**	**91,683**	**–96,323**	**–**	**221**	**–40**	**–1,140**	**–5,748**	**106,062**

29 Cash and cash equivalents

Cash and cash equivalents

	2017	2016	2015
Treasury bills and other eligible bills	391	512	363
Deposits from banks/Loans and advances to banks	–3,404	–2,493	–1,467
Cash and balances with central banks	21,989	18,144	21,458
Cash and cash equivalents at end of year	**18,976**	**16,163**	**20,354**

Treasury bills and other eligible bills included in cash and cash equivalents

	2017	2016	2015
Treasury bills and other eligible bills included in trading assets	5	126	228
Treasury bills and other eligible bills included in available-for-sale investments	386	386	135
	391	**512**	**363**

Deposits from banks/Loans and advances to banks	2017	2016	2015
Included in cash and cash equivalents:			
– deposits from banks	–8,563	–9,809	–10,306
– loans and advances to banks	5,159	7,316	8,839
	–3,404	**–2,493**	**–1,467**
Not included in cash and cash equivalents:			
– deposits from banks	–28,258	–22,155	–23,502
– loans and advances to banks	23,587	21,556	21,127
	–4,671	**–599**	**–2,375**
Total as included in the statement of financial position:			
– deposits from banks	–36,821	–31,964	–33,808
– loans and advances to banks	28,746	28,872	29,966
	–8,075	**–3,092**	**–3,842**

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 38 '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

30 Segments

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

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

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

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

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

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

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

Specification of geographical segments

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

ING 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 at a consolidated level and by segment. The Management Board Banking 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 Bank'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 and the impact of divestments.

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

ING Bank reconciles the total segment results to the total result of Banking using Corporate Line Banking. The Corporate Line Banking is a reflection of capital management activities and certain expenses that are not allocated to the banking businesses. The Corporate Line Banking includes the isolated legacy costs (mainly negative interest results) caused by the replacement of short-term funding with long-term funding during 2012 and 2013. ING Bank 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 Banking.

This note does not provide information on the revenue specified to each product or service as this is not reported internally and is therefore not readily available.

Reconciliation between IFRS and Underlying income, expenses and net result

2017	Income	Expenses	Taxation	Non-Controlling interests	Net result[1]
Net result IFRS attributable to equity holder of the parent	17,876	10,472	2,303	82	5,019
Remove impact of:					
Special items[2]	–121		–121		0
Underlying[3]	**17,755**	**10,472**	**2,182**	**82**	**5,019**

1 Net result, after tax and non-controlling interests.
2 Special items in 2017, comprise a tax charge at ING Australia Holdings Ltd related to the years 2007-2013, for which a full reimbursement is expected to be received from NN Bank.
3 Underlying figures are derived from figures according to IFRS by excluding the impact from special items.

Segments Banking by line of business

2017	Retail Nether-lands	Retail Belgium	Retail Germany	Retail Other	Wholesale Banking	Corporate Line Banking	Total Banking
Underlying income							
– Net interest income	3,610	1,842	1,704	2,437	3,895	294	13,782
– Net commission income	601	408	215	384	1,108	–3	2,714
– Total investment and other income	257	224	–28	207	919	–318	1,259
Total underlying income	4,468	2,473	1,891	3,028	5,922	–27	17,755
Underlying expenditure							
– Operating expenses	2,212	1,584	1,032	1,919	2,792	257	9,795
– Additions to loan loss provision	13	104	–10	284	284	1	676
Total underlying expenses	2,224	1,688	1,022	2,203	3,076	258	10,472
Underlying result before taxation	**2,243**	**785**	**869**	**825**	**2,846**	**–285**	**7,283**
Taxation	566	296	241	188	881	9	2,182
Non-controlling interests		–2	2	67	15		82
Underlying net result	**1,678**	**491**	**625**	**569**	**1,950**	**–293**	**5,019**
Special items						0	0
Net result IFRS	**1,678**	**491**	**625**	**569**	**1,950**	**–293**	**5,019**

Notes to the Consolidated annual accounts of ING Bank - continued

Reconciliation between IFRS and Underlying income, expenses and net result

2016	Income	Expenses	Taxation	Non-Controlling interests	Net result[1]
Net result IFRS attributable to equity holder of the parent	17,514	11,577	1,635	75	4,227
Remove impact of:					
Special items[2]		–1,157	358		799
Underlying[3]	**17,514**	**10,419**	**1,993**	**75**	**5,026**

1 Net result, after tax and non-controlling interests.
2 Special items in 2016 primarily comprise restructuring charges and impairments related to the intended digital transformation programmes as announced in October 2016.
3 Underlying figures are derived from figures according to IFRS by excluding the impact from special items.

Segments Banking by line of business

2016	Retail Nether-lands	Retail Belgium	Retail Germany	Retail Other	Wholesale Banking	Corporate Line Banking	Total Banking
Underlying income							
– Net interest income	3,653	1,936	1,689	2,107	3,750	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	–192	–418		–12	–149	–27	–799
Net result IFRS	**1,090**	**235**	**738**	**608**	**1,754**	**–198**	**4,227**

Reconciliation between IFRS and Underlying income, expenses and net result

2015	Income	Expenses	Taxation	Non-Controlling interests	Net result[1]
Net result IFRS attributable to equity holder of the parent	17,070	10,655	1,683	72	4,659
Remove impact of:					
Divestments[2]	–367				–367
Special items[3]		–77	19		58
Underlying[4]	**16,703**	**10,578**	**1,703**	**72**	**4,350**

1 Net result, after tax and non-controlling interests.
2 Divestments in 2015 reflected the result from the merger between ING Vysya and Kotak Mahindra Bank.
3 Special items in 2015 comprised additional charges related to previously announced restructuring programmes in Retail Netherlands.
4 Underlying figures are derived from figures according to IFRS by excluding the impact from divestments, special items.

Segments Banking by line of business

2015	Retail Nether-lands	Retail Belgium	Retail Germany	Retail Other	Wholesale Banking	Corporate Line Banking	Total Banking
Underlying income							
– Net interest income	3,683	1,953	1,634	1,935	3,538	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				367			367
Special items	–58						–58
Net result IFRS	**1,046**	**583**	**681**	**781**	**1,841**	**–273**	**4,659**

Geographical segments Banking

2017	Nether-lands	Belgium	Germany	Other Challen-gers	Growth Markets	Wholesale Banking Rest of World	Other	Total Banking
Underlying income								
– Net interest income	4,537	2,099	2,172	1,527	1,515	1,636	295	13,782
– Net commission income	871	519	269	232	316	509	–3	2,714
– Total investment and other income	445	480	–17	22	296	245	–211	1,259
Total underlying income	5,853	3,098	2,424	1,781	2,127	2,390	82	17,755
Underlying expenditure								
– Operating expenses	2,930	2,063	1,154	1,142	1,126	1,113	267	9,795
– Additions to loan loss provision	3	160	–15	201	241	85	1	676
Total underlying expenses	2,933	2,223	1,140	1,344	1,367	1,198	268	10,472
Underlying result before taxation	**2,920**	**876**	**1,285**	**437**	**760**	**1,192**	**–186**	**7,283**
Taxation	708	369	407	145	151	379	21	2,182
Non-controlling interests		–2	2		82			82
Underlying net result	**2,212**	**508**	**875**	**292**	**527**	**813**	**–207**	**5,019**
Special items							0	0
Net result IFRS	**2,212**	**508**	**875**	**292**	**527**	**813**	**–207**	**5,019**

Geographical segments Banking

2016	Nether-lands	Belgium	Germany	Other Challen-gers	Growth Markets	Wholesale Banking Rest of World	Other	Total Banking
Underlying income								
– Net interest income	4,699	2,183	2,025	1,373	1,274	1,579	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 Banking

2015	Netherlands	Belgium	Germany	Other Challengers	Growth Markets	Wholesale Banking Rest of World	Other	Total Banking
Underlying income								
– Net interest income	4,677	2,287	1,812	1,268	1,147	1,551	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**

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

31 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 2017, 2016 and 2015 respectively, on names of principal subsidiaries and branches, nature of main activities and average number of employees on a full time equivalent basis by country/tax jurisdiction.

Notes to the Consolidated annual accounts of ING Bank - continued

Additional information by country

2017

Geographical area	Country/Tax jurisdiction	Name of principal subsidiary	Main activity	Average number of employees at full time equivalent basis	Total Income	Total assets	Result before tax	Taxation
The Netherlands	The Netherlands	ING Bank N.V.	Wholesale banking/Retail banking	13,141	5,860	241,481	2,437	661
Belgium	Belgium	ING België N.V.	Wholesale banking/Retail banking	8,893	2,957	119,400	1,009	408
	Luxembourg	ING Luxembourg S.A.	Wholesale banking/Retail banking	777	298	14,748	68	27
Rest of Europe	Poland	ING Bank Slaski S.A.	Wholesale banking/Retail banking	8,664	1,119	29,976	444	112
	Germany	ING DiBa A.G.	Wholesale banking/Retail banking	4,587	2,312	138,153	1,240	396
	Romania	Branch of ING Bank N.V.	Wholesale banking/Retail banking	1,968	314	5,940	135	23
	Spain	Branch of ING Bank N.V.	Wholesale banking/Retail banking	1,135	509	23,858	97	25
	Italy	Branch of ING Bank N.V.	Wholesale banking/Retail banking	838	336	16,728	–4	7
	UK	Branch of ING Bank N.V.	Wholesale banking	603	550	78,573	324	76
	France[1]	Branch of ING Bank N.V.	Wholesale banking/Retail banking	591	310	10,678	93	32
	Russia	ING Bank (Eurasia) Z.A.O.	Wholesale banking	270	136	1,607	78	20
	Czech Republic	Branch of ING Bank N.V.	Wholesale banking/Retail banking	245	66	5,641	16	3
	Hungary	Branch of ING Bank N.V.	Wholesale banking	146	32	1,003	–	2
	Slovakia	Branch of ING Bank N.V.	Wholesale banking	497	14	677	2	1
	Ukraine	PJSC ING Bank Ukraine	Wholesale banking	106	30	321	9	2
	Austria	Branch of ING DiBa A.G.	Wholesale banking/Retail banking	225	80	682	25	–1
	Bulgaria	Branch of ING Bank N.V.	Wholesale banking	70	9	268	–2	–
	Ireland	Branch of ING Bank N.V.	Wholesale banking	43	57	2,337	48	6
	Portugal	Branch of ING Bank N.V.	Wholesale banking	11	14	667	9	3
	Switzerland	Branch of ING België N.V.	Wholesale banking	204	224	9,737	145	38
North America	Canada	Belgian Overseas Agencies Ltd.	Wholesale banking	–	–	2	–	–
	USA	ING Financial Holdings Corp.	Wholesale banking	564	724	42,873	371	134
Latin America	Brazil	Branch of ING Bank N.V.	Wholesale banking	78	47	1,184	16	4
	Colombia	ING Capital Colombia S.A.S.	Wholesale banking	2	1	2	–	–
	Mexico	ING Consulting, S.A. de C.V.	Wholesale banking	8	1	2	–2	
Asia	China	Branch of ING Bank N.V.	Wholesale banking	81	35	2,298	7	-2
	Japan	Branch of ING Bank N.V.	Wholesale banking	35	33	2,238	17	11
	Singapore	Branch of ING Bank N.V.	Wholesale banking	512	297	25,803	133	9
	Hong Kong	Branch of ING Bank N.V.	Wholesale banking	108	94	7,850	55	7
	Philippines	Branch of ING Bank N.V.	Wholesale banking	604	18	322	6	2
	South Korea	Branch of ING Bank N.V.	Wholesale banking	82	55	4,602	21	6
	Taiwan	Branch of ING Bank N.V.	Wholesale banking	33	23	3,910	11	–
	Indonesia	PT ING Securities Indonesia	Wholesale banking	5	1	6	–	–
	Malaysia	Branch of ING Bank N.V.	Wholesale banking	5	–	29	–1	–
	India	Branch of ING Bank N.V.	Wholesale banking	–	1	2	1	–
	Turkey	ING Bank A.S.	Wholesale banking/Retail banking	5,221	741	13,798	267	54
	United Arab Emirates	Branch of ING Bank N.V.	Wholesale banking	10	–	–	–2	–
Australia	Australia	ING Bank (Australia) Ltd.	Retail banking	1,143	577	37,982	330	235
Other	Mauritius	ING Mauritius Ltd.	Investment management	–	1	939	–	–
Total				**51,504**	**17,876**	**846,318**	**7,404**	**2,303**

1 Public subsidies received, as defined in article 89 of the CRD IV, amounts to EUR 0.5 million.

Australia has a very high tax charge due to a tax charge at ING Australia Holdings Ltd related to the years 2007-2013, for which a full reimbursement is expected to be received from NN Group. Although the impact on net result was nil, this special item affected both the tax and 'other income' line in the consolidated statement of profit or loss.
Due to the tax reforms in the US and Belgium, which resulted in a tax charge to record a reduction in deferred tax assets, the tax charge is significantly higher.
Austria, China, Singapore and Taiwan all have lower tax charges due to prior year adjustments.

Notes to the Consolidated annual accounts of ING Bank - continued

Additional information by country

2016

Geographical area	Country/Tax jurisdiction	Name of principal subsidiary	Main activity	Average number of employees at full time equivalent basis	Total Income	Total assets	Result before tax	Taxation
The Netherlands	The Netherlands	ING Bank N.V.	Wholesale banking/Retail banking	13,660	5,790	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 Corp.	Wholesale banking	519	732	42,571	377	110
Latin America	Brazil	Branch of ING Bank N.V.	Wholesale banking	70	43	2,097	13	–
	Colombia	ING Capital Colombia S.A.S.	Wholesale banking	2	–	1	–	–
	Mexico	ING Consulting, S.A. de C.V.	Wholesale banking	7	1	2	–1	–
Asia	China	Branch of ING Bank N.V.	Wholesale banking	72	36	2,049	7	–2
	Japan	Branch of ING Bank N.V.	Wholesale banking	33	36	3,702	22	9
	Singapore	Branch of ING Bank N.V.	Wholesale banking	502	194	25,780	22	5
	Hong Kong	Branch of ING Bank N.V.	Wholesale banking	106	80	5,964	40	7
	Philippines	Branch of ING Bank N.V.	Wholesale banking	423	17	402	4	–2
	South Korea	Branch of ING Bank N.V.	Wholesale banking	87	46	4,107	14	–1
	Taiwan	Branch of ING Bank N.V.	Wholesale banking	32	15	2,484	3	1
	Indonesia	PT ING Securities Indonesia	Wholesale banking	5	1	7	–	–
	Malaysia	Branch of ING Bank N.V.	Wholesale banking	5	–	3	–	–
	India	Branch of ING Bank N.V.	Wholesale banking	–	–	2	–	–
	Turkey	ING Bank A.S.	Wholesale banking/Retail banking	5,497	757	15,864	225	45
	United Arab Emirates	Branch of ING Bank N.V.	Wholesale banking	10	–	1	–2	–
Australia	Australia	ING Bank (Australia) Ltd.	Retail banking	1,053	505	36,691	309	90
Other	Mauritius	ING Mauritius Ltd.	Investment management	–	32	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.

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

Additional information by country

2015

Geographical area	Country/Tax jurisdiction	Name of principal subsidiary	Main activity	Average number of employees at full time equivalent basis	Total Income	Total assets	Result before tax	Taxation
The Netherlands	The Netherlands	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 Corp.	Wholesale banking	492	720	47,784	423	122
Latin America	Brazil	Branch of ING Bank N.V.	Wholesale banking	56	48	1,496	32	12
	Mexico	ING Consulting, S.A. de C.V.	Wholesale banking	8	–	1	–	–
Asia	China	Branch of ING Bank N.V.	Wholesale banking	59	39	1,551	16	10
	Japan	Branch of ING Bank N.V.	Wholesale banking	30	31	6,772	20	9
	Singapore	Branch of ING Bank N.V.	Wholesale banking	472	386	19,111	230	30
	Hong Kong	Branch of ING Bank N.V.	Wholesale banking	103	85	5,052	49	1
	Philippines	Branch of ING Bank N.V.	Wholesale banking	249	22	436	5	3
	South Korea	Branch of ING Bank N.V.	Wholesale banking	68	53	3,642	23	6
	Taiwan	Branch of ING Bank N.V.	Wholesale banking	34	23	1,744	12	1
	Indonesia	PT ING Securities Indonesia	Wholesale banking	5	1	7	–	–
	Malaysia	Branch of ING Bank N.V.	Wholesale banking	4	–	4	–	–
	India	Branch of ING Bank N.V.	Wholesale banking	–	–	2	–	–
	Turkey	ING Bank A.S.	Wholesale banking/Retail banking	6,070	641	17,544	155	34
	United Arab Emirates	Branch of ING Bank N.V.	Wholesale banking	7	–	–	–1	–
Australia	Australia	ING Bank (Australia) Ltd.	Retail banking	1,021	490	33,507	328	92
Other	Mauritius	ING Mauritius Ltd.	Investment management	–	380	1,186	380	–
Total				**52,720**	**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.

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

32 Pension and other post-employment benefits

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.

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 are designed to comply with applicable local regulations governing investments and funding levels.

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

Statement of financial position - Net defined benefit asset/liability

Plan assets and defined benefit obligation per country

	Plan assets		Defined benefit obligation		Funded Status	
	2017	2016	2017	2016	2017	2016
The Netherlands	408	414	568	576	–160	–162
United States	176	182	233	243	–57	–61
United Kingdom	1,864	1,983	1,326	1,377	538	606
Belgium	597	641	672	776	–75	–135
Other countries	161	117	341	277	–180	–160
Funded status (Net defined benefit asset/liability)	**3,206**	**3,337**	**3,140**	**3,249**	**66**	**88**
Presented as:						
-Other assets					542	609
-Other liabilities					–476	–521
					66	**88**

The most recent (actuarial) valuations of the plan assets and the present value of the defined benefit obligation were carried out as at 31 December 2017. The present value of the defined benefit obligation, and the related current service cost and past service cost, were determined using the projected unit credit method.

Notes to the Consolidated annual accounts of ING Bank - continued

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

Changes in fair value of plan assets

	2017	2016
Opening balance	3,337	3,141
Interest income	70	87
Remeasurements: Return on plan assets excluding amounts included in interest income	52	467
Employer's contribution	24	76
Participants contributions	2	2
Benefits paid	–186	–137
Exchange rate differences	–93	–299
Closing balance	**3,206**	**3,337**
Actual return on the plan assets	**122**	**554**

As at 31 December 2017 the various defined benefit plans did not hold any direct investments in ING Groep N.V. (2016: nil). During 2017 there were no purchases or sales of assets between ING and the pension fund.

ING does not manage the pension funds and thus receives no compensation for fund management. The pension fund has not engaged ING in any swap or derivative transactions to manage the risk of the pension funds.

No plan assets are expected to be returned to ING Bank during 2018.

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

Changes in defined benefit obligation and other post-employment benefits

	Defined benefit obligation		Other post-employment benefits	
	2017	2016	2017	2016
Opening balance	3,249	2,996	87	98
Current service cost	34	32	–3	–25
Interest cost	66	79	3	3
Remeasurements: Actuarial gains and losses arising from changes in demographic assumptions	–7	–17	9	10
Remeasurements: Actuarial gains and losses arising from changes in financial assumptions	71	498		
Participants' contributions	2	1		
Benefits paid	–189	–148	–1	–1
Past service cost		2		
Effect of curtailment or settlement	–3	–2		
Exchange rate differences	–83	–192	–8	2
Closing balance	**3,140**	**3,249**	**87**	**87**

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

Changes in the net defined benefit assets/liability remeasurement reserve

	2017	2016
Opening balance	–371	–306
Remeasurement of plan assets	52	467
Actuarial gains and losses arising from changes in demographic assumptions	7	17
Actuarial gains and losses arising from changes in financial assumptions	–71	–498
Taxation	–17	–51
Total Other comprehensive income movement for the year	**–29**	**–65**
Closing balance	**–400**	**–371**

In 2017, EUR 52 million Remeasurement of plan assets and EUR –71 million Actuarial gains and losses arising from changes in financial assumptions are mainly due to a decrease in discount rates.

The accumulated amount of remeasurements recognised directly in Other comprehensive income (equity) is EUR –476 million (EUR –400 million after tax) as at 31 December 2017 (2016: EUR –483 million, EUR –371 million after tax).

Amounts recognised in statement of profit or loss related to pension and other staff related benefits are as follows:

Pension and other staff-related benefit costs

	Net defined benefit asset/liability			Other post-employment benefits			Other			Total		
	2017	2016	2015	2017	2016	2015	2017	2016	2015	2017	2016	2015
Current service cost	34	32	34	–3	–25	–7	–2	11	–8	29	18	19
Past service cost		2	–11								2	–11
Net Interest cost	–4	–8	–9	3	3	1	1	2	2		–3	–6
Effect of curtailment or settlement	–3	–2	–3			–9			–52	–3	–2	–64
Other									13			13
Defined benefit plans	**27**	**24**	**11**		**–22**	**–15**	**–1**	**13**	**–45**	**26**	**15**	**–49**
Defined contribution plans										355	329	324
										381	**344**	**275**

Determination of the net defined benefit asset/liability

The defined net benefit asset/liability is reviewed and adjusted annually. The assumptions used in the determination of the net defined benefit asset/liability and the Other post-employment benefits include discount rates, mortality rates, expected rates of salary increases (excluding promotion increases), and indexation. The rates used for salary developments, interest discount factors, and other adjustments reflect country-specific conditions.

The key assumption in the determination of the net defined benefit asset/liability is the discount rate. The discount rate is the weighted average of the discount rates that are applied in different regions where the Bank has defined benefit pension plans (weighted by defined benefit obligation). The discount rate is based on a methodology that uses market yields on high quality corporate bonds of the specific regions with durations matching the pension liabilities as key input. Market yields of high quality corporate bonds reflect the yield on corporate bonds with an AA rating for durations where such yields are available. An extrapolation is applied in order to determine the yield to the longer durations for which no AA-rated corporate bonds are available. As a result of the limited availability of long-duration AA-rated corporate bonds, extrapolation is an important element of the determination of the discount rate. The weighted average discount rate applied for net defined benefit asset/liability for 2017 was 2.0% (2.1% in 2016), based on the pension plan in the Netherlands, Germany, Belgium, The United States of America and the United Kingdom. The average discount rate for Other post-employment benefits is 3.2% (3.5% in 2016).

Notes to the Consolidated annual accounts of ING Bank - continued

Sensitivity analysis of key assumptions

ING performs sensitivity analysis on the most significant assumptions: discount rates, mortality, expected rate of salary increase, and indexation. The sensitivity analysis has been carried out under the assumption the changes occurred at the end of the reporting period.

The sensitivity analysis calculates the financial impact on the defined benefit obligation if the weighted averages of each significant actuarial assumption would increase or decrease if all other assumptions were held constant. In practice, this is unlikely to occur, and some changes of the assumptions may be correlated. Changes to mortality, expected rate or salary increase, and indexation would have no material impact to the defined benefit obligation. The most significant impact would be from a change in the discount rate. An increase or decrease in the discount rate of 1% creates a financial impact of EUR –480 million and EUR 619 million respectively.

Expected cash flows

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

For 2018 the expected contributions to pension plans are EUR 32 million.

The benefit payments for defined benefit and other post-employment benefits expected to be made by the plan between 2018-2022 are estimated to be between EUR 91 million and EUR 112 million per annum. From 2023 to 2027 the total payments made by the plan are expected to be EUR 423 million.

33 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

2017	Net liability (-) Net asset (+) 2016	Change through equity	Change through net result	Exchange rate differences	Changes in the composition of the group and other changes	Net liability (-) Net asset (+) 2017
Investments	–799	123	116	5		–555
Investment properties	–5					–5
Financial assets and liabilities at fair value through profit or loss	697		–290	12		419
Depreciation	–33		5	4		–24
Cash flow hedges	–238	167		–1		–72
Pension and post-employment benefits	112	–25	–6	–5		76
Other provisions	255		–48	–6	–3	198
Receivables	570		49	–5		614
Loans and advances to customers	–409	–2	17			–394
Unused tax losses carried forward	57		–60	–5		–8
Other	–126	–10	–49	2		–183
	81	**253**	**–266**	**1**	**–3**	**66**
Presented in the statement of financial position as:						
– deferred tax liabilities	–919					–752
– deferred tax assets	1,000					818
	81					**66**

The deferred tax balance recorded under 'Unused tax losses carried forward' is the balance of recognised deferred assets (DTA) for unused tax losses carried forward and the deferred tax liability (DTL) recorded regarding previously deducted UK tax losses in the Netherlands. Due to increased profitability in the United Kingdom (UK) all UK carry forward losses have been recognised during 2017 and a corresponding DTL in the Netherlands has been taken up accordingly. The DTA and DTL amount to EUR 128 million and EUR –136 million respectively creating a net deferred tax liability of EUR –8 million.

Notes to the Consolidated annual accounts of ING Bank - continued

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**

Deferred tax in connection with unused tax losses carried forward

	2017	2016
Total unused tax losses carried forward	1,732	1,876
Unused tax losses carried forward not recognised as a deferred tax asset	1,074	973
Unused tax losses carried forward recognised as a deferred tax asset	**658**	**903**
Average tax rate	19.5%	22.5%
Deferred tax asset	128	203

Total unused tax losses carried forward analysed by expiry terms

	No deferred tax asset recognised		Deferred tax asset recognised	
	2017	2016	2017	2016
Within 1 year	2	2		2
More than 1 year but less than 5 years	350	383	38	56
More than 5 years but less than 10 years	31	30		
More than 10 years but less than 20 years	18	18		
Unlimited	673	540	620	845
	1,074	**973**	**658**	**903**

The above mentioned deferred tax of EUR 128 million (2016: EUR 203 million) and the related unused tax losses carried forward exclude the deferred tax liability recorded in the Netherlands with respect to the recapture of previously deducted UK tax losses in the Netherlands for the amount of EUR –136 million (2016: EUR –146 million). The comparative figures in the two tables above have been adjusted accordingly.

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

Breakdown of certain net deferred tax asset positions by jurisdiction

	2017	2016
Italy	107	113
	107	**113**

The table above includes a breakdown of certain net deferred tax asset positions by jurisdiction for which the utilisation is dependent on future taxable profits whilst the related entities have incurred losses in either the current or the preceding year. In 2017, the aggregate amount for the most significant entities is EUR 107 million (2016: EUR 113 million).

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

Statement of profit or loss – Taxation

Taxation by type

	Netherlands			International			Total		
	2017	2016	2015	2017	2016	2015	2017	2016	2015
Current taxation	510	167	6	1,527	1,375	1,412	2,037	1,542	1,418
Deferred taxation	151	193	407	115	–100	–141	266	93	266
	661	**360**	**413**	**1,642**	**1,275**	**1,271**	**2,303**	**1,635**	**1,684**

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

	2017	2016[1]	2015
Result before tax from continuing operations	7,404	5,937	6,415
Weighted average statutory tax rate	27.0%	27.5 %	27.3%
Weighted average statutory tax amount	**2,002**	**1,630**	**1,748**
Participation exemption	–45	–61	–46
Other income not subject to tax	–84	–111	–160
Expenses not deductible for tax purposes	155	129	151
Impact on deferred tax from change in tax rates	55	–1	12
Deferred tax benefit from previously unrecognised amounts	–4	–18	54
Current tax from previously unrecognised amounts	66	–22	–63
Write-off/reversal of deferred tax assets	2	33	18
State and local taxes	47	33	
Adjustment to prior periods	109	23	–30
Effective tax amount	**2,303**	**1,635**	**1,684**
Effective tax rate	**31.1%**	**27.6%**	**26.2%**

1 'Other income not subject to tax' and Expenses not deductible for tax purposes' have been adjusted to reflect the impact of income taxes other than corporate (statutory) income tax on the line 'State and local taxes'.

The weighted average statutory tax rate in 2017 does not significantly differ compared to 2016.

The effective tax rate in 2017 is 31.1%.

The effective tax rate in 2017 is significantly higher than the weighted average statutory tax rate. This was caused by the following items:

- A relatively high amount of prior period tax adjustments which ING, for the most part is expected to be reimbursed by NN Group (reimbursement is included in the result before tax), recorded under 'Adjustment to prior periods';

- Impact on deferred tax positions following changes in the income tax rate in the USA and Belgium, recorded under ‘Impact on deferred tax from change in tax rates’; and
- The recapture of previously deducted UK tax losses in the Netherlands due to increased profitability in the United Kingdom, recorded under ‘Current tax from previously unrecognised amounts’.

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

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

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

Equity – Other comprehensive income

Income tax related to components of other comprehensive income

	2017	2016	2015
Unrealised revaluations available-for-sale investments and other revaluations	103	17	72
Realised gains/losses transferred to the statement of profit or loss (reclassifications from equity to profit or loss)	20	57	39
Changes in cash flow hedge reserve	167	–48	22
Remeasurement of the net defined benefit asset/liability	–25	–20	–14
Exchange rate differences and other		–1	10
Changes in composition of the group and other changes	–12		
Total income tax related to components of other comprehensive income	**253**	**5**	**129**

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.

34 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	
	2017	2016	2017	2016
Financial assets				
Cash and balances with central banks	21,989	18,144	21,989	18,144
Loans and advances to banks	28,846	28,940	28,746	28,872
Financial assets at fair value through profit or loss				
– trading assets	116,763	114,512	116,763	114,512
– non-trading derivatives	2,185	2,309	2,185	2,309
– designated as at fair value through profit or loss	4,242	5,099	4,242	5,099
Investments				
– available-for-sale	69,730	82,912	69,730	82,912
– held-to-maturity	9,378	8,809	9,343	8,751
Loans and advances to customers	589,364	577,809	574,899	562,873
Other assets[1]	11,719	13,242	11,719	13,242
	854,216	**851,776**	**839,616**	**836,714**
Financial liabilities				
Deposits from banks	36,868	32,352	36,821	31,964
Customer deposits	553,546	532,003	552,690	531,096
Financial liabilities at fair value through profit or loss				
– trading liabilities	73,596	83,167	73,596	83,167
– non-trading derivatives	2,346	3,585	2,346	3,585
– designated as at fair value through profit or loss	11,215	12,266	11,215	12,266
Other liabilities[2]	14,419	15,213	14,419	15,213
Debt securities in issue	90,614	101,498	90,231	101,305
Subordinated loans	16,391	16,012	15,831	16,104
	798,995	**796,096**	**797,149**	**794,700**

1 Other assets do not include, among others: (deferred) tax assets, net defined benefit asset, inventory, property development and property obtained from foreclosures. 2016 figure has been changed to conform to the current year presentation.
2 Other liabilities do not include, among others: (deferred) tax liabilities, net defined benefit and related employee benefit liabilities, reorganisation and other provisions, and other taxation and social security contributions.

Valuation Methods

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

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

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

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

Control framework

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

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

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

Valuation Adjustments

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

- Bid-Offer adjustments are required to adjust mid-market values to appropriate bid or offer value in order to best represent the exit value, and therefore fair value. It is applicable to financial assets and liabilities that are valued at mid-price initially. In practice this adjustment accounts for the difference in valuation from mid to bid and mid to offer for long and short exposures respectively. In principle assets are valued at the bid prices and liabilities are valued at the offer price. For certain assets or liabilities, where market quoted price is not available, the price within the bid-offer spread that is most representative of fair value is used.
- Bilateral Valuation Adjustment (BVA) is the valuation component for the counterparty credit risk of the derivative contracts. It has bilateral nature, where both counterparty's credit risk and ING own credit risks are taken into account. The calculation is based on the estimation of the expected exposure, the counterparties' risk of default, and taking into account the collateral agreements as well as netting agreements. The counterparties' risk of default is measured by probability of default and expected loss given default, which is based on market information including credit default swap (CDS) spread. Where counterparty CDS spreads are not available, relevant proxy spreads are used. Additionally, wrong-way risk (when exposure to a counterparty is increasing and the credit quality of that counterparty deteriorates) and right-way risk (when exposure to a counterparty is increasing and the credit quality of that counterparty improves) are included in the adjustment.
- ING applies Debt Valuation Adjustment (DVA) to own issued financial liabilities that are measured at fair value through profit or loss, if the credit risk component has not been included in the prices. In the DVA calculation, the default probability of the institution are estimated based on the ING Funding spread.
- Model risk adjustments reduce the risk of possible financial losses resulting from the use of a mis-specified, misapplied, or incorrect implementation of a model.
- Collateral Valuation Adjustment (CollVA) is a derivative valuation adjustment capturing specific features of CSA (Credit Support Annex) with a counterparty that the regular OIS (Overnight Index Swap) discounting framework does not capture. Non-standard CSA features may include deviations in relation to the currency in which ING posts or receives collateral, deviations in remuneration rate on collateral which may pay lower or higher rate than overnight rate or even no interest at all. Other deviations can be posting securities rather than cash as collateral.

- ING applies an additional 'Funding Valuation Adjustment' (FVA) to address the funding costs associated with the collateral funding asymmetry on uncollateralized or partially collateralized derivatives in the portfolio. This adjustment is based on the expected exposure profiles of the uncollateralized or partially collateralized OTC derivatives and market-based funding spreads.

The following methods and assumptions were used by ING 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 (amongst others) discounted cash flows option pricing models and Monte Carlo simulation. These valuation models calculate the present value of expected future cash flows, based on 'no-arbitrage' principles. These models are commonly used in the financial industry. Inputs to valuation models are determined from observable market data where possible. Certain inputs may not be observable in the market directly, but can be determined from observable prices via valuation model calibration procedures. The inputs used include for example prices available from exchanges, dealers, brokers or providers of pricing, yield curves, credit spreads, default rates, recovery rates, dividend rates, volatility of underlying interest rates, equity prices, and foreign currency exchange rates. These inputs are determined with reference to quoted prices, recently executed trades, independent market quotes and consensus data, where available.

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

Equity securities

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

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

Debt securities

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

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

Loans and receivables

Reference is made to Loans and advances to customers below.

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

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

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

Customer deposits
The carrying values of customer deposits with an immediate on demand features approximate their fair values. The fair values of deposits with fixed contractual terms have been estimated based on discounting future cash flows using the interest rates currently applicable to deposits of similar maturities.

Financial liabilities at fair value through profit or loss
The fair values of securities in the trading portfolio and other liabilities at fair value through profit or loss are based on quoted market prices, where available. For those securities not actively traded, fair values are estimated based on internal discounted cash flow valuation techniques using interest rates and credit spreads that apply to similar instruments. Reference is made to Financial assets at fair value through profit or loss above.

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

Debt securities in issue
The fair value of debt securities in issue is generally based on quoted market prices, or if not available, on estimated prices by discounting expected future cash flows using a current market interest rate and credit spreads applicable to the yield, credit quality and maturity.

Subordinated loans
The fair value of publicly traded subordinated loans are based on quoted market prices when available. Where no quoted market prices are available, fair value of the subordinated loans is estimated using discounted cash flows based on interest rates and credit spreads that apply to similar instruments.

a.3) Fair value hierarchy
ING 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 Group's own assumptions about the factors that market participants would use in pricing an asset or liability, developed based on the best information available in the market. Unobservable inputs may include volatility, correlation, spreads to discount rates, default rates and recovery rates, prepayment rates, and certain credit spreads. Transfers into and transfers out of fair value hierarchy levels are made on a quarterly basis.

Level 1 – (Unadjusted) quoted prices in active markets
This category includes financial instruments whose fair value is determined directly by reference to (unadjusted) quoted prices in an active market that ING 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. 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.

Notes to the Consolidated annual accounts of ING Bank - continued

Financial instruments at fair value

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

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

	Level 1		Level 2		Level 3		Total	
	2017	2016	2017	2016	2017	2016	2017	2016
Financial Assets								
Trading assets	20,128	17,660	95,530	95,629	1,105	1,223	116,763	114,512
Non-trading derivatives		3	2,155	2,244	30	62	2,185	2,309
Financial assets designated as at fair value through profit or loss	319	502	3,558	4,141	365	456	4,242	5,099
Available-for-sale investments	65,310	76,238	3,940	6,153	480	521	69,730	82,912
	85,757	**94,403**	**105,183**	**108,167**	**1,980**	**2,262**	**192,920**	**204,832**
Financial liabilities								
Trading liabilities	5,770	6,139	66,753	75,650	1,073	1,378	73,596	83,167
Non-trading derivatives			2,278	3,561	68	24	2,346	3,585
Financial liabilities designated as at fair value through profit or loss	1,186	1,348	9,928	10,795	101	123	11,215	12,266
	6,956	**7,487**	**78,959**	**90,006**	**1,242**	**1,525**	**87,157**	**99,018**

Main changes in fair value hierarchy

There were no significant transfers between Level 1 and Level 2 in 2017 and 2016

There were no changes in the valuation techniques during 2017 and 2016.

Changes in Level 3 Financial assets

	Trading assets		Non-trading derivatives		Financial assets designated as at fair value through profit or loss		Available-for-sale investments		Total	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Opening balance	1,223	1,146	62	7	456	338	521	693	2,262	2,184
Realised gain/loss recognised in the statement of profit or loss during the period[1,3]	-231	226	-9	-7	4	76		200	-236	495
Revaluation recognised in other comprehensive income during the period[2,4]							-5	-144	-5	-144
Purchase of assets	610	77		5	225	193	62	68	897	343
Sale of assets	-326	-71		-5	-1	-76	-43	-183	-370	-335
Maturity/settlement	-141	-135					-24	-9	-165	-144
Reclassifications							7	-92	7	-92
Transfers into Level 3	9	21		62				5	9	88
Transfers out of Level 3	-37	-43	-23		-319	-75	-13		-392	-118
Exchange rate differences	-2	3					-24	8	-26	11
Changes in the composition of the group and other changes		-1					-1	-25	-1	-26
Closing balance	**1,105**	**1,223**	**30**	**62**	**365**	**456**	**480**	**521**	**1,980**	**2,262**

1 Net gains/losses were recorded in income from trading activities in continuing operations herein as 'Valuation results and net trading income' in the statement of profit or loss.
2 Revaluation recognised in other comprehensive income is included on the line 'Unrealised revaluations available-for-sale investements and other revaluations'.
3 'Amounts recognised in the statement of profit or loss during the year' has been renamed to 'Realised gain/loss recognised in the statement of profit or loss during the period'.
4 'Revaluation recognised in equity during the year' has been renamed to 'Revaluation recognised in other comprehensive income during the period'.

In 2017 and 2016, financial assets were transferred out of Level 3 on the basis that the valuation is not significantly impacted by unobservable inputs.

In 2016, included in 'Realised gain/loss recognised in the statement of profit or loss during the period', is EUR 163 million related to the release of revaluation reserves on shares held in VISA Europe Limited.

Changes in Level 3 Financial liabilities

	Trading liabilities		Non-trading derivatives		Financial liabilities designated as at fair value through profit or loss		Total	
	2017	2016	2017	2016	2017	2016	2017	2016
Opening balance	1,378	1,239	24	1	123	198	1,525	1,438
Realised gain/loss recognised in the statement of profit or loss during the period[1,2]	–105	277	44	12	–6	–3	–67	286
Issue of liabilities	485	53	1	11	14	4	500	68
Early repayment of liabilities	–399	–62	–1	–11	–21	–13	–421	–86
Maturity/settlement	–187	–62					–187	–62
Transfers into Level 3	16	16		11			16	27
Transfers out of Level 3	–111	–86			–9	–63	–120	–149
Exchange rate differences	–4	6					–4	6
Changes in the composition of the group and other changes		–3						–3
Closing balance	**1,073**	**1,378**	**68**	**24**	**101**	**123**	**1,242**	**1,525**

1 Net gains/losses were recorded in income from trading activities in continuing operations included herein as 'Valuation results and net trading income' in the statement of profit or loss.
2 'Amounts recognised in the statement of profit or loss during the year' has been renamed to 'Realised gain/loss recognised in the statement of profit or loss during the period'.

In 2017 and 2016, financial liabilities were transferred out of Level 3 mainly due to the valuation not being significantly impacted by unobservable inputs.

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

	Held at balance sheet date		Derecognised during the period		Total	
	2017	2016	2017	2016	2017	2016
Financial assets						
Trading assets	–231	226			–231	226
Non-trading derivatives	–9	–7			–9	–7
Financial assets designated as at fair value through profit or loss	4	76			4	76
Available-for-sale investments	–2	–3	2	203		200
	–238	**292**	**2**	**203**	**–236**	**495**
Financial liabilities						
Trading liabilities	–105	277			–105	277
Non-trading derivatives	44	12			44	12
Financial liabilities designated as at fair value through profit or loss	–6	–3			–6	–3
	–67	**286**	**–**	**–**	**–67**	**286**

Recognition of unrealised gains and losses in Level 3

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

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

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

Level 3 Financial assets and liabilities

Financial assets measured at fair value in the statement of financial position as at 31 December 2017 of EUR 193 billion includes an amount of EUR 2.0 billion (1.0%) which is classified as Level 3 (31 December 2016: EUR 2.3 billion, being 1.1%). Changes in Level 3 from 31 December 2016 to 31 December 2017 are disclosed above in the table Changes in Level 3 Financial assets.

Financial liabilities measured at fair value in the statement of financial position as at 31 December 2017 of EUR 87 billion includes an amount of EUR 1.2 billion (1.4%) which is classified as Level 3 (31 December 2016: EUR 1.5 billion, being 1.5%). Changes in Level 3 from 31 December 2016 to 31 December 2017 are disclosed above in the table 'Changes in Level 3 Financial liabilities'.

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

Of the total amount of financial assets classified as Level 3 as at 31 December 2017 of EUR 2.0 billion (31 December 2016: EUR 2.3 billion), an amount of EUR 1.0 billion (51%) (31 December 2016: EUR 1.0 billion, being 45%) is based on unadjusted quoted prices in inactive markets. As ING does not generally adjust quoted prices using its own inputs, there is no significant sensitivity to ING's own unobservable inputs.

Furthermore, Level 3 financial assets includes approximately EUR 0.4 billion (31 December 2016: EUR 0.5 billion) which relates to financial assets that are part of structures that are designed to be fully neutral in terms of market risk. Such structures include various financial assets and liabilities for which the overall sensitivity to market risk is insignificant. Whereas the fair value of individual components of these structures may be determined using different techniques and the fair value of each of the components of these structures may be sensitive to unobservable inputs, the overall sensitivity is by design not significant.

The remaining EUR 0.6 billion (31 December 2016: EUR 0.8 billion) of the fair value classified in Level 3 financial assets is established using valuation techniques that incorporates certain inputs that are unobservable. This relates mainly to assets that are classified as Available-for-sale investments, for which changes in fair value are recognised in shareholders' equity and do not directly impact profit or loss.

Of the total amount of financial liabilities classified as Level 3 as at 31 December 2017 of EUR 1.2 billion (31 December 2016: EUR 1.5 billion), an amount of EUR 0.8 billion (66%) (31 December 2016: EUR 0.9 billion, being 59%) is based on unadjusted quoted prices in inactive markets. As ING does not generally adjust quoted prices using its own inputs, there is no significant sensitivity to ING's own unobservable inputs.

Furthermore, Level 3 financial liabilities includes approximately EUR 0.1 billion (31 December 2016: EUR 0.1 billion) which relates to financial liabilities that are part of structures that are designed to be fully neutral in terms of market risk. As explained above, the fair value of each of the components of these structures may be sensitive to unobservable inputs, but the overall sensitivity is by design not significant.

The remaining EUR 0.3 billion (31 December 2016: EUR 0.5 billion) of the fair value classified in Level 3 financial liabilities is established using valuation techniques that incorporates certain inputs that are unobservable.

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

Notes to the Consolidated annual accounts of ING Bank - continued

Valuation techniques and range of unobservable inputs (Level 3)

	Assets		Liabilities		Valuation techniques	Significant unobservable inputs	Lower range		Upper range	
	2017	2016	2017	2016			2017	2016	2017	2016
At fair value through profit or loss										
Debt securities	386	180			Price based	Price (%)	0%	0%	161%	122%
					Net asset value	Price (%)	0%	10%	0%	19%
Equity securities	4	4	1		Price based	Price (%)	1%	0%	54%	0%
Loans and advances	20	326		3	Price based	Price (%)	0%	60%	101%	101%
					Present value techniques	Credit spread (bps)	n.a	130	n.a	150
Structured notes		6	101	125	Price based	Price (%)	52%	52%	116%	111%
					Net asset value	Price (%)	n.a	19%	n.a	19%
					Option pricing model	Equity volatility (%)	14%	16%	23%	34%
						Equity/Equity correlation	0.5	0.0	0.7	0.8
						Equity/FX correlation	0.2	-0.4	0.4	0.1
						Dividend yield (%)	2%	1%	6%	5%
						Interest rate volatility (%)	n.a	n.a	n.a	n.a
					Present value techniques	Implied correlation	0.7	0.7	0.7	0.7
Derivatives										
– Rates	490	486	485	457	Option pricing model	Interest rate volatility (bps)	23	22	300	300
						Interest rate correlation	n.a	n.a	n.a	n.a
						IR/INF correlation	n.a	0.5	n.a	0.5
					Present value techniques	Reset spread (%)	2%	2%	2%	2%
						Prepayment rate (%)	5%	5%	10%	10%
						Inflation rate (%)	4%	2%	4%	4%
– FX	477	642	479	688	Present value techniques	Inflation rate (%)	4%	2%	4%	3%
– Credit	10	33	48	43	Present value techniques	Credit spread (bps)	2	0	424	1,596
						Implied correlation	0.7	0.7	1.0	1.0
						Jump rate (%)	12%	12%	12%	12%
					Price based	Price (%)	n.a	99%	n.a	99%
– Equity	107	64	128	208	Option pricing model	Equity volatility (%)	5%	0%	129%	140%
						Equity/Equity correlation	0.1	-0.1	1.0	1.0
						Equity/FX correlation	-0.9	-0.9	0.8	0.6
						Dividend yield (%)	0%	0%	21%	13%
– Other	5			1	Option pricing model	Commodity volatility (%)	9%	13%	42%	55%
						Com/Com correlation	0.3	0.0	0.9	0.9
						Com/FX correlation	-0.6	-0.5	-0.3	0.0
Available for sale										
– Debt	14	55			Price based	Price (%)	69%	0%	90%	99%
					Present value techniques	Credit spread (bps)	n.a	339	n.a	400
						Weighted average life (yr)	n.a	1.6	n.a	3.2
– Equity	467	466			Discounted cash flow	Annual accounts	n.a	n.a	n.a	n.a
					Multiplier method	Observable market factors	n.a	n.a	n.a	n.a
					Comparable transactions		n.a	n.a	n.a	n.a
Total	1,980	2,262	1,242	1,525						

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

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

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

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

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

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

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

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

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

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

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

As ING has chosen to apply a 90% confidence level for its IFRS valuation of fair valued financial instruments, the downward valuation uncertainty has become immaterial, whereas the potential upward valuation uncertainty, reflecting a potential profit, has increased.

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

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

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

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

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

Sensitivity analysis of Level 3 instruments

	Positive fair value movements from using reasonable possible alternatives		Negative fair value movements from using reasonable possible alternatives	
	2017	2016	2017	2016
Fair value through profit or loss				
Equity (equity derivatives, structured notes)	36	96		
Interest rates (Rates derivatives, FX derivatives)	56	80		
Credit (Debt securities, Loans, structured notes, credit derivatives)	27	33		
Available-for-sale				
Equity	9	8	14	14
Debt	1	2		
	129	**219**	**14**	**14**

Other financial instruments

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

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

	Level 1		Level 2		Level 3		Total	
	2017	2016	2017	2016	2017	2016	2017	2016
Financial Assets								
Loans and advances to banks	569	3,534	9,855	11,135	16,576	14,271	27,000	28,940
Held-to-maturity investments	7,884	6,983	1,409	1,749	85	77	9,378	8,809
Loans and advances to customers[1]		5,121	19,955	21,612	545,141	551,076	565,096	577,809
	8,453	**15,638**	**31,219**	**34,496**	**561,802**	**565,424**	**601,474**	**615,558**
Financial liabilities								
Deposits from banks[1]	29		25,276	14,447	7,642	8,096	32,947	22,543
Customer deposits[1]	8,875	12,248	41,209	32,164	27,349	28,373	77,433	72,785
Debt securities in issue	34,288	39,359	38,650	47,822	17,676	14,317	90,614	101,498
Subordinated loans	7,961	7,569	3,234	4,396	5,196	4,047	16,391	16,012
	51,153	**59,176**	**108,369**	**98,829**	**57,863**	**54,833**	**217,385**	**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. In 2017, comparative figures of customer deposits have been reclassified between the levels to conform with the current year presentation.

b) Non-financial assets and liabilities

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

Investments in associates and joint ventures are accounted for using the equity method. For further information, reference is made to Note 7 'Investments in associates and joint ventures'. Other non-financial assets (Property in own use, and Investment properties) are recognised at fair value at the balance sheet date.

As at 31 December 2017, the estimated fair value of Property in own use and Investment properties amounts to EUR 774 million (2016: EUR 881 million) and EUR 65 million (2016: EUR 65 million) respectively and is categorised as Level 3 (2016: Level 3) of the fair value hierarchy on the basis of methods applied in determining the fair values.

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

- Impairments on Property in own use are included in Other operating expenses - Impairments and reversals on property and equipment and intangibles ; and
- Changes in the fair value of Investment properties are included in Investment income.

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

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

As at 31 December 2017, ING Bank has no non-financial liabilities measured at fair value (2016: none).

35 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 Group of accessing debt capital markets and to mitigate the market risk which would otherwise arise from structural imbalances in the duration and other profiles of its assets and liabilities. In addition, hedging activities are undertaken to hedge against the interest rate risk in the mortgage offer period in relation to retail mortgages and to lock in the interest margin in relation to interest bearing assets and the related funding.

The accounting treatment of hedge transactions varies according to the nature of the instrument hedged and whether the hedge qualifies under the IFRS hedge accounting rules. Derivatives that qualify for hedge accounting under IFRS are classified and accounted for in accordance with the nature of the instrument hedged and the type of IFRS hedge model that is applicable. The three models applicable under IFRS are: fair value hedge accounting, cash flow hedge accounting, and net investment hedge accounting. These are described under the relevant headings below. The company's detailed accounting policies for these three hedge models are set out in Note 1 'Accounting policies' in the section 'Principles of valuation and determination of results'.

To qualify for hedge accounting under IFRS, strict criteria must be met. Certain hedges that are economically effective from a risk management perspective do not qualify for hedge accounting under IFRS. The fair value changes of derivatives relating to such non-qualifying hedges are taken to the statement of profit or loss. However, in certain cases, the Group mitigates the statement of profit or loss volatility by designating hedged assets and liabilities at fair value through profit or loss. If hedge accounting is applied under IFRS, it is possible that during the hedge a hedge relationship no longer qualifies for hedge accounting and hedge accounting cannot be continued, even if the hedge remains economically effective. As a result, the volatility arising from undertaking economic hedging in the statement of profit or loss may be higher than would be expected from an economic point of view.

With respect to exchange rate and interest rate derivative contracts, the notional or contractual amount of these instruments is indicative of the nominal value of transactions outstanding at the balance sheet date; however they do not represent amounts at risk. ING 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 – Valuation results and net trading income

Fair value changes on derivatives designated under fair value hedge accounting	2017	2016
Change in fair value of derivatives	729	241
Change in fair value of assets and liabilities (hedged items)	–824	–224
Net accounting ineffectiveness recognised in the statement of profit or loss	**–95**	**17**

The fluctuation in balances between 2016 and 2017 relate to the volatility in interest rate movements.

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

Fair values of outstanding derivatives designated under fair value hedge accounting	2017	2016
Positive fair values outstanding (Non-trading derivative assets)	671	1,012
Negative fair values outstanding (Non-trading derivative liabilities)	–1,083	–1,888
	–412	**–876**

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. In retail operations, exposure on retail funding (savings and current accounts) and retail lending (mortgages) is initially offset. The remaining exposure is hedged in a portfolio hedge, using the EU carve-out, in which a portion of the mortgages is designated as a hedged item for hedge accounting purposes.

Cash flow hedge accounting

ING 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	2017	2016
Effective portion of fair value changes on derivatives under cash flow hedges, after tax	–514	102
Cash flow hedge reserve as at 31 December, gross	335	1,015
Cash flow hedge reserve as at 31 December, after deferred tax	263	777

This cash flow hedge reserve will fluctuate with the fair value changes of the underlying derivatives and will be reflected in the statement of profit or loss under Interest income/expense over the remaining term of the underlying hedged items. The cash flow hedge reserve relates to a large number of derivatives and hedged items with varying maturities, up to 26 years, with the largest concentrations in the range of 1 to 3 years.

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

Fair values of outstanding derivatives designated under cash flow hedge accounting	2017	2016
Positive fair values outstanding (Non-trading derivative assets)	617	438
Negative fair values outstanding (Non-trading derivative liabilities)	–339	–671
	278	**–233**

Statement of profit or loss – Net interest income

Net interest income on cash flow hedge derivatives	2017	2016
Interest income on cash flow hedge derivatives	2,454	2,654
Interest expense on cash flow hedge derivatives	–1,968	–2,181
	486	**473**

Accounting ineffectiveness on derivatives designated under cash flow hedge accounting resulted in a gain of EUR 44 million (2016: EUR 16 million loss) which was recognised in the statement of profit or loss, in the line Valuation results and net trading income.

Notes to the Consolidated annual accounts of ING Bank - continued

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

	2017	2016
Positive fair values outstanding (Non-trading derivative assets)	29	73
Negative fair values outstanding (Non-trading derivative liabilities)	–71	–33
	–42	**40**

Accounting ineffectiveness recognised in the statement of profit or loss for the year ended 31 December 2017 on derivatives and non-derivatives designated under net investment hedge accounting was EUR 3 million (2016: nil).

36 Assets by contractual maturity

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

Assets by contractual maturity

2017	Less than 1 month[1]	1–3 months	3–12 months	1–5 years	Over 5 years	Maturity not applicable	Total
Cash and balances with central banks	21,989						21,989
Loans and advances to banks	13,928	5,137	5,224	3,931	526		28,746
Financial assets at fair value through profit or loss							
– trading assets	63,858	14,016	12,667	12,619	13,603		116,763
– non-trading derivatives	124	147	213	789	912		2,185
– designated as at fair value through profit or loss	488	967	1,839	351	597		4,242
Investments							
– available-for-sale	1,319	2,313	4,301	31,852	25,962	3,983	69,730
– held-to-maturity	1,020	127	657	2,975	4,564		9,343
Loans and advances to customers	63,122	18,414	40,350	163,444	289,569		574,899
Intangible assets			92	367		1,010	1,469
Other assets[2]	8,496	1,520	2,475	869	535	309	14,204
Remaining assets (for which maturities are not applicable)[3]						2,748	2,748
Total assets	**174,344**	**42,641**	**67,818**	**217,197**	**336,268**	**8,050**	**846,318**

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

Notes to the Consolidated annual accounts of ING Bank - continued

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 as at fair value through profit or loss	326	1,440	1,996	769	568		5,099
Investments							
– available-for-sale	2,713	3,543	6,020	36,838	29,775	4,023	82,912
– held-to-maturity		166	2,374	3,360	2,851		8,751
Loans and advances to customers	56,186	17,187	42,515	162,805	284,180		562,873
Intangible assets			145	290		1,049	1,484
Other assets[2]	9,463	1,778	2,716	855	850	296	15,958
Remaining assets (for which maturities are not applicable)[3]						3,005	3,005
Total assets	**148,809**	**47,752**	**74,987**	**226,456**	**337,542**	**8,373**	**843,919**

1 Includes assets on demand.
2 Includes Other assets and Current and Deferred tax assets, commodities, and precious metals (which have no maturity) as presented in the Consolidated statement of financial position. 'Other assets' adjusted to conform to the current year presentation.
3 Included in remaining assets for which maturities are not applicable are property and equipment, and investments in associates and joint ventures. Due to their nature remaining assets consist mainly of assets expected to be recovered after more than 12 months.

37 Liabilities by maturity

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

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

Liabilities by maturity

2017	Less than 1 month[1]	1–3 months	3–12 months	1–5 years	Over 5 years	Maturity not applicable	Adjust-ment[2]	Total
Deposits from banks	10,002	648	1,687	21,893	2,591			36,821
Customer deposits	494,841	18,510	23,773	10,855	4,711			552,690
Financial liabilities at fair value through profit or loss								
– other trading liabilities	29,755	11,530	1,866	1,506	2,390		636	47,683
– trading derivatives	2,476	2,420	4,520	8,224	5,947		2,326	25,913
– non-trading derivatives	339	122	232	746	983		-76	2,346
– designated at fair value through profit or loss	413	838	1,353	3,688	5,072		-149	11,215
Debt securities in issue	3,296	14,657	26,434	34,215	9,867		1,762	90,231
Subordinated loans					10,601	5,077	153	15,831
Financial liabilities	**541,122**	**48,725**	**59,865**	**81,127**	**42,162**	**5,077**	**4,652**	**782,730**
Other liabilities[3]	9,743	1,864	4,152	2,182	1,270			19,211
Non-financial liabilities	**9,743**	**1,864**	**4,152**	**2,182**	**1,270**	**–**	**–**	**19,211**
Total liabilities	**550,865**	**50,589**	**64,017**	**83,309**	**43,432**	**5,077**	**4,652**	**801,941**
Coupon interest due on financial liabilities[4]	1,109	1,033	2,829	9,521	8,764			23,256

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

Notes to the Consolidated annual accounts of ING Bank - continued

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 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[4]	1,081	1,161	3,090	10,886	5,581			21,799

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.
4 Coupon interest excludes coupon interest on perpetual instruments. Amounts have been restated to conform to the current year presentation.

38 Assets not freely disposable

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

Assets not freely disposable

	2017	2016
Banks		
– Cash and balances with central banks	1,569	1,353
– Loans and advances to banks	3,730	6,054
Financial assets at fair value through profit or loss	1,072	447
Investments	885	825
Loans and advances to customers	76,083	70,457
Other assets	813	935
	84,152	**80,071**

In some jurisdictions ING Bank N.V. has an obligation to maintain a reserve with central banks. As at 31 December 2017, the minimum mandatory reserve deposits with various central banks amount to EUR 8,503 million (2016: EUR 9,055 million).

Loans and advances to customers that have been pledged as collateral for Debt securities in issue and for liquidity purposes, amount in the Netherlands to EUR 50 billion (2016: EUR 49 billion), in Germany to EUR 12 billion (2016: EUR 12 billion), in Belgium EUR 10 billion (2016: EUR 5 billion), in Australia to EUR 2 billion (2016: EUR 2 billion) and in the United States to EUR 1 billion (2016: EUR 1 billion).

The table does not include assets relating to securities lending as well as sale and repurchase transactions. Reference is made to Note 39 'Transfer of financial assets'.

39 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 45 'Structured entities'.

Transfer of financial assets not qualifying for derecognition

	Securities lending				Sale and repurchase			
	Equity		Debt		Equity		Debt	
	2017	2016	2017	2016	2017	2016	2017	2016
Transferred assets at carrying amount								
Financial assets at fair value through profit or loss	3,995	1,428			2,120	4,106	6,864	8,965
Investments	2	2					621	1,427
Loans and advances to customers								25
Associated liabilities at carrying amount								
Deposits from banks	n.a	n.a	n.a	n.a				
Customer deposits	n.a	n.a	n.a	n.a				
Financial liabilities at fair value through profit or loss	3,985	1,443			2,148	4,635	2,599	4,280

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

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

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

40 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.

Notes to the Consolidated annual accounts of ING Bank - continued

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

2017		Gross amounts of recognised financial assets	Gross amounts of recognised financial liabilities offset in the statement of financial position	Net amounts of financial assets presented in the statement of financial position	Related amounts not offset in the statement of financial position: Financial instruments	Related amounts not offset in the statement of financial position: Cash and financial instruments received as collateral	Net amount
Statement of financial position line item	**Financial instrument**						
Loans and advances to banks	Reverse repurchase, securities borrowing and similar agreements	1,838		1,838		1,728	110
	Other	7	–7				
		1,845	**–7**	**1,838**	**–**	**1,728**	**110**
Financial assets at fair value through profit or loss							
Trading assets	Derivatives	20,878	–760	20,118	18,427	219	1,472
	Reverse repurchase, securities borrowing and similar agreements	68,050	–14,475	53,575	1,068	52,456	51
		88,928	**–15,235**	**73,693**	**19,495**	**52,675**	**1,523**
Non-trading derivatives	Derivatives	45,176	–43,819	1,357	1,238	217	–98
		45,176	**–43,819**	**1,357**	**1,238**	**217**	**–98**
Loans and advances to customers	Reverse repurchase, securities borrowing and similar agreements	409	–209	200		200	
	Other	157,892	–156,015	1,877	1,018	302	557
		158,301	**–156,224**	**2,077**	**1,018**	**502**	**557**
Other items where offsetting is applied in the statement of financial position		6,860	–6,366	494			494
Impact of enforceable master netting arrangements or similar arrangements[1]	Derivatives				–5,929	4,208	1,721
		–	**–**	**–**	**–5,929**	**4,208**	**1,721**
Total financial assets		**301,110**	**–221,651**	**79,459**	**15,822**	**59,330**	**4,307**

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

Notes to the Consolidated annual accounts of ING Bank - continued

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

2017					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	4		4		4	
	Other	68	–8	60			60
		72	**–8**	**64**	**–**	**4**	**60**
Customer deposits	Repurchase, securities lending and similar agreements	209	–209				
	Corporate deposits	11,508	–11,022	486			486
	Other	156,465	–144,991	11,474	1,021		10,453
		168,182	**–156,222**	**11,960**	**1,021**	**–**	**10,939**
Financial liabilities at fair value through profit or loss							
Trading liabilities	Derivatives	21,356	–975	20,381	19,292	302	787
	Repurchase, securities lending and similar agreements	51,445	–14,475	36,970	1,068	35,792	110
		72,801	**–15,450**	**57,351**	**20,360**	**36,094**	**897**
Non-trading derivatives	Derivatives	46,765	–45,251	1,514	1,261	125	128
Other items where offsetting is applied in the statement of financial position		5,393	–4,720	673			673
Impact of enforceable master netting arrangements or similar arrangements[1]	Derivatives				–6,820	6,228	592
		–	**–**	**–**	**–6,820**	**6,228**	**592**
Total financial liabilities		**293,213**	**–221,651**	**71,562**	**15,822**	**42,451**	**13,289**

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

Notes to the Consolidated annual accounts of ING Bank - continued

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

2016		Gross amounts of recognised financial liabilities	Gross amounts of recognised financial assets offset in the statement of financial position	Net amounts of financial liabilities presented in the statement of financial position	Related amounts not offset in the statement of financial position: Financial instruments	Related amounts not offset in the statement of financial position: Cash and financial instruments pledged as collateral	Net amount
Statement of financial position line item	**Financial instrument**						
Deposits from banks	Repurchase, securities lending and similar agreements	102	–95	7			7
	Other	23	–3	20			20
		125	**–98**	**27**	**–**	**–**	**27**
Customer deposits	Repurchase, securities lending and similar agreements	36		36	36		
	Corporate deposits	11,773	–8,595	3,178			3,178
	Other	189,496	–178,368	11,128			11,128
		201,305	**–186,963**	**14,342**	**36**	**–**	**14,306**
Financial liabilities at fair value through profit or loss							
Trading liabilities	Derivatives	30,102	–997	29,105	27,852	146	1,107
	Repurchase, securities lending and similar agreements	46,695	–19,415	27,280	36	27,102	142
		76,797	**–20,412**	**56,385**	**27,888**	**27,248**	**1,249**
Non-trading derivatives	Derivatives	59,510	–56,975	2,535	2,343	–153	345
Other items where offsetting is applied in the statement of financial position		5,041	–4,472	569	28		541
Impact of enforceable master netting arrangements or similar arrangements[1]	Derivatives				–10,513	8,047	2,466
		–	**–**	**–**	**–10,513**	**8,047**	**2,466**
Total financial liabilities		**342,778**	**–268,920**	**73,858**	**19,782**	**35,142**	**18,934**

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

41 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 annual accounts. In response to the needs of its customers, the Group offers financial products related to loans. These products include traditional off-balance sheet credit-related financial instruments.

Contingent liabilities and commitments

	Less than 1 month		1–3 months		3–12 months		1–5 years		Over 5 years		Maturity not applicable		Total	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Contingent liabilities in respect of														
– discounted bills	1					1							1	1
– guarantees	15,647	18,536	571	677	944	965	2,560	1,167	4,189	3,525			23,911	24,870
– irrevocable letters of credit	9,453	6,583	4,746	5,973	1,146	824	176	154	12	12			15,533	13,546
– other	58	39					223			309			281	348
	25,159	**25,158**	**5,317**	**6,650**	**2,090**	**1,790**	**2,959**	**1,321**	**4,201**	**3,846**	**–**	**–**	**39,726**	**38,765**
Irrevocable facilities	56,459	59,214	2,150	2,587	7,504	4,832	30,331	22,606	7,825	9,315			104,269	98,554
	81,618	**84,372**	**7,467**	**9,237**	**9,594**	**6,622**	**33,290**	**23,927**	**12,026**	**13,161**	**–**	**–**	**143,995**	**137,319**

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 for losses incurred by ING Bank in the United Kingdom in previous years. The existence of this obligation will be confirmed only by the occurrence of future profits in the United Kingdom.

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

	2017	2016
2017		307
2018	268	179
2019	195	151
2020	165	129
2021	152	132
Years after 2021	472	344

42 Legal proceedings

ING Bank N.V. and its consolidated subsidiaries are involved in governmental, regulatory, arbitration and legal proceedings and investigations in the Netherlands and in a number of foreign jurisdictions, including the US, involving claims by and against them which arise in the ordinary course of their businesses, including in connection with their activities as lenders, broker-dealers, underwriters, issuers of securities and investors and their position as employers and taxpayers. In certain of such proceedings, very large or indeterminate amounts are sought, including punitive and other damages. While it is not feasible to predict or determine the ultimate outcome of all pending or threatened governmental, regulatory, arbitration and legal proceedings and investigations, ING is of the opinion that some of the proceedings and investigations set out below may have or have in the recent past had a significant effect on the financial position, profitability or reputation of ING and/or ING and its consolidated subsidiaries.

<u>Criminal investigations</u>: ING Bank is the subject of criminal investigations by Dutch authorities regarding various requirements related to client on-boarding, money laundering and corrupt practices. ING Group has also received related information requests from US authorities. ING Group and ING Bank are cooperating with such ongoing investigations and requests. Management has concluded under IFRS that it is more likely than not that a present obligation per 31 December 2017 exists and that an outflow of resources is probable, but was not able to estimate reliably the possible timing, scope or amounts of any fines, penalties and/or other outcome, which could be significant. ING expects to receive more information from the Dutch authorities concerning the potential consequences of their investigation in the first half of 2018.

<u>Tax cases:</u> Because of the geographic spread of its business, ING may be subject to tax audits, investigations and procedures in numerous jurisdictions at any point in time. Although ING believes that it has adequately provided for all its tax positions, the ultimate resolution of these audits, investigations and procedures may result in liabilities which are different from the amounts recognised. ING has also identified issues in connection with its US tax information reporting and withholding obligations in respect of prior periods. While a provision has been recorded, the review of such issues is ongoing.

<u>SIBOR – SOR litigation:</u> In July 2016, investors in derivatives tied to the Singapore Interbank Offer Rate ('SIBOR') filed a US class action complaint in the New York District Court alleging that several banks, including ING, conspired to rig the prices of derivatives tied to SIBOR and the Singapore Swap Offer Rate ('SOR'). The lawsuit refers to investigations by the Monetary Authority of Singapore ('MAS') and other regulators, including the US Commodity Futures Trading Commission ('CFTC'), in relation to rigging prices of SIBOR- and SOR-based derivatives. In April 2017, the New York District Court issued an oral ruling dismissing all claims; a corresponding written ruling was issued in August 2017. In September 2017, plaintiffs filed an amended complaint. Defendants moved to dismiss the amended complaint. Currently, it is not possible to provide an estimate of the (potential) financial effect of this claim.

<u>Claims regarding accounts with predecessors of ING Bank Turkey:</u> ING Bank Turkey has received numerous claims from (former) customers of legal predecessors of ING Bank Turkey. The claims are based on offshore accounts held with these banks, which banks were seized by the Savings Deposit Insurance Fund ('SDIF') prior to the acquisition of ING Bank Turkey in 2007 from Oyak. SDIF has also filed various lawsuits against ING Bank Turkey to claim compensation from ING Bank Turkey, with respect to amounts paid out to offshore account holders so far. ING Bank had initiated an arbitration procedure against OYAK in which ING Bank sought to be held harmless for these claims. The arbitration court dismissed ING's prayers for relief. At this moment it is not possible to assess the outcome of these procedures nor to provide an estimate of the (potential) financial effect of these claims.

<u>VEB Fortis claim</u>: In January 2011, the Dutch Association of Stockholders (Vereniging van Effectenbezitters, 'VEB') issued a writ alleging that investors were misled by the prospectus that was issued with respect to the September 2007 rights issue of Fortis N.V. (now Ageas N.V.) against Ageas N.V., the underwriters of such rights issue, including ING Bank, and former directors of Fortis N.V. According to the VEB the prospectus shows substantive incorrect and misleading information. The VEB stated that the impact and the risks of the sub-prime crisis for Fortis and Fortis' liquidity position were reflected incorrectly in the prospectus. The VEB requested a declaratory decision stating that the summoned parties acted wrongfully and are therefore responsible for the damages suffered by the investors in Fortis. In March 2016, Ageas, VEB and certain other claimants announced that the claim in relation to Fortis has been settled. Ageas has agreed to pay EUR 1.2 billion to investors as compensation, provided that the Amsterdam Court of Appeal declares the settlement to be binding. According to the settlement documentation, as filed by Ageas with the Court of Appeal in May 2016, the settlement agreement contains a third-party clause by which the banks will also be released from the claims made by VEB and certain other claimants, if the settlement becomes unconditional. In June 2017, the Amsterdam Court of Appeal has given an interim ruling that the proposed settlement agreement between Ageas and the VEB cannot be declared binding upon all investors in its current form. The Court of Appeal requested in particular changes in relation to the level of compensation awarded to investors who are a member of the VEB and those who are not. In December 2017, Ageas and the VEB filed a revised settlement agreement with the Court of Appeal making amendments to the settlement agreement In February 2018, the Court of Appeal requested further information on the level of compensation awarded to the VEB itself. The VEB have to file their reply before 6 March 2018. A court hearing has been scheduled for 16 March 2018 to discuss the merits of the settlement agreement, in particular the level of compensation, in more detail.

<u>Medical insurance coverage claim by (former) Belgian employees:</u> A number of retired employees of ING Belgium have initiated legal proceedings against ASCEL (a non-profit organisation established by ING Belgium that provided medical insurance coverage to current and retired employees till the beginning of 2015 via a subdivision of ASCEL: FMC) and ING Belgium following the decision to externalise this medical insurance coverage which resulted in an increase of premium. In a decision of September 2016, the Court has considered

that FMC has validly been closed but that, as the medical coverage qualifies as an insurance contract not linked with the professional activity of the claimants, ING could not unilaterally terminate the agreement between FMC and the pensioners. In October 2017, ING reached an agreement with the claimants to settle this case. In January 2018, this settlement has entered into force for all retired employees who are insured with the external provider. This settlement will be paid out of the existing provision.

Interest rate derivatives claims: ING is involved in several legal proceedings in the Netherlands with respect to interest rate derivatives that were sold to clients in connection with floating interest rate loans in order to hedge the interest rate risk of the loans. These proceedings are based on several legal grounds, depending on the facts and circumstances of each specific case, inter alia alleged breach of duty of care, insufficient information provided to the clients on the product and its risks and other elements related to the interest rate derivatives that were sold to clients. In some cases, the court has ruled in favour of the claimants and awarded damages, annulled the interest rate derivative or ordered repayment of certain amounts to the claimants. The total amounts that need to be repaid or compensated in some cases still need to be determined. ING may decide to appeal against adverse rulings. Although the outcome of the pending litigation and similar cases that may be brought in the future is uncertain, it is possible that the courts may ultimately rule in favour of the claimants in some or all of such cases. A provision has been taken. However, the aggregate financial impact of the current and future litigation could become material.

As requested by the AFM, ING has reviewed a significant part of the files of clients who bought interest rate derivatives. In December 2015, the AFM concluded that Dutch banks may have to re-assess certain client files, potentially including certain derivative contracts that were terminated prior to April 2014 or other client files. As advised by the AFM, the Minister of Finance appointed a Committee of independent experts (the 'Committee') which has established a uniform recovery framework for Dutch SME clients with interest rate derivatives. ING has adopted this recovery framework and will reassess individual files against this framework. ING has taken an additional provision for the financial consequences of the recovery framework. In 2017, ING has informed the majority of the relevant clients whether they are in scope of the recovery framework, and thus eligible for compensation, or not. Due to the fact that the execution of the framework encountered delay, ING has offered advance payments to customers out of the existing provision.

Interest surcharges claims: ING received complaints and is involved in litigation with natural persons (natuurlijke personen) in the Netherlands regarding increases in interest surcharges with respect to several credit products, including but not limited to residential property (eigenwoningfinanciering). ING is reviewing the relevant product portfolio. Although the review is still ongoing, a provision has been taken for certain of these complaints.

Criminal proceedings regarding cash company financing: In June 2017, a Belgian criminal Court ruled that ING Luxembourg assisted third parties in 2000 to commit a tax fraud in the context of the purchase of the shares of a cash company. The Court condemned ING Luxembourg among others to a penal fine of EUR 120,000 (suspended for half of the total amount). The court also condemned ING Luxembourg jointly and severally with other parties, to pay EUR 31.48 million (to be increased with the legal interests) to the bankruptcy trustee of the cash company. A provision has been recorded. In July 2017, ING Luxembourg filed an appeal against this judgment, which is currently pending. In another case the Belgian authorities are also investigating ING Luxembourg for allegedly assisting third parties in 2001 to commit tax fraud in the context of the purchase of the shares of a cash company. For this case, a provision has been recorded by ING Luxembourg as well. The outcome of those cases is uncertain.

Mortgage expenses claims: ING Spain has received claims and is involved in procedures with customers regarding reimbursement of expenses associated with the formalization of mortgages. In all but two court proceeding in first instance the expense clause of the mortgage contract has been declared null and all or part of the expenses were ordered to be reimbursed by ING Spain. The courts in first instance have applied in their rulings different criteria regarding the reimbursement of expenses. ING Spain has filed an appeal against a number of these court decisions. ING Spain has also been included, together with other Spanish banks, in a class action filed by a customer association. The outcome of the pending litigation and similar cases that may be brought in the future is uncertain. A provision has been taken. However, the aggregate financial impact of the current and future litigation could change and will depend on, amongst others, an expected future ruling by the Spanish Supreme Court regarding the expenses that should be reimbursed by the banks.

Imtech claim: In January 2018, ING Bank received a claim from Stichting ImtechClaim.nl and Imtech Shareholders Action Group B.V. on behalf of certain (former) shareholders of Imtech N.V. ('Imtech'). The claimants allege inter alia that shareholders were misled by the prospectus of the rights issues of Imtech in July 2013 and October 2014. ING Bank, being one of the underwriters of the rights issues, is held liable by the claimants for the damages that investors in Imtech would have suffered. ING Bank responded to the claimants denying any and all responsibility in relation to the allegations made in the letter.

43 Consolidated companies and business acquired and divested

Acquisitions

There were no significant acquisitions in 2017, 2016 and 2015.

Divestments effective in 2017

There were no significant divestments, of consolidated companies, in 2017.

Divestments effective in 2016
There were no significant divestments, of consolidated companies, in 2016.

Divestments effective in 2015
In 2015 the merger between ING Vysya and Kotak Mahindra Bank was completed and the legal entity ING Vysya Bank ceased to exist. As a result of this transaction, ING holds a stake in the combined company which operates under the Kotak brand.

44 Principal subsidiaries, investments in associates and joint ventures
For the majority of ING's principal subsidiaries, ING Bank N.V. has control because it either directly or indirectly owns more than half of the voting power. For subsidiaries in which the interest held is below 50%, control exists based on the combination of ING's financial interest and its rights from other contractual arrangements which result in control over the operating and financial policies of the entity.

For each of the subsidiaries listed, the voting rights held equal the proportion of ownership interest and consolidation by ING is based on the majority of ownership.

For the principal investments in associates ING 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 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 Group	
			2017	2016
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%
Record Bank	Brussels	Belgium	100%	100%
ING Belgium S.A./N.V.	Brussels	Belgium	100%	100%
ING Luxembourg S.A.	Luxembourg City	Luxembourg	100%	100%
ING-DiBa AG	Frankfurt am Main	Germany	100%	100%
ING Bank Slaski S.A.	Katowice	Poland	75%	75%
ING Financial Holdings Corporation	Delaware	United States of America	100%	100%
ING Bank A.S.	Istanbul	Turkey	100%	100%
ING Bank (Australia) Ltd	Sydney	Australia	100%	100%
ING Bank (Eurasia) Joint stock company	Moscow	Russia	100%	100%
Investments in associates and joint ventures				
TMB Public Company Limited	Bangkok	Thailand	25%	25%

45 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 annual accounts, ING establishes whether these involvements result in no significant influence, significant influence, joint control or control over the structured entity.

The structured entities over which ING can exercise control are consolidated. ING may provide support to these consolidated structured entities as and when appropriate. However, this is fully reflected in the consolidated annual accounts of ING 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, as at 31 December 2017 these consisted of approximately EUR 56 billion of AAA rated notes and subordinated notes, of which approximately EUR 7 billion were issued externally. The underlying exposures are residential mortgages and SME loans. Apart from the third party funding, these securitisations did not impact ING Bank's Consolidated statement of financial position and profit or loss.

In 2017, there are no non-controlling interests as part of the securitisation structured entities that are significant to ING Bank. ING Bank for the majority of the securitisation vehicles provides the funding for the entity except for EUR 7 billion.

2. Consolidated ING originated Covered bond programme (CBC)
ING 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 the ING administered structured entities, ING Covered Bond Company B.V. and ING SB Covered Bond Company B.V. In order for these entities to fulfil their guarantee, ING legally transfers mainly Dutch mortgage loans originated by ING. Furthermore ING offers protection against deterioration of the mortgage loans. The entities are consolidated by ING Bank.

Covered bond programme

	Fair value pledged mortgage loans		Cash balance structured entity	
	2017	2016	2017	2016
Dutch Covered Bond Companies	41,062	43,931	323	39
	41,062	**43,931**	**323**	**39**

In general, the third-party investors in securities issued by the structured entity have recourse only to the assets of the entity and not to the assets of ING 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 1,139 million (2016: EUR 812 million). The drawn liquidity amount is nil as at 31 December 2017 (2016: nil).

The normal non-structured standby liquidity facilities and the structured facilities are reported under irrevocable facilities. All facilities, which vary in risk profile, are granted to the SPE subject to normal ING 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 (mortgage loans) for an amount of approximately EUR 2 billion to a newly established special purpose entity (SPE). The transaction resulted in full derecognition of the financial assets from ING's statement of financial position. The derecognition did not have a significant impact on net result. Following this transfer ING continues to have two types of on-going involvement in the transferred assets: as counterparty to the SPE of a non-standard interest rate swap and as servicer of the transferred assets. ING has an option to unwind the transaction by redeeming all notes at their principal outstanding amount, in the unlikely event of changes in accounting and/or regulatory requirements that significantly impact the transaction. The fair value of the swap held by ING at 31 December 2017 amounted to EUR –41 million (2016: EUR –5 million); fair value changes on this swap recognised in the statement of profit or loss in 2017 were EUR –36 million (2016: EUR –6 million). Fee income recognised in the statement of profit or loss in 2017 amounted to EUR 2 million (2016: 2 million).

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 annual accounts 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.

46 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. For post-employment benefit plans, reference is made to Note 32 'Pension and other postemployment benefits'. Transactions between related parties include rendering or receiving of services, leases, transfers under finance arrangements and provisions of guarantees or collateral. There are no significant provisions for doubtful debts or individually significant bad debt expenses recognised on outstanding balances with related parties.

Transactions between ING Bank N.V. and its subsidiaries are eliminated on consolidation. Reference is made to Note 44 'Principal subsidiaries' for a list of principal subsidiaries and their statutory place of incorporation. ING Bank forms part of ING Group and ING Bank also enters into transactions with ING Group. These transactions vary from financing activities to regular purchase and sales transactions. Disclosed in the table below, are the transactions with ING Groep N.V.

Subsidiaries

Transactions with ING Groep N.V.

	ING Groep N.V.	
	2017	2016
Assets	377	70
Liabilities	21,277	14,903
Income received	3	30
Expenses paid	448	414

Notes to the Consolidated annual accounts of ING Bank - continued

Liabilities to ING Groep N.V. mainly comprise long-term funding.

Associates and joint ventures

Transactions with ING Bank's main associates and joint ventures

	Associates		Joint ventures	
	2017	2016	2017	2016
Assets	120	27	9	12
Liabilities	86	16	5	59
Off-balance sheet commitments	92	34	1	2
Income received	8	9		
Expenses paid	6	1		

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 and transactions with ING Bank were included as Associates in the table above.

Key management personnel compensation

Transactions with key management personnel (Executive Board, Management Board Banking and Supervisory Board) and post-employment benefit plans are transactions with related parties.

In 2017 and 2016, three members of the Executive Board of ING Groep N.V. were also members of the Management Board Banking. The members of the Management Board Banking are considered to be key management personnel and their compensation is therefore included in the tables below.

Key management personnel compensation (Executive Board and Management Board Banking)

2017 in EUR thousands	Executive Board of ING Groep N.V.[1, 2]	Management Board Banking [1,3,4]	Total
Fixed Compensation			
– Base salary	4,399	3,772	8,171
– Collective fixed allowances[4]	1,418	1,180	2,598
– Pension costs	96	118	214
– Severance benefits	1,204	–	1,204
Variable compensation			
– Upfront cash	–	463	463
– Upfront shares	226	485	711
– Deferred cash	–	694	694
– Deferred shares	339	728	1,067
– Other	–	–	–
Total compensation	**7,682**	**7,440**	**15,122**

1 Includes their compensation earned in the capacity as Board members.
2 In 2017 two members left and two members joined the Executive Board.
3 Excluding members that are also members of the Executive Board of ING Groep N.V.
4 In the Management Board Banking, excluding the Executive Board members, one member left and one member joined in 2017.
5 The collective fixed allowances consist of two savings allowances applicable to employees in the Netherlands; an individual savings allowance of 3.5% and a collective savings allowance to compensate for loss of pension benefits with respect to salary in excess of EUR 103,317.

Notes to the Consolidated annual accounts of ING Bank - continued

Key management personnel compensation (Executive Board and Management Board Banking)

2016 in EUR thousands	Executive Board of ING Groep N.V.[1]	Management Board Banking[1,2,3]	Total
Fixed Compensation			
– Base salary	4,070	4,111	8,181
– Collective fixed allowances[4]	1,167	1,167	2,334
– Pension costs	78	108	186
– Severance benefits	–	918	918
Variable compensation			
– Upfront cash	–	485	485
– Upfront shares	300	572	872
– Deferred cash	–	727	727
– Deferred shares	449	857	1,306
– Other	–	1,184	1,184
Total compensation	**6,064**	**10,129**	**16,193**

1 Includes their compensation earned in the capacity as Board members.
2 Excluding members that are also members of the Executive Board of ING Groep N.V.
3 In 2016, one new member joined and one member retired.
4 The collective fixed allowances consist of two savings allowances applicable to employees in the Netherlands; an individual savings allowance of 3.5% and a collective savings allowance to compensate for loss of pension benefits with respect to salary in excess of EUR 101,519.

Key management personnel compensation (Supervisory Board)

in EUR thousands	2017	2016
Total compensation	1,022	1,088

The table above shows the fixed remuneration, expense allowances and attendance fees for the Supervisory Board for 2017 and 2016.

Loans and advances to key management personnel

	Amount outstanding 31 December		Average interest rate		Repayments	
in EUR thousands	2017	2016	2017	2016	2017	2016
Executive Board members	2,681	2,849	1.8%	2.6%	–	150
Management Board Banking	550	532	2.3%	3.8%	–	–
Supervisory Board members	–	–	–	–	–	–
Total	**3,231**	**3,381**			**–**	**150**

Number of ING Groep N.V. shares and stock options to key management personnel

	ING Groep N.V. shares		Stock options on ING Groep N.V. shares	
in numbers	2017	2016	2017	2016
Executive Board members	202,357	261,684	174,318	95,921
Management Board Banking	112,342	120,646	37,415	123,237
Supervisory Board members	172,734	172,734	113,385	226,864
Total number of shares and stock options	**487,433**	**555,064**	**325,118**	**446,022**

Key management personnel compensation is generally included in Staff expenses in the statement of profit or loss, except for key management personnel employed by entities that are presented as held for sale and discontinued operations in which case their compensation is included in the Total net result from discontinued operations.

Remuneration of the Management Board Banking is recognised in the statement of profit or loss in Staff expenses as part of Total expenses. The total remuneration of the Executive Board and Management Board Banking as disclosed in the table above includes all variable remuneration related to the performance year 2017. Under IFRS, certain components of variable remuneration are not recognised in the statement of profit or loss directly, but are allocated over the vesting period of the award. The comparable amount recognised in Staff expenses in 2017 and included in Total expenses in 2017, relating to the fixed expenses of 2017 and the vesting of variable remuneration of earlier performance years, is EUR 15 million.

47 Subsequent events

On 29 January 2018 ING announced it had reached agreement to acquire a 75% stake in Payvision. Payvison is a Netherlands based payments service provider with a total estimated value of EUR 360 million. The transaction is not expected to have material impact on ING's CET1 ratio.

Risk Management

amounts in millions of euros, unless stated otherwise

ING Bank Risk Management

As a global financial institution with a strong European base, offering banking services, ING is exposed to a variety of risks. ING operates through a comprehensive risk management framework and integrates risk management in its daily business activities and strategic planning. This ensures the identification, measurement and control of risks at all levels of the organisation so that ING Group's financial strength is safeguarded. Taking measured risks is the core of ING's business.

Risk management supports the Management Board Banking (MBB) in formulating the risk appetite, strategies, policies, limits and provides a review, oversight and support function throughout ING on risk-related items. The main financial risks ING is exposed to are credit risk (including transfer risk), market risk (including interest rate, equity, real estate, credit spread, and foreign exchange risks), funding & liquidity risk and business risk. Furthermore, ING is also exposed to non-financial risks, e.g. operational and compliance risks. The ING Bank Chief Risk Officer (CRO) is responsible for the day-to-day Risk Management of the Bank. The way ING manages these risks on a day-to-day basis is described in this Risk Management section. The 'Risk management' section in the Integrated Annual Report is an integral part of the audited consolidated annual accounts.

The Risk Management section describes the key risks that arise from ING's business model. It explains how the risk management function is embedded within the organisation based on the 'three lines of defence'. The key risks resulting from the bank's business model are managed by dedicated and specific risk management departments that each covers its own area of expertise. The risk management disclosures provide qualitative and quantitative disclosures about credit, market, liquidity and funding, business and non-financial risks.

The risk management section is in line with the accounting standards relating to the nature and the extent of the risks as required by IFRS7 'Financial Instruments: Disclosures' as adopted by the European Union and covered by an opinion of the External Auditor as part of the notes to the consolidated financial statements. Disclosures in accordance to Part Eight of the CRR and CRD IV, and as required by the supervisory authority, are published in our 'Additional Pillar III Report', which can be found on our corporate website ing.com.

Purpose and business model

The purpose of ING's risk management function is to support the ambition of ING to be the primary bank for our customers, empowering the business through an integrated, state of the art, enterprise-wide risk management platform. The following principles support this purpose:

- The risk management function is embedded in all levels of ING's organisation and is part of the daily business activities and strategic planning to have a sustainable competitive advantage;
- Products and portfolios are structured, underwritten, priced, approved and managed properly and compliance with internal and external rules is monitored;
- Delegated authorities are consistent with the overall bank strategy and risk appetite; and
- Transparent communication to internal and external stakeholders on risk management.

Risk governance

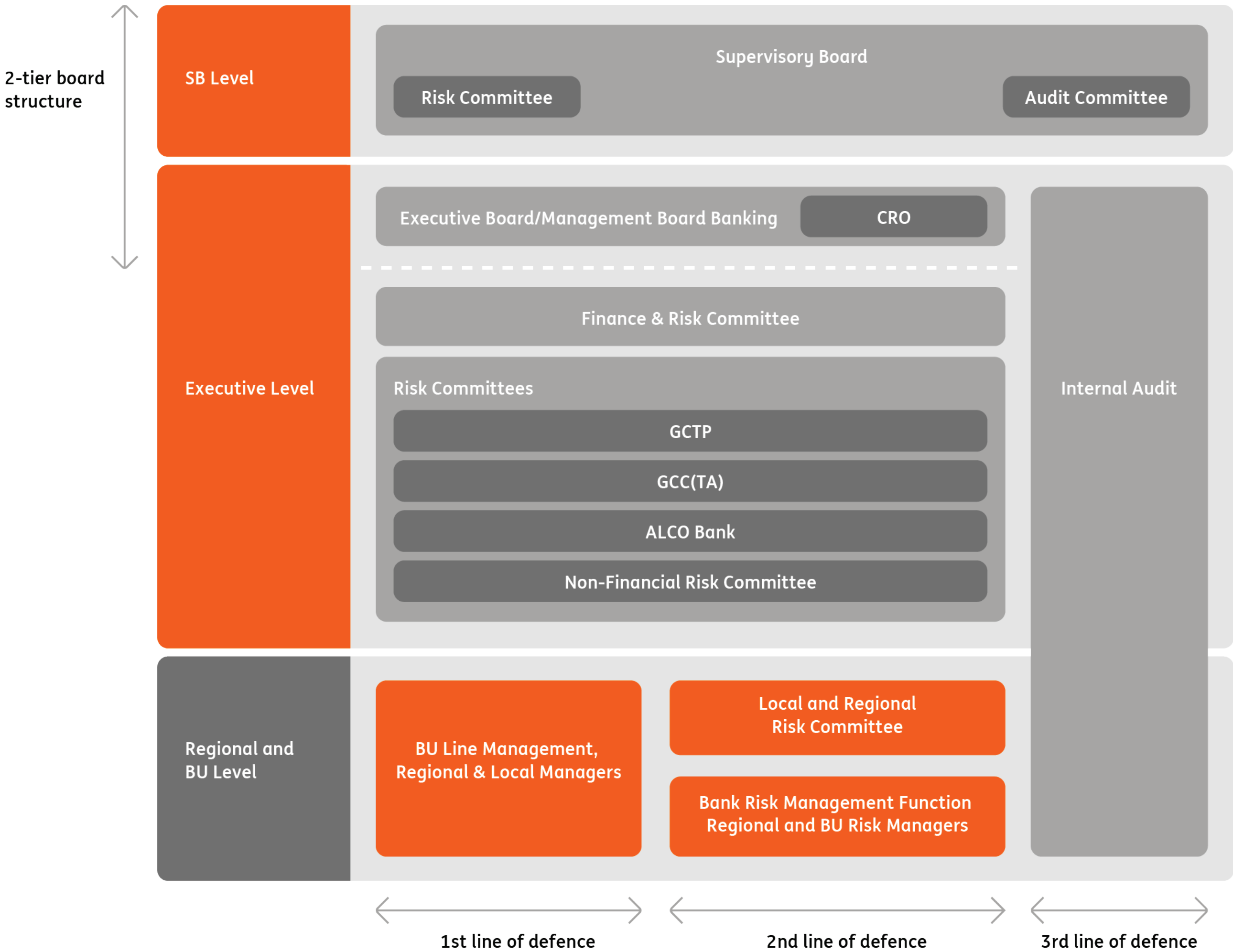
Effective risk management requires a firm-wide risk governance. ING's risk and control structure is based on the 'three lines of defence' governance model, whereby each line has a specific role and defined responsibilities in such a way that the execution of tasks is separated from the control of the same tasks. At the same time, they have to work closely together to identify, assess and mitigate risks. This governance framework ensures that risk is managed in line with the risk appetite as approved by the MBB, and the Supervisory Board (SB), and is cascaded throughout ING. The MBB is composed of the Executive Board of ING Group and the managers of the business lines.

The head of ING's line of business and their delegates form the first line of defence and have primary accountability for the performance, operations, compliance and effective control of risks affecting their respective businesses. They originate loans, deposits and other products within applicable frameworks and limits, they know our customers well and are well-positioned to act in both the customers' and ING's best interest. The COO is responsible and accountable for proper security and controls on both local and global applications and IT-platforms servicing the bank.

The second line of defence consists of oversight functions with a major role for the risk management organisation headed by the CRO, who has ultimate responsibility. Risk Management at the corporate level is responsible for (i) the development of overall policies and guidance, (ii) objectively challenge the execution, management and control processes and (iii) coordinate the reporting of risks and controls by the first line of defence. It also has an escalation/veto power in relation to business activities that are judged to present unacceptable risks to ING.

The internal audit function forms the third line of defence. It provides an on-going independent (i.e. outside of the businesses and the risk organisation) and objective assessment of the effectiveness of internal controls of the first two lines, including financial and non-financial risk management.

The graph below illustrates the different key senior management level committees in place in the risk governance structure.



Board level risk oversight

ING has a two-tier board structure consisting of a management board (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 EB and the MBB, the general course of affairs of ING Group, ING Bank and its business (including its financial policies and corporate structure). For risk management purposes the SB is advised by two of its sub-committees:
  - The Audit Committee, which assists the SB in monitoring the integrity of the financial statements of ING Bank, in monitoring the compliance with legal and regulatory requirements, and in monitoring the independence and performance of ING's internal and external auditors; and
  - The Risk Committee, which assists and advises the SB in monitoring the risk profile and approving the risk limits of the company as well as the structure and operation of the internal risk management and control systems.
- The MBB is responsible for managing risks associated with all activities of ING Bank. The MBB 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 ING'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 levels, which supports the commercial departments in their decision-making, but at the same time has sufficient countervailing power to keep the agreed risk profile within the risk tolerance. Every quarter, the CRO reports to the SB committees on ING's risk appetite levels and on ING's risk profile. In addition, the CRO briefs the SB committees on developments in internal and external risk related issues and ensures the SB committees understand specific risk concepts.

As part of the integration of risk management into the annual strategic planning process, the MBB annually issues a Planning Letter which provides the corporate strategic direction and addresses key risk issues. Based on the Planning Letter, the business lines and business units develop their business plans which align with the bank's strategic direction. The process includes a qualitative and quantitative assessment of the risks involved. As part of the process, strategic limits and risk appetite levels are explicitly discussed. Based on the business plans, the MBB formulates the Strategic Plan which is submitted to the SB for approval.

Executive level

The key risk committees described below act within the overall risk policy and delegated authorities granted by the MBB:

- Global Credit & Trading Policy Committee (GCTP) discusses and approves policies, methodologies and procedures related to credit, trading, country and reputation (Environmental and social risk or ESR) risks. The GCTP meets on a monthly basis. In addition, the Credit & Trading Risk Policy Committee (CTRC) is the highest level body, with the exception of ING Global Credit & Trading Policy Committee (GCTP) and the Management Board Banking, authorised to discuss and approve policies, methodologies and procedures related to Credit Risk;
- Global Credit Committee – Transaction Approval (GCC(TA)) discusses and approves transactions which entail taking credit risk (including investment risk), country, legal and ESR risk. The GCC(TA) meets twice a week;
- Asset and Liability Committee Bank (ALCO Bank) discusses and approves on a monthly basis the overall risk profile of all ING Bank's balance sheet and capital management risks that occur as part of its activities. ALCO Bank defines the policy regarding funding, liquidity, interest rate mismatch and solvency for ING; and
- Non-Financial Risk Committee Bank (NFRC Bank) is accountable for the design and maintenance of the Non-Financial Risk Management Framework including Operational Risk Management, Compliance and Legal policies, minimum standards, procedures and guidelines; the NFRC structure; development of tools, methods and key parameters (incl. major changes) for risk identification, measurement and monitoring/ reporting. The minimum frequency of the NFRC Bank is at least quarterly.

The Finance and Risk Committee (F&RC) is a platform for the CRO and the Chief Financial Officer (CFO), along with their respective direct reports, to coordinate issues that relate to both the finance and risk domains. On reporting level, F&RC has the responsibility to coordinate finance and risk decisions that have an impact on internal and/or external reporting. This includes advising on and reviewing of issues that impact the financial condition of ING.

Regional and business unit level

The CRO is supported by regional and/or business unit CROs focussing on specific risks in the geographical and/or business areas of their responsibilities. ING's regional and/or business unit management have primary responsibility for the management of risks (credit, market, funding and liquidity, operational and compliance risks) that arise in their daily operations. They are accountable for the implementation and execution of appropriate risk frameworks affecting their businesses to ensure compliance with procedures and processes at corporate level. The implementation is adapted if necessary to local requirements.

The local (regional and BU) CRO is responsible for the analysis, control and management of risks across the whole value chain (from front to back office), based on which a robust control structure is maintained.

Risk management function

Organisational structure

Over the past years, banks have been faced with regulatory and public pressure with regard to their risk management policies, processes and systems. New requirements and regulations have been introduced and implemented. To be able to effectively address these internal and external (market and regulatory) developments and challenges, ING started to redesign the set-up of its risk-management organisation in 2015. The purpose of this redesign is to better support the Bank's Think Forward strategy and enhance the interconnection between the risk oversight responsibilities in the business units on one hand, and the global risk functions on the other hand.

As announced in 2016, ING is accelerating its Think Forward strategy. Therefore, ING has introduced a number of initiatives to enhance the customer experience, further grow primary customers and lending, and increase efficiency. For Risk, it has initiated a Target Operating Model (TOM) programme to enable further convergence of our operations, which resulted in the establishment of a new risk organisation as of 1 March 2017.

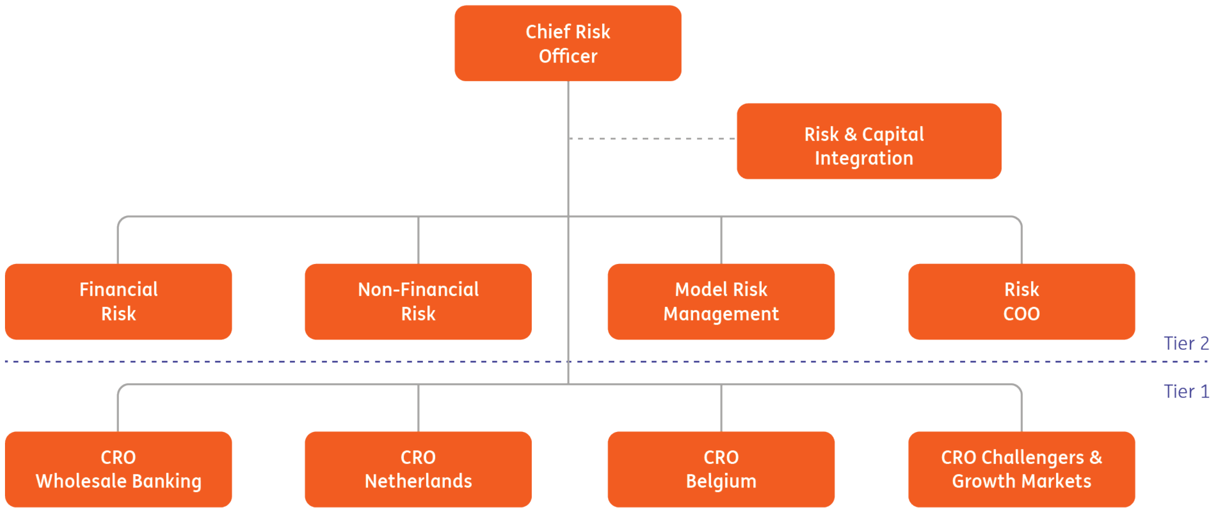
In line with this TOM, the new global Risk function has a two-tier governance structure. This new structure has resulted in a reshuffle of the tasks carried out by Risk Management, both at Tier 1 and Tier 2 level. Some of the activities have been transferred from the second to the first Line of Defence (i.e. operational risks) and also some responsibilities have shifted between Tier 1 and Tier 2 (i.e. more responsibility at Tier 1 for Tier 1 risk issues). The risk officer in Tier 1 focuses more on risk management within the local unit and in Tier 2 the focus is on setting policies and on monitoring the work in Tier 1 (i.e. more responsibility in managing its own risk issues, and determining and putting in place adequate controls).

Tier 1 level consists of regional and/or business unit CROs. These CROs bear direct responsibility for risk (mitigating) decisions in the respective area of responsibility, and report directly to ING's CRO and to the head of their regional area and business unit. This dual reporting system aims to ensure that the local risk management function is independent from the operating functions and that it is aligned with the corporate risk policies and goals.

Tier 2 level compromises of corporate risk departments headed by General Managers directly reporting to the CRO. The corporate risk departments support the CRO to set the risk appetite, develop corporate policies, rules and global procedures, and manage the risk infrastructure. It is composed of 4 main departments which are Financial Risk, Non-Financial Risk, Model Risk Management and the Risk COO. The purpose of Financial Risk (FR) is to set the risk strategy across the organisation to control the financial risk and financial-related regulatory risk, while Non-Financial Risk (NFR) focuses on operational and compliance risks. Model Risk Management is responsible for policy setting in the domain of model risk, validating regulatory and non-regulatory models. The last department is the Risk COO which operates as a Shared Service Centre for the global risk community. Furthermore, the General Managers and the CRO are responsible for the harmonisation and standardisation of risk management practices.

In addition, the CRO has one staff department in place: Risk & Capital Integration (R&CI) reports functionally to the CRO and is responsible for overarching risk topics such as risk appetite, disclosures, recovery and resolution planning and stress testing. Also, R&CI is involved in capital and balance sheet planning, and managing the ICAAP (Internal Capital Adequacy Assessment Process). Until end 2017, Risk and Capital Integration had a double reporting line, functionally to the CRO and hierarchically to the Head of Capital Management. As of 1 January 2018 the double reporting line has been changed into a single reporting line to the CRO.

The organisation chart below illustrates the reporting lines in 2017 for the risk organisation:



Risk policies, procedures and standards

ING has a framework of risk management policies, procedures and minimum standards in place to create consistency throughout the organisation, and to define requirements that are binding to all business units. The goal of the governance framework of the local business units is to align with ING's framework and to meet local (regulatory) requirements. Senior management is responsible to ensure policies, procedures and standards are implemented and adhered to. Policies, procedures and standards are regularly reviewed and updated via the relevant risk committees to reflect changes in markets, products and practices.

Risk model governance and validation

Risk models are built according to internal risk modelling methodology standards and model life cycle, in line with regulatory requirements. After thorough review and documentation of the model by Model Development (MD) and Model Risk Management (MRM) departments, specific model risk committees for each risk type approve new models. After approval by the specific risk committee, and where necessary the regulator, a new risk model is implemented and approved for use. In addition, MRM validates each model on a regular basis. Validation results and its capital impact are reported on a quarterly basis to senior management, the risk committee and to the supervisor.

An independent MRM department is one of the cornerstones of ING's risk model governance. It consists of the process of determining that a model is appropriate for its intended use. It is an on-going process whereby the reliability of the model is verified at different stages during its lifecycle: at conception, before approval, periodically after implementation, and when significant changes to the model are made. The validation process contains a mix of developmental evidence, process verification and outcome analysis.

The MRM department independently reviews the performance of ING's risk models. In addition to (i) evaluating the underlying model parameters, (ii) ensuring continued applicability of the models for the relevant portfolios, and (iii) discussing the model performance with front office and risk users of the models, MRM also (iv) tests the observed performance of a model (and its components) with the predicted level. Where the observed results deviate from the predicted results becomes a candidate for either re-calibration or re-development.

Risk culture

The risk management framework based on the three lines of defence governance model is effective when a sound and consistent risk culture is present throughout the whole organisation. The reputation and integrity of ING's organisation are considered key requirements to operate successfully in the financial world. It promotes awareness of collectively shared values, ideas and goals but also of potential threats and it ensures alignment of individual performance objectives with the short- and long-term strategy. ING believes that embedding the risk culture and awareness in the organisation leads to effective risk management. ING therefore aims to make risk responsibilities transparent within the different levels of the organisation and holding every employee accountable for his/her acts.

Commonly seen as norms and traditions of behaviour of individuals and of groups within an organisation, risk culture determines the way in which employees identify, understand, discuss, and act on the risks the organisation is confronted with and the risks it takes. This is a continuous long-term commitment and journey. In this respect, The Orange Code has been set as a declaration of who we are. It describes what we can expect from each other when we turn up to work each day. It is a set of standards that we collectively value, strive to live up to, and invite others to measure us by.

The Orange Code is the sum of two parts, the ING Values and ING Behaviours, with integrity being an important principle. The ING Values (being honest, prudent and responsible) are designed to be non-negotiable promises we make to the world, principles we seek to stick to, no matter what. The ING Behaviours (take it on and make it happen, help others to be successful, and be always a step ahead) represent our way to differentiate ourselves. The Orange Code is embedded in commitments we make to each other and the standards by which we will measure each other's performance.

To support the embedding of risk culture into business practices, ING has initiated different programmes and issued several guidelines. Risk awareness is to be alert to potential threats that can occur during day-to-day business, which can be specific to the sector, the region or the clients ING is doing business with. Part of the training curriculum to increase risk awareness is the Promoting Integrity Programme (PIP), which is a long-term, global, educational and behavioural change programme supported by the MBB for all ING employees. With the programme, ING aims to gain a sound risk culture and to ensure that every employee in every part of the organisation understands how his/her actions and behaviour can help earn and retain customer and stakeholder trust. Recently, additional modules with current topics, were added to the programme, among others on integrity and cybersecurity. To enhance risk awareness, these topics are discussed between managers and employees through dialogue sessions that managers organise within their teams to create clear and consistent understanding. The endorsement from the executive level and the emphasis in the communication strengthen the culture.

In the Netherlands, employees of all financial institutions – and that includes ING – are required to take the Banker's Oath. This legal requirement came into force on 1 April 2015 as part of the joint approach from all banks, known as 'Future-oriented Banking'. With the introduction of such social regulation, the revision of the Dutch Banking Code and the implementation of a banker's oath (with the associated rules of conduct and disciplinary law), the banks want to show to society what they stand for and what they can be held accountable for, both as individual banks and the banking sector as a whole.

Lastly, ING aims to align its remuneration policy with its risk profile and the interests of all stakeholders. For more information on ING's compensation and benefits policies and its relation to the risk taken, please refer to the "Capital Requirements Regulation (CRR) Remuneration disclosure" published on the corporate website ing.com. https://www.ing.com/About-us/Annual-reporting-suite.htm

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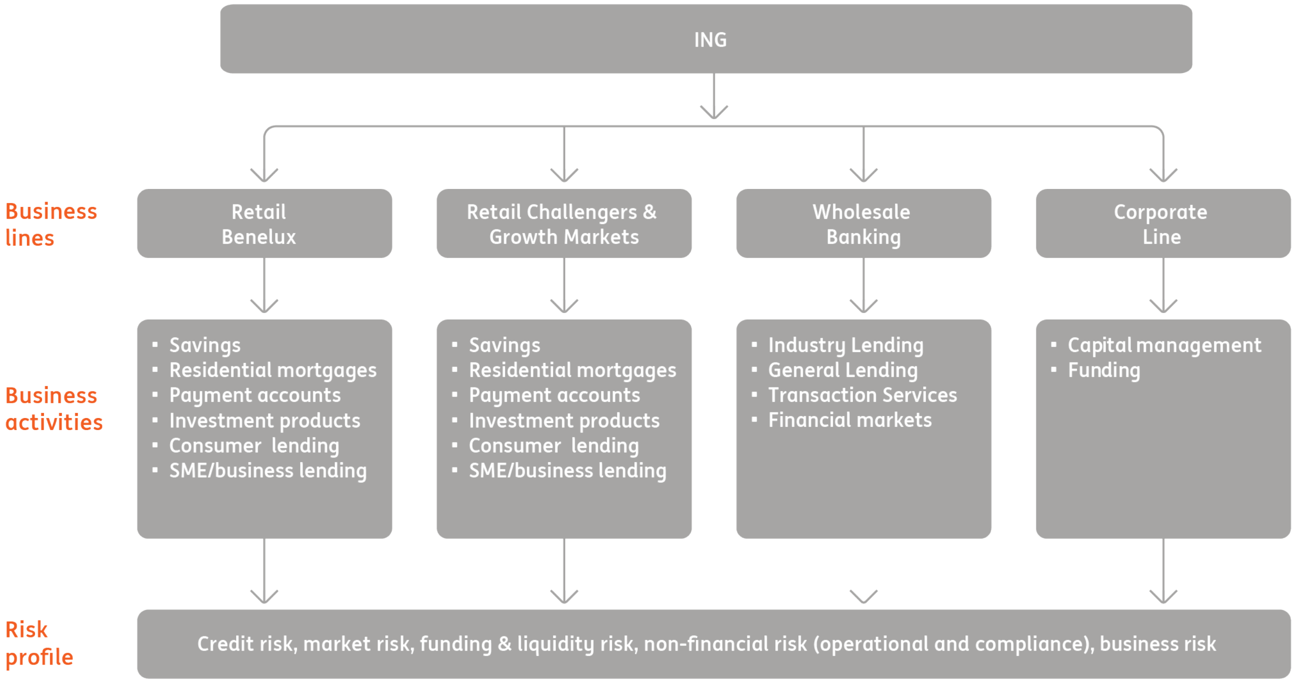
Risk profile

The chart below provides high level information on the risks arising from ING's business activities.



Risk cycle process

ING uses a step-by-step risk management approach to monitor, mitigate and manage its financial and non-financial risks. The approach consists of a cycle of five recurrent activities: risk identification, risk assessment, risk control, risk monitoring and risk reporting. In short, this implies: determine what the risks are, assess which of those risks can really do harm, take mitigating measures to control these risks, monitor the development of the risk and if measures taken are effective and report the findings to management at all relevant levels to enable them to take action when needed.

The recurrence is twofold. One: identification, assessment and review, and update of mitigating measures are done periodically. Two: the periodical monitoring exercise may indicate emerging risks, known risks are changing, assessed risk levels are changing, or control measures are not effective enough. Further analyses of these findings may result in renewed and more frequent risk identification, and/or assessment, and/or change of mitigating measures.

Risk identification
Risk identification is a joint effort of the commercial business and the risk management functions. Its goal is to detect potential new risks and determine changes in known risks. Regular risk identification is essential for both the effectiveness and efficiency of risk management. Potential risks that are not identified, will not be controlled and monitored and may lead to surprises later. Known risks may have changed over time and as a consequence the existing mitigating measures and monitoring may be inadequate or obsolete.

Risk identification is performed periodically. In case of material internal or external change, additional ad-hoc risk identification can be performed.

Risk assessment and control
Each identified risk is assessed to determine the importance, or risk level, of the risk for the ING entity in scope. This enables the entity to decide which of the identified risks need control measures and how strict or tolerant these measures must be. Known risks are re-assessed to either confirm the risk level or detect change.

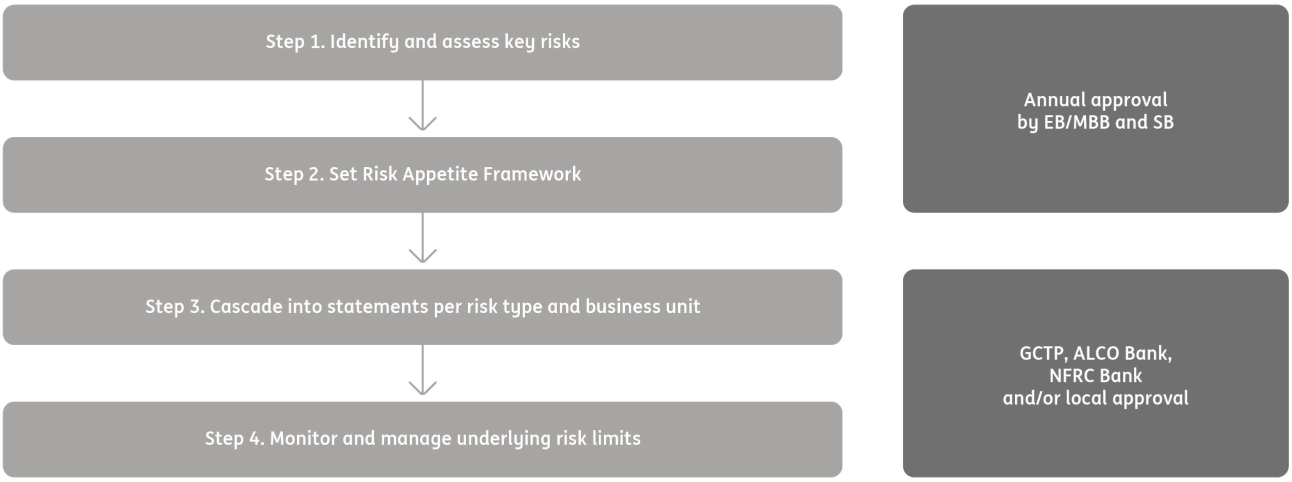
The importance of a risk is assessed based on the likelihood the risk materialises and the subsequent financial or reputational impact should the risk occur. Unlikely risks with a potentially high impact need to be controlled. For a risk that is likely to happen regularly, but is expected to have a modest financial impact, business management may decide to not mitigate and accept the consequences when it happens.

Risks can be controlled by mitigating measures that either lower the likelihood the risk occurs, or measures that lower the impact when they occur. The ultimate measure to lower risk is to stop the activity or service that causes the risk (risk avoidance). Risk controlling/mitigating measures are defined and maintained at both bank wide and local level.

Monitoring and reporting
By monitoring the risk control measures, ING checks if they are executed, complied with, have the expected mitigating effects and follow the development of the risks and their risk levels. Risk reporting provides senior and local management with information they need to manage risk.

Risk Appetite Framework
ING uses an integrated risk management approach for its banking activities. The uses the Risk Appetite Framework (RAF) to set both boundaries for the Medium Term Plan (MTP) budget process and to monitor and manage the actual risk profile in relation to the risk appetite.

Process
The RAF is focused on setting the risk appetite at the consolidated level and across the different risk categories, and provides the principles for cascading this risk appetite down into the organisation. The RAF is approved by the SB on an annual basis, or more frequently if necessary based on their quarterly review in the EB and the MBB and in the SB. It is therefore essentially a top-down process, which bases itself on the ambition of the bank in terms of its risk profile and is a function of the capital and liquidity levels and ambitions, the regulatory environment and the economic context. The process is set up according to the following steps:



Step 1. Identify & assess ING's key risks
Setting the RAF starts with a multi-dimensional step to identify and assess the risks ING is facing when executing its strategy. This step includes the following actions that are performed on an annual basis:
- detect unidentified risks that are not yet controlled within ING's risk management function & assess their potential impact;
- benchmark current risk framework versus regulatory developments;
- re-assess known risks to confirm risk level or detect potential changes; and
- reflect on the current set of Risk Appetite Statements.

This annual risk assessment serves as input when defining the global risk appetite which – in line with its business model and risk ambition – is currently formulated as follows: ING has the ambition to be and remain a strong bank, resilient to possible adverse events on a standalone basis and able to address such developments based on its own strengths and resources.

To be able to execute the strategy, ING has formulated the following risk and capital targets:
- have a rating strong enough to support the execution of ING's Funding & Capital issuance plan;
- be able to restore the capital and liquidity position following a stress situation on its own strength;
- be in a position to meet current and forthcoming regulatory requirements and targets; and
- have a risk profile that compares favourably to its main banking peers.

Step 2. Set Risk Appetite Framework
Based on ING's risk assessment and risk ambition, specific targets are set for both financial and non-financial risks:

Financial risk
For financial risks, ING expresses its risk appetite as a tolerance allowed to key ratios deviating from their target levels. Therefore, the high level risk ambition is translated into quantitative targets for solvency risk, funding & liquidity risk and for concentration risk.

The **solvency risk appetite** is closely aligned with capital management activities and policies. ING has determined tolerances for its risk-weighted solvency position (CET1 ratio), for non-risk-weighted solvency (leverage ratio), for a more economic value based solvency (economic capital utilisation expressed via the Overall Supervisory Review and Evaluation Process (SREP) Capital Requirement) and for a separate forward-looking risk appetite for earnings variability (earnings at risk). The CET1 ratio and leverage solvency risk appetite statements as well as profitability statement are not only compared to the actual reported level, but also include the potential impact of a standardised and pre-determined 1-in-10-year stress event (i.e. at a 90% confidence level with a 1-year horizon). Based on this mild stress scenario, the impact on ING's earnings, revaluation reserve and risk-weighted assets (RWA) is calculated (these are labelled earnings-at-risk, revaluation reserve-at-risk and RWA-at-risk). In addition, the impact on economic value is calculated where a more severe stress scenario for the economic capital is adhered to. These stressed figures are used as input for a two-year simulation which depicts the developments of ING's solvency level versus its risk appetite.

Funding and liquidity risk management has two dimensions: liquidity risk management focuses on having a sufficient buffer to cope with the short-term situation, funding risk management ensures long-term compliance with both internal and external targets. Managing funding and liquidity risk focuses both on 'business as usual' (based on the run-off profile to show the stickiness of deposits combined with the run-off of assets without new production) and on a stressed situation. In the stressed situation, we use for liquidity risk the time to survive under a specific scenario, while for funding risk we focus on having a stable funding profile.

The **concentration risk appetite** set at the consolidated level are directly translated into corresponding limits in the underlying risk appetite statements for profitability risk, credit risk, market risk and funding & liquidity risk. Further details may be found in the dedicated sections (credit risk, market risk and funding & liquidity risk).

The **business risk appetite** statement is focusing on earnings stability and diversification, as avoiding to put all eggs in one basket reduces the risk that volumes and/or margins will suddenly drop due to unexpected changes in the business environment for certain markets and products. ING has determined for its business risk a geographical segmentation statement through the business mix and a total income classification statement (based on a minimum of Fee and Commission Income).

Non-financial risk
For non-financial risks, levels are set according to what ING is willing to tolerate in pursuit of the strategic objectives of the bank, to ensure that the organisation's actual risk exposure is commensurate with its strategic objectives and that exposure moving beyond the tolerance risk levels is timely identified and acted upon.

ING measures and monitors its exposure to non-financial risk on an ongoing basis by assessing risks, analysing scenarios and mitigating actions as a result of audit and risk assessment findings. The aggregation of the assessed risk levels is expressed in an expected loss figure on non-financial risk, which is compared to the tolerance levels as captured in the NFR Risk Appetite Statements (RAS) based on a percentage of the MTP-income. Furthermore, reported actual losses per financial reporting year and weighted overdue percentages for audit & risk assessment findings must be below a certain threshold. The overall non-financial risk levels and tolerance breaches are periodically reported through the Non-Financial Risk Dashboard (NFRD). The NFRD provides an overview of key risks within the non-financial risk areas on a quarterly basis. Changes in capital are monitored and reported in the NFRD as well. In case risk events cause ING to move towards or beyond the tolerance level, management is required to undertake action.

On compliance risk, ING aims to meet its obligations, to adhere to the spirit as well as to the letter of applicable laws and regulation, ING policies and minimum standards, the values and behaviours as defined in the Orange Code, and to act upon identified compliance breaches swiftly and diligently.

Step 3. Cascade into statements per risk type and business unit
Risk appetite is translated per risk type, which is further cascaded down into the organisation to the lowest level. Risk appetite statements are then translated into dedicated underlying risk limits which are used for day-to-day monitoring and management of ING's risks.

For financial risks, a sequence of different risk appetite frameworks is implemented to address the most significant risks. This implies that a whole framework of credit risk limits is in place that monitors the overall quality of ING's credit portfolio and all underlying portfolios. In addition, specific concentration risk appetites are defined on product level, geographic level and (single name) counterparty level which are cascaded down into the organisation. The risk appetite for the trading book activities within Financial Markets is accompanied by a risk appetite framework for market risks in the banking books. For both types of market risk, limits at ING level are translated into the organisation. The funding & liquidity risk appetite statements that are defined on ING level are translated into the organisation, taking the funding & liquidity specific situation of each (solo) unit into account. Risk appetite for non-financial risk is cascaded to the divisions and business units through a set of quantitative and qualitative statements. The risk appetite at ING level is applicable to all divisions and business units. The suite of risk appetite statements serves as input for the MTP process as well as for the establishment of key performance indicators and targets for senior management.

Step 4. Monitor and manage underlying risk limits
In order to verify that it remains within the risk appetite framework as it is executing its budget, ING reports its risk positions vis-à-vis its limits on a regular basis towards senior management committees. The Risk and Capital Management Report reflecting the exposure of ING against the risk appetite targets is submitted quarterly, after discussion by F&RC, to the EB and the MBB and to the (Risk Committee of the) SB.

Stress testing
Stress testing is an important risk management tool that provides input for strategic decisions and capital planning. The purpose of stress testing is to assess the impact of plausible but severe stress scenarios on ING's capital and liquidity position. Stress test provides insights in the vulnerabilities of certain portfolios, with regards to adverse macroeconomic circumstances, stressed financial markets and changes in the (geo)political climate.

Types of stress tests
Within ING, different types of stress tests are performed. The most comprehensive type of stress tests are the firm-wide scenario analyses, which involve setting scenario assumptions for all the relevant macroeconomic and financial market variables in all countries relevant to ING. These assumptions usually follow a qualitative narrative that provides background to the scenario. In addition to firm-wide scenario analyses, ING executes scenario analyses for a specific country or portfolio. Furthermore, sensitivity analyses are performed, which focus on stressing one or more risk drivers; usually without an underlying scenario narrative. The 1-in-10-year stress scenario used in the risk appetite framework is an example of a sensitivity analysis. Finally, ING performs reverse stress tests, which aim to determine scenarios that could lead to a pre-defined severe adverse outcome.

Process
The stress testing process of ING consists of several stages, which are summarised in the diagram below.

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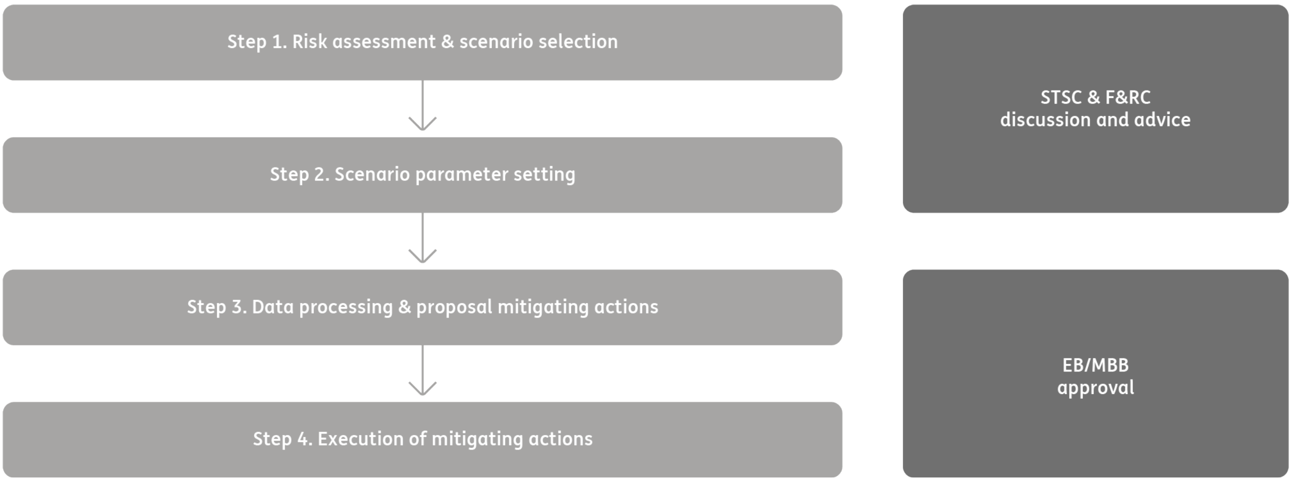
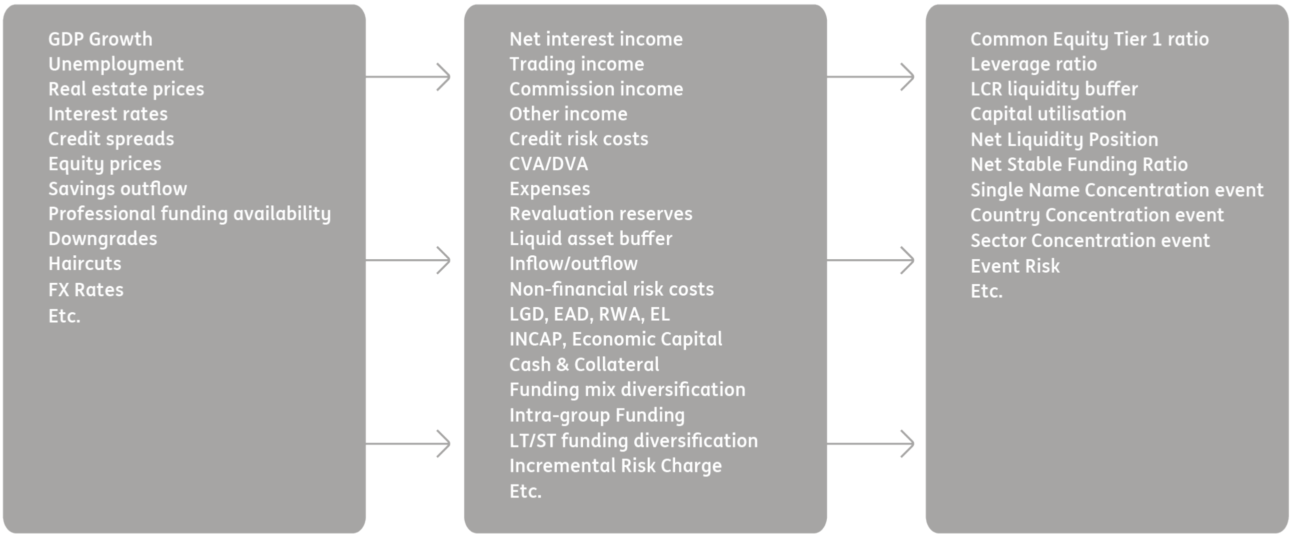


Step 1. Risk assessment & scenario selection
ING formally determines its main risks on an annual basis through the execution of a so called risk assessment. Senior management, business representatives and risk specialists are involved in this process which covers risks in the macroeconomic circumstances, political and regulatory developments as well as portfolio specific risks. Based on the risk assessment, scenarios are selected to be evaluated in the remainder of the year The results of the risk assessment and scenario selection are discussed and endorsed in the Stress Testing Steering Committee (STSC). All stakeholders are represented in the STSC, such as representatives of the different Corporate Risk departments, Capital Management, Finance and the Global Research organisation. The STSC submits the results of the risk assessment and scenario selection to the F&RC for discussion and advice.

Step 2. Scenario parameter setting
After determination of the high level scenarios, further elaboration of them is necessary. Scope, assumptions and input parameters such as GDP growth, unemployment rates, interest rates and real estate price changes are defined for the countries involved in the exercise. The parameters are discussed in the STSC and subsequently in the F&RC.

Step 3. Data processing & proposal mitigating actions
When the scenario parameters have been finalised, the impact of the scenario on the solvency and liquidity position is determined. Based on the scenario values for the relevant macro-economic and financial market variables, the impact on amongst others P&L, revaluation reserves, RWA and liquidity buffers are calculated. These outcomes are subsequently used to calculate the evolution of relevant solvency and liquidity ratios, such as the common equity Tier-1 (CET1) capital ratio, the leverage ratio and the net liquidity position.



As for the previous steps, the calculated impacts of the scenario are first discussed and endorsed in the STSC followed by the BF&RC. Depending on the outcomes of the stress test and the likelihood of the scenario, mitigating actions may be proposed. Approval of these mitigating actions takes place in the EB and the MBB.

Step 4. Execution of mitigating actions
After the MBB has approved the mitigating actions, they need to be executed. Mitigating actions may include, but are not limited to, sales or transfers of assets, reductions of risk limits, intensification of our contacts with regulators or other authorities.

Methodology
For the calculation of the impact of the scenarios detailed and comprehensive models are used. In these models, statistical analysis is combined with expert opinion to make sure that the results adequately reflect the scenario assumptions. The methodologies are granular and portfolio-specific and use different macro-economic and market variables as input variables. The stress testing models are subject to a thorough review by the Model Validation department.

Economic and Regulatory Capital
Economic Capital (EC) and Regulatory Capital (RC) are the main sources of capital allocation within ING. Both of these capital metrics are used to determine the amount of capital that a transaction or business unit requires to support the economic and regulatory-based risks it faces. The concept of EC differs from RC in the sense that RC is the mandatory amount of capital that is defined under Pillar I while EC is the best estimate of Pillar II capital that ING uses internally to manage its own risk. EC is a non-accounting measure that is inherently subject to dynamic changes and updated as a result of ING's portfolio mix and general market developments. ING continuously recalibrates the underlying assumptions behind its economic capital model which may have an impact on the values of EC going forward.

EC is defined as the amount of capital that a transaction or business unit requires in order to support the economic risks it takes. EC is focusing on the bank activities within ING Bank consolidated and therefore only available per that scope. In general, EC is measured as the unexpected loss above the expected loss at a given confidence level. This economic capital definition is in line with the net market value (or surplus) definition. The EC calculation is used as part of the CRR/CRD IV Pillar II Internal Capital Adequacy Assessment Process (ICAAP) and the Supervisory Review and Evaluation Process (SREP) that is performed regularly by the supervisor.

The following fundamental principles and definitions have been established for the model:
- ING Bank uses a one-sided confidence level of 99.95% and a one-year time horizon to calculate EC;
- It is assumed that all currently known measurable sources of risk are included;
- The best estimate risk assumptions are as objective as possible and based on thorough statistical analysis.;
- The EC calculation is based on fair value principles. Where complete and efficient markets exist, fair value is equal to market value;
- The EC calculations are on a before tax basis and do not consider the effect of regulatory requirements on capital levels; and
- The framework does not include any franchise value of the business, discretionary management intervention or future business volumes and margins.

Regulatory environment
After the turmoil in the financial markets and the subsequent need for governments to provide aid to financial institutions, financial institutions have been under more scrutiny from the public, supervisors and regulators. This has resulted in more stringent regulations intended to avoid future crises in the financial system and taxpayers' aid in the future.

Basel III revisions, CRR/CRD IV and upcoming regulations
On 23 November 2016, the European Commission published legislative proposals to amend and supplement certain provisions of the Capital Requirements Directive (CRD), the Capital Requirements Regulation (CRR), the Bank Recovery and Resolution Directive (BRRD) and the Single Resolution Mechanism Regulation (the SRM Regulation). The proposals are wide-ranging and may have significant effects on ING, including with regard to the total loss absorbing capacity (TLAC) or the minimum requirement own funds and eligible liabilities (MREL) it must maintain. On 25 October 2017, it was announced that the European Parliament, the Council and the Commission agreed on elements of the review of the BRRD, CRR and CRD proposed in November 2016. The first consolidated CRR text with the amendments to the initial Commission's Proposal has been shared with the delegations. This shows that the Council discussions are progressing quickly reaching agreement on most of the topics.

In December 2017, the Basel III revisions were formally announced by the Basel Committee on Banking Supervision (BCBS). These new prudential rules for banks consist of a revision to the standardised approach to credit risk, the introduction of a capital floor based on standardised approaches, the use of internal models, limitation of options for modelling operating risks, and new rules for the establishment of risk-weighted items and unused credit lines at the banks. ING believes it is good that there is now more clarity. With a long implementation phase and the transposition into EU regulation still pending, some question marks remain on how this will shape up. We will meet the final requirements and as before we will continue executing our strategy for our clients and delivering growth at good returns.

Principles for Effective Risk Data Aggregation and Risk Reporting

In January 2013, the BCBS published Principles for Effective Risk Data Aggregation and Risk Reporting (also known as BCBS239). BCBS239 consists of fourteen principles to strengthen a bank's risk data aggregation and risk reporting practices. Collectively implementing these principles will enhance risk management and decision-making processes at banks. Banks indicated as G-SIBs, including ING, were required to implement the principles by 2016.

The implementation by our dedicated teams has covered all key BCBS239 principles, resulting in improvements across the data management and reporting chain. By incorporating the BCBS239 principles in ING's internal control Framework, the principles have become a key driver of ING's data aggregation and risk reporting practices. Also in today's continuously changing environment, ING will ensure that key risk data aggregation and reporting practices remain aligned with the BCBS239 principles.

Targeted Review of Internal Models

In order to make capital levels more comparable and to reduce variability in banks' internal models, the European Central Bank (ECB) introduced the Targeted Review of Internal Models (TRIM) in June 2017 to assess reliability and comparability between banks' models. The TRIM aims to create a level playing field by harmonising the regulatory guidance around internal models, and the ultimate goal is to restore trust in the use of internal models by European banks. The operating consequences of the TRIM exercise have been significant. The TRIM is expected to finalise in 2019, and could impact ING through more stringent regulation on internal models.

Top and emerging risks

The risks listed below are defined as material existing and emerging risks that may have a potentially significant impact on our financial position or our business model. They may have a material impact on the reputation of the company, introduce volatility in future results of operations or impact ING's medium and long-term strategy including the ability to pay dividends, maintain appropriate levels of capital or meet capital and leverage ratio targets. An emerging risk is defined as a risk that has the potential to have a significant negative effect on our performance, but currently difficult to quantify the impact on the organisation than for other risk factors that are not identified as emerging risks.

The topics have emerged either as part of the annual Risk Assessment that is performed as part of the Stress Testing Framework or from the Risk Appetite Framework. The sequence in which the risks are presented below is not indicative of their likelihood of occurrence or the potential magnitude of their financial consequences.

During 2017, several changes were made to our top and emerging risks. The top risks in 2017 are still related to the Brexit decision, cybercrime and persistent low interest rates. Also, 'Climate change risk' remains an emerging risk, reflecting the impact a deterioration of the climate may have for the financial position and/or reputation of ING.

Macroeconomic developments

The economic environment further improved in 2017 marked by strong growth in the United States and a robust recovery in the eurozone. However, the outcome of Brexit, persistent low interest rates and geopolitical risks are sources of uncertainty.

The sustained low interest rate environment in Europe, where central banks held their rates at very low and even negative levels in some countries, negatively impacted short-term as well as long-term market rates. The typical interest rate position at ING is that the duration of the assets is slightly higher than the duration of the liabilities. Given this mismatch, decreasing interest rates are under normal circumstances favourable for the interest income of ING: liabilities reprice more quickly than assets, and therefore the average interest rates paid on liabilities should adapt more quickly to lower market interest rates.

However, given the current unusual situation with persistent low interest rates, ING intensified the management of its interest-rate risk exposure and successfully increased the Net Interest Margin (NIM) on its lending and customer deposits in 2017. On mortgages, the prepayment incentive for clients is at a relatively high level because of the difference between the rates of the existing mortgage portfolio and the prevailing low market rates. On savings, NII and NIM remained stable, while room for further reduction of client rates on savings deposits is almost absent.

Last year's decision of the United Kingdom to leave the European Union ('Brexit') remains a major political and economic event that continues to effect sentiment. Economic growth in the UK has slowed against a background of continued uncertainty about the future relationship with the European Union, and increased volatility is present due to the uncertainty of a soft or hard Brexit outcome. Although ING has activities in the UK through the Wholesale Banking (WB) business line, no material asset quality deterioration following the Brexit decision has taken place.

Another element which can affect the real economy and gives rise to geopolitical risk is the instability in international relationships. In this perspective, ING continued to carefully monitor international developments. In addition, rising populism due to increasing social inequality, polarisation and unemployment is seen as a material geopolitical risk. As a consequence of the rising populism in the eurozone, a euro breakup is considered as a potential adverse event.

Cybercrime

Cybercrime remains a continuous threat to companies in general and to financial institutions specifically. Both the frequency and the intensity of attacks increase on a global scale. Threats from Distributed Denial of Service (DDoS), targeted attacks (also called Advanced Persistent Threats) and Ransomware have intensified worldwide. ING builds on its cybercrime resilience through its dedicated Cyber Crime Expertise and Response Team, further enhancing the control environment to protect, detect and respond to e-banking fraud, DDoS and targeted attacks. Additional controls continue to be embedded in the organisation as part of the overall internal control framework and are continuously re-assessed against existing and new threats.

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

Climate change risk

The climate is changing and this is an unparalleled challenge to our world. The causes and the solutions to these challenges are complex, but we realise that it is attributed directly or indirectly to human activity that alters the composition of the global atmosphere, in addition to natural climate variability. As a financial institution, we too have a responsibility and it may ultimately affect our results if our customers are affected.

In general, ING has an impact on the environment and society directly through the consumption of natural resources and its relationship with stakeholders, and indirectly through our financing. Therefore, climate change as a risk continues to intensify, looking at the public, regulatory and political concerns around its integration into the financial sector's operations and strategy.

We can play a role in trying to find solutions. We have been climate neutral since 2007, adapting the organisation to the new world and taking effective measures to mitigate our impacts. We are aware that our greatest impact however, is through our financing portfolio. In addition to investing billions of euros in wind farms, solar energy and geothermal power production to support the energy transition, ING will not only stop providing lending services to new coal-fired power plants or coal mines but will also accelerate the reduction of financing to thermal-coal power generation to close to zero by 2025.

Credit risk

Introduction

Credit risk is the risk of loss from the default and/or credit rating deterioration of clients. Credit risks arise in ING's lending, financial markets and investment activities. The credit risk section provides information on how ING measures, monitors and manages credit risk and gives an insight into the portfolio from a credit risk perspective.

Governance

Credit risk is a Tier 1 risk function within ING and is part of the second line of defence. It is managed within the CRO organisation by regional and/or business unit CROs focussing on specific risks in the geographical and/or business areas of their responsibilities. These are the CRO Wholesale Banking (WB), CRO Challengers & Growth Markets (C&G), CRO Netherlands and CRO Belgium. The Financial Risk department is a Tier 2 function, which ensures oversight at a consolidated level and is responsible for risk appetite setting, risk frameworks, model development and policies.

ING's credit risk strategy is to maintain an internationally diversified loan and bond portfolio, avoiding large risk concentrations. The emphasis is on managing business developments within the business lines by means of a top-down risk appetite framework, which sets concentration limits for countries, individual clients, sectors, products, secondary risk (collateral/guarantees) and investment activities. The aim is to support relationship-banking activities, while maintaining internal risk/reward guidelines and controls.

Credit analysis at portfolio level is monitored using metrics such as economic capital, regulatory capital, exposure at default (EAD), probability of default (PD) and loss given default (LGD). To ensure efficient use of ING's capital, the risk appetite is monitored and managed at portfolio level. Credit analysis at transactional level focuses on the risk amount, tenor, structure of the facility and profile of the borrower. ING's credit risk managers make use of publicly available information, information provided by the client, peer group comparisons, industry comparisons and quantitative techniques.

Within ING, the ultimate approval authority for credit proposals resides with the MBB. The MBB has delegated authorities based on amounts, tenors and risk ratings to lower levels in the organisation. Transactions are approved via a dual signatory approval system that requires an individual sign-off from both front office and credit risk management. For larger and higher risk credits a committee structure exists whereby the credit risk chair takes the final decision with advice from the respective committee members, thereby ensuring accountability. Retail business units have delegated authority to decide within policies and mandates approved by credit risk. Any decisions outside those policies or above the delegated mandate require a specific credit risk approval.

The credit risk function encompasses the following activities:
- Measuring, monitoring and managing credit risks in the bank's portfolio;
- Challenging and approving new and modified transactions and borrower reviews;
- Managing the levels of provisioning and risk costs, and advising on impairments; and
- Providing consistent credit risk policies, systems and tools to manage the credit lifecycle of all activities.

The following committees are in place to review and approve transactions and policies from a credit risk point of view:
- The GCTP which is authorised to approve policies, methodologies and procedures related to credit, trading, country and reputation risks on a high level for ING.
- The GCC(TA) is mandated to approve transactions with credit risks.
- The CTRC is authorised to approve policies, models, methodologies and procedures related to credit & trading risk on more detailed and operational level (with the exception of issues which are mandated to GCTP).
- The Model Development Committee (MDC) serves as a technical advisor to CTRC and is a planning body for future model development. The committee has a delegated mandate to approve credit risk models which cover smaller portfolios.
- A steering committee has been established to align overall model strategy, model risk appetite, supporting model frameworks, policies and methodologies.
- The ING Provisioning Committee (IPC) is the approval authority for loan loss provisions (LLP) for all entities.

Credit risk categories
Credit risk uses the following risk categories to differentiate between the different types of credit risk:
- **Lending risk**: arises when ING grants a loan to a client, or issues guarantees on behalf of a client. This includes term loans, mortgages, revolving credits, overdrafts, guarantees, letters of credit, etc. The risk is measured as the accounting value of the financial obligation that the client has to repay to ING, excluding any accrued and unpaid interest, discount/premium amortisations or impairments.
- **Investment risk**: is the credit default and risk rating migration risk that is associated with ING's investments in bonds, commercial paper, equities, securitisations, and other similar publicly traded securities. This can be viewed as the worst-case loss that ING may incur as a result of holding a position in underlying securities whose Issuer's credit quality deteriorates or defaults. All investments in the banking book are classified in the investment risk category. The primary purpose of ING's investments in the banking books is for liquidity management.
- **Money market (MM) risk**: arises when ING places short-term deposits with a counterparty in order to manage excess liquidity. As such, money market deposits tend to be short-term in nature. In the event of a counterparty default, ING may lose the deposit placed. Money market risk is measured as the accounting value of the deposit, excluding any accrued and unpaid interest or the effect of any impairment.
- **Pre-settlement (PS) risk:** arises when a client defaults on a transaction before settlement and ING has to replace the contract by a trade with another counterparty at the then prevailing (possibly unfavourable) market price. This credit risk category is associated with derivatives transactions (exchange traded derivatives, OTC derivatives and securities financing transactions.
- **Settlement risk**: is the risk that arises when there is an exchange of value (funds or instruments) for the same value date or different value dates and receipt is not verified or expected until after ING has given irrevocable instructions to pay or has paid or delivered its side of the trade. The risk is that ING delivers but does not receive delivery from its counterparty. ING manages settlement risk in the same way as other risks including a risk limit structure per borrower. Due to the short term nature (1 day), ING does not hold provisions or capital for specific settlement risk. Although a relatively low risk, ING increasingly uses DVP (Delivery versus Payment) and safe settlement payment techniques to reduce settlement risk.

For the reconciliation between credit risk outstanding categories and financial assets we refer to table below:

Reconciliation between credit risk categories and financial assets

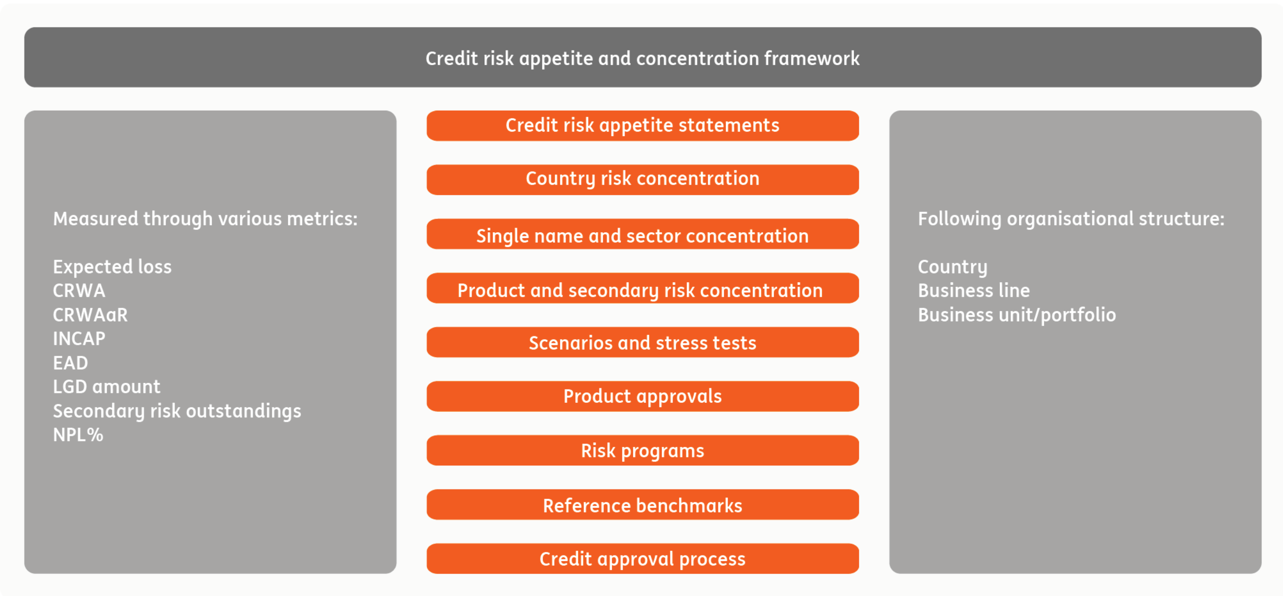
Credit risk categories	Mainly relates to:	Notes in the Annual Accounts
Lending risk	-Loans and advances to customers -Loans and advances to banks -Cash and balances with central banks -Off-balance sheet items e.g. obligations under financial guarantees and letters of credit and undrawn credit facilities	Note 2 Cash and balances with central banks Note 3 Loans and advances to banks Note 6 Loans and advances to customers Note 41 Contingent liabilities and commitments
Investment risk	-Investments (available-for-sale and held-to-maturity) -Loans and advances to customers	Note 5 Investments Note 6 Loans and advances to customers
Money market (MM) risk	-Cash and balances with central banks -Loans and advances to banks -Loans and advances to customers	Note 2 Cash and balances with central banks Note 3 Loans and advances to banks Note 6 Loans and advances to customers
Pre-settlement (PS) risk	-Financial assets at fair value through profit or loss (trading assets and non-trading derivatives) -Financial liabilities at fair value through profit or loss (trading assets and non-trading derivatives) -Securities financing	Note 4 Financial assets at fair value through profit or loss Note 13 Financial liabilities at fair value through profit or loss
Settlement risk	-Financial assets at fair value through profit or loss (trading assets and non-trading derivatives) -Financial liabilities at fair value through profit or loss (trading assets and non-trading derivatives) -Investments (available-for-sale and held-to-maturity) -Amounts to be settled	Note 4 Financial assets at fair value through profit or loss Note 5 Investments Note 10 Other assets Note 13 Financial liabilities at fair value through profit or loss Note 15 Other liabilities

Credit Risk Appetite and Concentration Risk Framework

The credit risk appetite and concentration risk framework enables ING to prevent undesired high levels of credit risk and credit concentrations within various levels of the ING portfolio. It is derived from the following two concepts:

- **Boundaries:** a cap on the maximum event loss based on consolidated pre-tax result on each of the metrics of its risk appetite framework as well as its concentration risk framework (effectively Country Risk, Single Name, and Industry Sector).
- **Instruments:** supporting metrics, specifically for the concentration risk framework, which sets hard limits based on internal economic capital.

Credit risk appetite and concentration risk boundaries and instruments are set and reviewed on an annual basis and require approval from the Risk Committee of the SB.



Credit risk appetite statements
Credit risk appetite is the maximum level of credit risk ING is willing to accept for growth and value creation. This credit risk appetite is linked to the overall bank-wide risk appetite framework. The credit risk appetite is expressed in quantitative and qualitative measures. Having a credit risk appetite achieves:
- Clarity about the credit risks that ING is prepared to assume, target setting and prudent risk management;
- Consistent communication to different stakeholders;
- Guidelines how to align reporting and monitoring tools with the organisational structure and strategy; and
- Alignment of business strategies and key performance indicators of business units with ING's credit risk appetite by means of the MTP.

Credit risk appetite is present across different levels within ING, at portfolio level as well as transaction level. The various credit risk appetite components at portfolio and transaction level together result in the credit risk appetite framework.

Credit risk appetite statements are defined top-down across the credit risk categories (lending, investment, money market and pre-settlement), and connected to ING high-level risk appetite across all risk types (solvency, credit, liquidity and funding, market, and non-financial risk). They consist of a set of high-level credit risk metrics: expected loss, economic capital, risk-weighted assets (RWA) and exposure at default. For each credit risk metric a boundary is set that is cascaded down and monitored on a monthly basis. The adherence to the boundaries and the pro-active approach to manage the portfolio within the risk appetite boundaries are part of the key performance indicators of the business line managers.

Country risk concentration
Country risk is the risk that arises due to events in a specific country (or group of countries). In order to manage the maximum country event loss ING is willing to accept, boundaries are approved by the SB that ensure ING's consolidated 3-year average result before tax can absorb an estimated country event loss due to a country risk occurrence. The estimated level is correlated to the risk rating assigned to a given country.

Country risk is the risk of loss for ING associated with lending, pre-settlement, money market and investment transactions as a result of country risk events. A country risk event can be described as economic, financial and political shocks and transfer or exchange restrictions, affecting all counterparties in a specific country. The occurrence of a country risk event may cause all clients in a country to be unable to ensure timely payments, despite their willingness to meet their contractual debt obligations. As such, country risk is an additional factor to be taken into account in the credit approval process of individual customers, as the country risk event probability may impact the default probability of individual counterparties.

Complementary to the country boundaries, country instruments are defined to support the setting of an actual hard limit on a given country. The country instrument takes into account ING's ability to actively reduce exposure without triggering either market distortion or tying up too much of its capital in a country. Country instruments are quantified by the maximum internal economic capital (INCAP) tolerance level in terms of consolidated BIS capital or the individual country's outstanding domestic credit or gross domestic product.

By means of the instruments, actual country limits are set (each of which should not exceed the country's boundary), reviewed monthly and updated when needed. In case of countries with elevated levels of geo-political or severe economic cycle risk the monitoring is performed on a more frequent basis with strict pipeline and exposure management to protect ING from adverse impacts.

Single name and industry sector concentration
Using the very same concepts of boundaries and instruments mentioned earlier, ING has additionally established a concentration risk framework in order to identify, measure and monitor:
- Single name concentration: losses due to the unexpected default of a single counterparty. These single name concentrations are capped both at individual single name level and aggregated top 5 single name level. The LGD of a single name concentration is measured against a maximum LGD amount. Large Exposures monitoring and reporting is one of the components of the single name framework.
- Industry sector concentration (systemic risk): substantial increase of the ING risk profile due to the joint deterioration of a group of correlated counterparties, sensitive to the same external (macro-economic) factor(s) related to the industry sector it is part of.

Product and secondary Risk Concentration
ING has additionally established a concentration framework to identify, measure and monitor:
- Product concentration: concentrations arising from exposure to same activities or commodities. These concentrations are capped through actual limits and monitored at retail and wholesale portfolio levels per geographical region.
- Secondary risk: risks arising from secondary exposures that ING has with insurance and re-insurance companies from which the Bank purchases insurance to protect itself against non-payment under primary exposures.

Scenarios and stress tests

Stress testing evaluates ING's financial stability under severe but plausible stress scenarios and supports in decision-making that assures ING remains a financially going concern even after a severe event occurs. In addition to the bank-wide stress test framework as described in the Risk Management section, ING performs stress tests on a monthly basis in order to continually assess the portfolio risks and concentrations. These stress tests are consistent with the stress scenario as established in the bank wide credit risk appetite framework. The stress tests are reviewed in the Risk & Capital Integration team and potential management actions are proposed if necessary.

ING performs periodical stress tests based on a standardised and pre-determined 1-in-10 year-stress event (i.e. at 90% confidence level and 1 year horizon) which is similar to the one applied in the solvency risk appetite. Based on this confidence level, a through the cycle rating migration for the entire portfolio is simulated. For this simulated portfolio, provisions, RWA and Economic Capital are recalculated to assess what the combined impact of such a year would be. The additional credit RWA (CRWA) that ING should allocate in such an event is named CRWA-at-Risk. Additionally, ING calculates an Earnings-at-Risk which influences overall CET1 ratio.

Next to the periodical pre-determined stress test related to CRWA-at-Risk, ad-hoc stress tests based on severe but plausible scenarios are performed. These stress tests can be for internal purposes or at the request of the regulators and are input for future Credit Risk Appetite setting. Stress testing is used as an additional safety net. In addition to the Pillar 1 and Pillar 2 capital calculations, based on the results of various stress tests, ING ensures that adequate levels of capital (and liquidity) are available to sustain such severe but plausible scenarios.

Product approvals

Across ING a product approval and review process ensures effective management of risks associated with the introduction of new or modified products. It safeguards that sound due diligence is performed by relevant stakeholders to ensure that relevant risks (credit, operational, compliance, etc.) are adequately mitigated in the Product Approval and Review Process (PARP).

Risk programs

Within ING, risk programs are detailed analyses of defined products and/or industries. They identify the major risk drivers and risk mitigants, the internal business mandate, and propose the minimum risk (including business) parameters – and potentially the maximum product and/or portfolio limit - to undertake that business. A risk program is always prepared by the front office responsible for the internal business mandate and requires an approval from an approval authority. Risk programs may carry various names and/or may have geographical and/or business limitations (e.g. local vs global).

Reference benchmarks

A reference benchmark is the maximum appetite of credit risk per legal one obligor group. It is expressed as a (benchmark) exposure at the concentration risk level, which corresponds to (maximum) internal capital consumption for credit risk. It is used as a reference amount in the credit approval process and can be waived on the basis of proper credit risk arguments.

Credit approval process

The credit approval process ensures that individual transactions are assessed on a name-by-name basis. For each type of client there is a dedicated process with credit risk managers specialised along the business lines of ING. The credit approval process is supported by a risk rating system and exposure monitoring system. Ratings are used to indicate a client's creditworthiness which translates into a probability of default. This is used as input to determine the maximum risk appetite that ING has for a given type of client (reference benchmark). The determination of the delegated authority (the amount that can be approved at various levels of the organisation) is a function of the risk rating of the client and ING's credit risk exposure on the client.

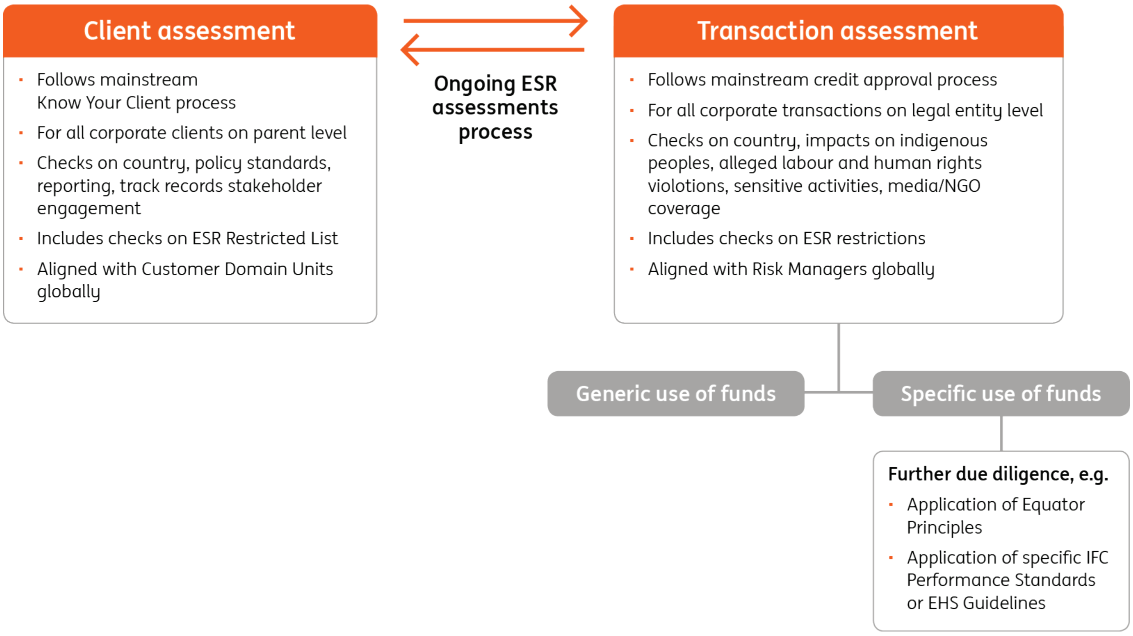
Given the nature of the retail business, roles and responsibilities of the local credit risk policy are delegated to local retail credit risk management. However, the CRO C&G risk is informed of all local retail risk policies so as to monitor that local policies do not conflict with any global Financial Risk policies. This framework serves to ensure more global alignment while preserving existing empowerment of local units. As such, approval authorities differ depending on the materiality of the deviation between local policy and global policy.

Environmental and Social Risk Framework

ING makes a positive contribution to global economic growth and more sustainable development by promoting responsible lending and investment practices. The ESR policy framework incorporates assessment tools that are used in ING's mainstream processes and systems. It is therefore fully integrated into regular client and transaction reviews.

The ESR policy framework is reviewed every three years on the basis of significant changes identified in the sectors that are more vulnerable to environmental and social risks and impacts. In addition, environmental and social risks for all lending transactions are reviewed during the periodic credit reviews. ESR transactions where funds will be used for asset based finance may require enhanced ESR due diligence e.g. application of the Equator Principles. Such enhanced ESR evaluation is also required for any high-risk transaction, such as those that impact indigenous people etc.

The snapshot of ING's ESR Framework is as follows:



The ESR policy framework is fully embedded in ING's mainstream approval processes and requires involvement of the following areas globally:

Client Assessment:
- Customer Domain Units (CDU): verify compliance with the applicable ESR policy. CDUs are responsible to assure that information in the Client ESR Assessment has been duly completed.

Transaction Assessment:
- Front Office: departments that originate transactions and have direct contact with the client or project sponsors;
- Risk Management: departments that provide control over front office activities and generally sign off on the environmental and social impacts for 'low risk' or 'medium risk' transactions; and
- ESR department within risk management fully dedicated to assessing environmental and social impacts associated with 'high-risk' transactions. Negative advice from the ESR department can only be waived by ING's highest credit committee or the MBB. In practice such waivers are very exceptional.

ESR Policy Development and Governance:
- MBB / GCTP: Ultimate approval authority for approving new and updated ESR policies.

As the risk assessment processes are decentralized each front-office team must be highly familiar with ING's environmental and social framework. Hence, ING makes significant investment in internal training programs to help CDUs, front office and risk management staff in assessing the environmental and social risks. In 2017 alone, 285 colleagues have been specifically trained on the ESR policy framework worldwide.

Credit risk capital and measurement

Credit risk capital

Regulatory capital is the minimum amount of capital (based on 99.90% confidence level) that ING must hold from a regulatory perspective as a cushion to be able to survive large unexpected losses.

RWA comparison

Comparison of RWA and risk weights across institutions is inherently challenging. Differences in RWA among banks have been classified by the Bank for International Settlements (BIS) in 3 categories:

1. Risk based drivers that stem from the differences in underlying risk at the exposure/portfolio level and in business models/ strategies including asset class mix;
2. Practice-based drivers including approaches to risk management and risk measurement; and

3. Regulatory environment such as supervisory practices, implementing laws and regulations including national discretion and accounting standards.

Risk based drivers
ING's portfolio is dominated by secured lending especially in the areas of residential mortgages, leasing and commercial real estate. Secured lending tends to have a much lower LGD, given the collateral involved, which is a key driver of RWA calculations. Therefore the regulatory formula for residential mortgages tends to result in lower RWA, all other factors being equal.

Practice based drivers
ING has a conservative approach to non-performing exposures. Non-performing exposures are recognized early based on unlikely to pay triggers. For non-retail, ING typically classifies default based on a borrower rating and not a facility rating which means that a customer will only have one PD (probability of default) regardless of the type(s) of transactions done with ING. As a consequence, if one facility is in default, usually all facilities of the client are in default. Non-performing clients which were granted forbearance measures have an additional probation period of 1 year starting from the last moment they are classified as forborne, before returning to performing status.

Regulatory environment
ING's primary supervising entity is the ECB, which is supported by many host supervisors. The ECB supervises adherence to regulatory rules: the regulatory framework defined in CRR/CRD, European Bank Authority (EBA) standards and ECB guidance. The ECB requires all 'significant changes' in internal models (PD, LGD and EAD) and policies to be reviewed and approved by the ECB, prior to implementation. Lower level model changes are either pre-notified or post-notified to the ECB.

Comparing capital levels across banks is a challenging exercise because of different risk profiles, differences in risk based drivers, practice based drivers and the regulatory environment (e.g. advanced internal rating based approach or the standardised approach). These factors have a substantial impact on the regulatory capital/RWA of a financial institution. ING continues to work with industry groups and strives to adhere to the latest BIS and EBA recommendations to improve the transparent reporting of the bank's capital calculations.

Economic capital
Economic capital reflects ING's own view on credit risk, which allows it to be used in decision-making processes (sub) portfolio level. Credit risk and transfer risk capital are calculated for all portfolios which contain credit or transfer risk, including investment portfolios. Economic capital is the minimum amount of capital required to cover unexpected losses within a 99.95% confidence level and a 12 months' time horizon. It is used throughout ING in the decision-making process (mainly wholesale banking), in risk adjusted counterparty and portfolio profitability measurement tools (wholesale and retail banking), in investment and divestment decisions, in the country risk framework and in concentration risk management, including risk appetite statements (RAS).
Economic capital is calculated using the economic values of rating models (PD, EAD and LGD), in line with regulatory requirements.

An important characteristic of our IT systems and framework is that models are built for several purposes, including economic capital, regulatory capital and loan loss provision. These credit risk models are used throughout the organisation which is compliant with the Basel Use Test requirement and ensures active feedback on the risk parameters by business units.

Credit risk measurement
There are two ways to measure credit risk within ING's portfolio, depending on whether the exposure is booked under an ING office which is permitted by the ECB to use the advanced internal rating based (AIRB) approach, or if it falls under the standardised approach (SA).

Standardised approach
The standardised approach applies a fixed risk weight to each asset as dictated by the CRR, and is based on the exposure class to which the exposure is assigned. As such, the Standardised Approach is the least sophisticated of the regulatory capital methodologies and is not as sensitive as the risk-based approach. Where external rating agency ratings are available, they may be used as a substitute to using the fixed risk weightings assigned by the Financial Supervisory Authorities. Because the underlying obligors are relatively small for exposures treated under SA, the underlying obligors tend not to have external ratings.

Advanced internal rating based approach
There are five main elements that drive the determination of risk-weighted assets under the AIRB approach.

- **Probability of Default (PD)**: The first is the counterparty's probability of default, which measures a counterparty's creditworthiness in terms of likelihood to go into default. It attempts to measure the senior, unsecured standalone creditworthiness of an organisation without consideration of structural elements of the underlying transactions, such as collateral, pricing, or maturity. Each borrower has a rating which translates into a specific PD.

- **Exposure at Default (EAD)**: The second element is the counterparty's exposure at default. EAD models are intended to estimate the outstanding amount or obligation at the moment of default in the future. Since the fact that a client will go into default is not known, and the level of outstanding that may occur on that date is also not known, ING uses a combination of statistical and hybrid models to estimate the EAD. With the exception of guarantees and letters of credit, the EAD is always equal to or higher than the associated credit risk outstanding, under the assumption that clients tend to absorb liquidity from available credit resources before financial problems become apparent to the client's creditors. EAD is largely a function of the type of credit facility (overdraft, revolving, term) offered to the borrower.

- **Loss Given Default (LGD)**: The third element is the loss given default. LGD models are intended to estimate the amount ING would lose after liquidating collateral pledged in association with a given loan or financial obligation, or alternatively, from liquidating the company as a whole as part of a workout process. LGD models are based on cover types, estimated recovery rates given orderly liquidation, and (in)direct cost of liquidation.

- **Maturity (M)**: The fourth element is the time to the maturity of the underlying financial obligation. Regulatory requirements (CRR/CRDIV) floor the maturity element at one year and cap it at five years.

- **Exposure Class:** The fifth element is the exposure class (a regulatory prescribed grouping of a common obligor type or product type) which is a driver for the correlation factor. To calculate risk-weighted assets the default correlation between a transaction and all other transactions in the portfolio is taken into account.

The expected loss (EL) provides a measure of the value of the credit losses that ING may reasonably expect to incur on its portfolio. In its basic form, the expected loss can be represented as:

EL = PD * EAD * LGD

Securitisations
ING has implemented the AIRB approach for credit risk. As a consequence, ING uses the rating based approach (RBA) for investments in tranches of asset-backed securities (ABS) and mortgage-backed securities (MBS) which have been rated by external rating agencies. Rating agencies which are used by ING under the RBA include Standard & Poor's, Fitch and Moody's.

Under the RBA, the RWA are determined by multiplying the amount of the exposure by the appropriate regulatory risk weights, which depend on:
- The external rating or an available inferred rating;
- The seniority of the position; and
- The granularity of the position.

ING uses the internal assessment approach for the support facilities it provides to asset backed commercial paper (ABCP) conduit Mont Blanc Capital Corp., based on externally published rating agency methodologies. For more details about the internal assessment approach, see the Sponsor securitisations section in the Pillar 3 disclosure.

Credit risk models
Within ING internal Basel compliant models are used to determine the PD, EAD and LGD for regulatory and economic capital and for loan loss provisioning purposes. These credit risk models also form the basis for our IFRS9 provisioning framework. Bank wide, ING has implemented around 72 credit risk models, including various sub models that may be applicable for a specific portfolio.
There are two main types of modelling which form the foundation of these PD, EAD and LGD models used throughout the Bank:
- **Statistical models** are created where a large set of default or detailed loss data is available. They are characterised by a sufficient number of data points that facilitate meaningful statistical estimation of the model parameters. The model parameters are estimated with statistical techniques based on the data set available;
- **Hybrid models** contain characteristics of statistical models combined with knowledge and experience of experts from both risk management and front office staff and literature from rating agencies, supervisors and academics. These models are especially appropriate for 'Low Default Portfolios', where limited historical defaults exist.

Next to the model choice, the definition of default is an important starting point for model building. ING uses a framework that integrates elements of the regulatory definition of default and the loan loss provisioning indicators under IAS 39. The rationale is that several indicators are very close to the indications of an obligor's 'unlikeliness to pay' under European regulation (CRR/CRDIV) and similar regulations. Integration of both frameworks further enhances ING's compliance with the CRR/CRDIV 'use test'. Key differences between the parameters used for loan loss provisioning and regulatory capital calculations are that regulatory capital parameters are typically through the cycle while loan loss parameters are more at a point in time. Additionally, the LGD for regulatory capital calculations is based on a down-turn LGD and a Loss Emergence Period is applied for loan loss provisioning purposes on the 1 year Default Probability to obtain Incurred losses.

Pre-settlement measurement models

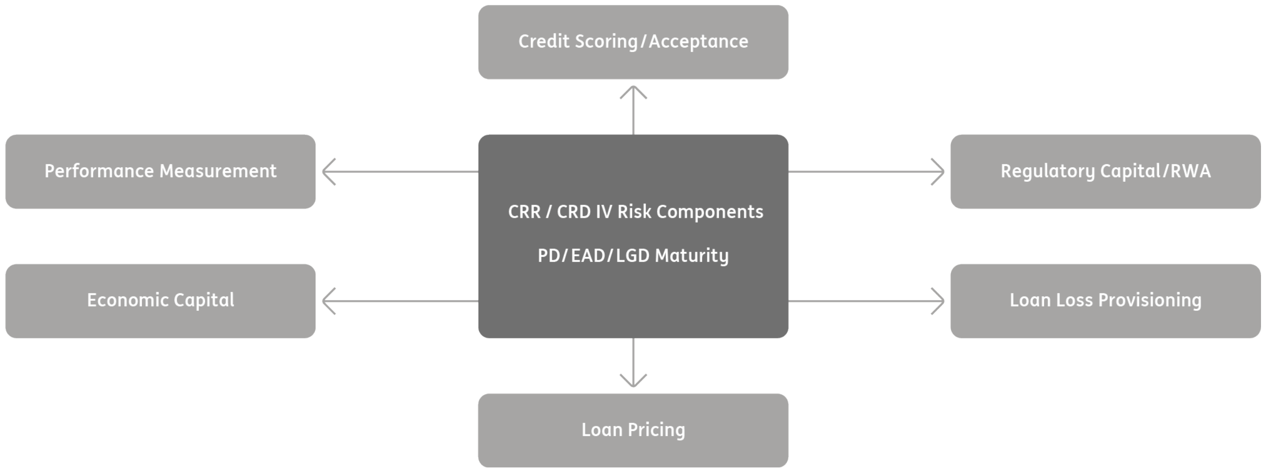
For regulatory capital, pre-settlement (PS) exposure is calculated using a marked to market (MtM) plus regulatory-based add-on. For internal capital purposes ING uses a combination of the below mentioned methodologies to calculate its PS exposures:

- **MtM plus model based add-on approach**: In this approach, the PS risk is calculated as the sum of the MtM of the trade and a model-based add-on. The MtM fluctuates through the life of the contract. The model-based add-on is product-specific, and takes into account the remaining time to maturity, profiling per time-buckets etc. Add-ons are updated with a frequency that takes into account major market changes. This methodology is used for pre-deal exposure assessment of all ING financial markets products. Furthermore, it is used for post-deal risk calculations in the case of financial markets portfolios that do not justify the computational efforts and costs associated with implementation of a Scenario Simulation approach; and
- **Scenario Simulation approach (Monte Carlo approach)**: Scenario Simulation approach is the most complex of the methods for PS risk calculations. This approach takes into account daily market conditions, including correlations between the risk factors and portfolio benefits. This Monte Carlo approach is currently used in ING for the largest volume of derivative products such as foreign exchange (FX) and interest rate derivatives.

ING recognises that the above approaches are not sufficiently accurate for certain trading products such as highly structured or exotic derivative transactions. For the assessment of risk exposures of such complex products a bespoke calculation is made.

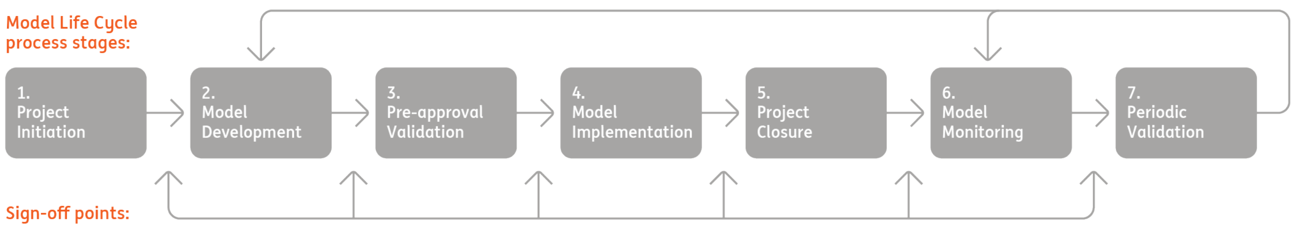
There are no exposures under the advanced, Internal Model Method (IMM) under Pillar 1. Under Pillar 2 ING uses the IMM for FX and interest rate derivative exposures.

The figure below provides a high level summary of the application of model outcomes (PD, EAD and LGD).



Credit risk model governance

All PD, EAD and LGD models are built according to ING's internal credit risk modelling methodology standards and model life cycle. After thorough review of the documentation by the Model Development Committee (MDC) and Model Risk Management (MRM), the Credit & Trading Risk Committee (CTRC) approves the models. For certain local models, the approval authority is delegated by the CTRC to the MDC. Each model has both a credit risk and a front office co-sponsor. Both the MDC and the CTRC have participation from senior credit risk management as well as the front office to ensure maximum acceptance by the organisation. The capital impact from the implementation of approved models is reported to the ECB in a quarterly report. In addition, MRM validates each model on an annual basis. During such periodical validation the model performance is analysed through back-testing and performance assessment. A five-grade colour footprint is assigned to each model during this periodical validation. If a model is considered insufficiently robust or if the back-testing indicates insufficient performance, then the model is re-calibrated or re-developed.



Credit risk rating process

In principle all risk ratings are based on a Risk Rating (PD) Model that complies with the minimum requirements detailed in CRR/CRDIV, ECB Supervisory Rules and EBA guidelines. This concerns all counterparty types and segments.
ING's PD rating models are based on a 1-22 scale (1=highest rating; 22=lowest rating) referred to as the 'Master scale', which roughly corresponds to the same rating grades that are assigned by external rating agencies, such as Standard & Poor's, Moody's and Fitch. For example, an ING rating of 1 corresponds to an S&P/Fitch rating of AAA and a Moody's rating of Aaa; an ING rating of 2 corresponds to an S&P/Fitch rating of AA+ and a Moody's rating of Aa1, and so on.

The 22 grades are composed of the following categories:
- Investment grade (Risk Rating 1-10);
- Non-investment grade (Risk Rating 11-17);
- Sub-standard (Risk Rating 18-19); and
- Non-performing (Risk Rating 20-22).

The three first categories (1-19) are risk ratings for performing loans. They are calculated in IT systems with internally developed models based on data either manually or automatically fed. Under certain conditions, the outcome of a manually fed model can be challenged through a clearly defined rating appeal process. Risk ratings for non-performing individually significant loans (20-22) are set by the global or regional restructuring. For securitisation portfolios, the external ratings of the tranche in which ING has invested are leading.

Risk ratings assigned to clients are regularly, at least annually, reviewed, and the performance of the underlying models regularly monitored. Over 94% of ING's credit exposures have been rated using one of the in-house developed PD rating models. Within the AIRB Portfolio, the level of Regulatory compliant ratings exceeds 99% coverage by exposure. Some of these models are global in nature, such as models for Large Corporates, Commercial Banks, Insurance Companies, Central Governments, Local Governments, Funds, Fund Managers, Project Finance and Leveraged Companies. While other models are more regional or country specific, such as PD models for Small Medium Enterprise (SME) companies in Central Europe, the Netherlands, Belgium, Luxembourg, as well as residential mortgage and consumer loan models in the various retail markets.

Rating Models for retail clients are predominantly statistically driven and automated, such that ratings can be updated on a monthly or bi-monthly basis. Models for SME companies, and larger corporates, institutions and banks are manually updated, and are individually monitored on at least an annual basis.

Exposure classes

The BCBS has developed the concept of 'Exposure Classes' which has been transposed into CRR/CRDIV. These are essentially groupings of credit risks associated with a common client type, product type and/or cover type. For the AIRB Approach, most of the exposure classes have subcategories. ING has applied the following definitions to determine Exposure Classes:
- **Sovereigns** include Sovereign Government entities, Central Banks and recognised Local / Regional Authorities as well as Supranational Organisations;
- **Institutions** include Commercial Banks, non-Bank Financial Institutions, such as Funds and Fund Managers, and Insurance Companies, as well as local and regional government entities not classified as governments;
- **Corporates** includes all legal entities, that are not considered to be Governments, Institutions or Retail Other;
- **Retail** includes the following classes:
  - **Retail – Secured by immovable property non-SME** (hereafter **Residential Mortgages**) includes all retail loans which are covered by residential properties
  - **Retail - Secured by immovable property SME** (included in tables with **Other Retail**) includes all retail loans which are covered by commercial properties.
  - **Other Retail** includes all other credit obligations related to Retail SMEs (such as partnerships and one-man businesses) and private individuals (such as consumer loans, car loans and credit cards). Under these exposure class definitions, it is possible for a private individual to have exposure classified as both residential mortgages and retail other.
- **Securitisations** include securitisation programs for which ING acts as an investor, sponsor or originator.

Models used for exposure classes

ING has developed PD, EAD and LGD models for Wholesale Banking and Retail Banking portfolios. PD, EAD and LGD models are subject to CTRC (or in some delegated cases MDC) approval and changes which significantly impact the results require approval from the regulator before implementation. By nature, the above described exposure classes have different, specific characteristics. To capture these specific characteristics and to have suitable valuations and analyses in place, Model Development is continuously updating and developing models within each exposure class. In total, ING makes use of over 72 different internal models.

ING distinguishes four types of post default scenarios:

- *No Loss – Cure*: the borrower pays all overdue amounts (to the extent ING is legally entitled to) and the asset becomes non-defaulted again. ING does not experience any loss in the process. The relationship is not terminated and the borrower returns back to performing;
- *No Loss – Exit without loss*: ING (or the borrower) liquidates collaterals and calls guarantees in order to recover the exposure or the borrower fully repays. Thereafter the relationship is terminated. ING does not experience any loss in the process;
- *Loss – Exit with loss*: ING (or the borrower) liquidates collaterals and calls guarantees in order to recover the exposure. Thereafter the relationship is terminated. ING suffers loss in the process; and
- *Loss – Distressed Restructuring*: ING restructures the loan agreement so as to recover the exposure after allowing some discount. The relationship with the borrower continues after the restructuring. ING suffers (some) loss in the process.

AIRB models per exposure class

In the table below, the number of significant PD, EAD, and LGD models per asset class are shown. Additionally a description of the model and methodology are provided per exposure class. The asset classes presented in this table do not align with the EBA Exposure classes as the scope has been redefined to better fit the scope of the model. SME exposure for example can be part of either corporate exposures or other retail depending on the size of the SME.

Notes to the Consolidated annual accounts of ING Bank - continued

AIRB models and methodology

	Model Type	Number of significant models	Model description and methodology	Number of years of data
Sovereigns	PD	1	The Government Central PD model is a fully statistical model, containing only quantitative risk drivers.	>7 years
	LGD	1	The LGD model for Sovereigns and other governments is an unsecured recovery model built on assessment of structural factors that influence a country's performance.	>7 years
	EAD	1	The Low Default EAD model is a hybrid model that pools default information from multiple low default portfolios, including central governments and central banks.	>7 years
Government related entities	PD	1	The government related entities PD model is expert based and assigns ratings based on stand-alone credit fundamentals as well as degree of government support.	>7 years
	LGD	1	The LGD model for Government related entities is a secured/unsecured recovery model built on assessment of stand-alone fundamentals as well as geography.	>7 years
	EAD	1	The Low Default EAD model is a hybrid model that pools default information from multiple low default portfolios, including government related entities.	>7 years
Financial institutions	PD	3	The main PD model applied is Bank Commercial based upon financial, qualitative and country information. Other PD models for different types of financial institutions are built using a similar framework, but are more specialised for the specific characteristics of the financial institution.	>7 years
	LGD	1	This LGD model was developed based on expert judgement, supported by limited internal and external data. The developed LGD model is based on ultimate recovery rates.	>7 years
	EAD	1	The Low Default EAD model is a hybrid model used that pools default information from multiple low default portfolios, including financial institutions.	>7 years
Corporates - Specialized lending	PD	3	Expert based scorecards Models predict a rating for Commercial Property Finance, Project Finance, Trade and Commodity Finance.	>7 years
	LGD	3	Hybrid LGD Models predict loss given default for Commercial Property Finance, Project Finance, Trade and Commodity Finance.	>7 years
	EAD	1	There is a dedicated EAD model for commercial property finance due to the specificities of this portfolio.	>7 years
Large Corporates	PD	1	The Corporate Large model is a global hybrid model build on 13 years of data, including balance sheet and qualitative information as well as country risk and parent influence.	>7 years
	LGD	1	Loss Given Default for Large corporates are predicted by a dedicated hybrid LGD model using both no loss rates as well as secured/unsecured recovery rates.	>7 years
	EAD	1	The Low Default EAD model is a hybrid model used that pools default information from multiple low default portfolios, including large corporates.	>7 years
SME	PD	6	The SME PD models are estimated statistically and directly predict a PD. Most of these models are developed locally to reflect regional/jurisdiction circumstances.	>7 years
	LGD	6	Local statistical models or hybrid models use various data inputs on cure behaviour as well as cost and recovery.	>7 years
	EAD	6	Local statistical models that use various data inputs, including product type and geography.	>7 years
Secured by Res. Mortgage	PD	7[1]	The PD mortgages models are all developed statistically and include borrower specific information, payment behaviour and product related information. These are statistical models that directly predict a PD.	>5[2] years
	LGD	7	Local statistical models or hybrid models use various data inputs on cure behaviour as well as cost and recovery	>7 years
	EAD	7	Local statistical models that use various data inputs, including product type and geography.	>7 years
Private Individuals	PD	4[1]	The PD models for private individuals are all developed statistically and include borrower specific information, payment behaviour and product related information. These are statistical models that directly predict a PD.	>5[2] years
	LGD	4	Local statistical models use various data inputs on cure behaviour as well as cost and recovery.	>7 years
	EAD	4	Local statistical models that use various data inputs, including product type and geography.	>7 years
Other[1]	Other		(Covered Bonds, Structured assets)	

1 Belgian PD models provide a rating at a customer level, covering both secured and unsecured loans.
2 For retail PD modelling a minimum of 5 years is allowed based on ING's Modelling Standards, which are compliant with regulatory requirements

Changes in 2017 to credit risk models

Model changes in 2017 were largely driven by follow up on existing regulatory guidance and overall resulted in a EUR 3.4 billion increase in RWA. The largest change was due to the introduction of a new PD and LGD model for the Dutch Mortgages portfolio. This update led to an increase of EUR 3.9 billion in RWA driven by the deterioration of the LGD. The recalibration of the German Mortgages models resulted in a decrease in RWA of EUR 1.2 billion.

Credit risk tools

Credit risk policies

ING's credit risk policies provide for generic rules and roles and responsibilities that always prevail within the organisation. While allowance is given for discretionary variation to comply with local regulations, such variations must always comply with the content of a global ING wide credit risk policy and approved by (local) credit risk. All credit risk policies are created according to policy development standards and reviewed on a regular basis. Each policy has a credit risk sponsor and is created in close consultation with various stakeholders within credit risk, front office and where applicable other corporate departments. All policies require approval by the CTRC and where applicable by the GCTP.

Credit risk systems and data standards

The acceptance, maintenance, measurement, management and reporting of credit risks at all levels of ING is executed through promotion of single, common credit risk data standards and the integration into common credit risk tools that support standardised and transparent credit risk practices. ING has chosen to develop credit risk tools centrally. The philosophy is use a single source of data, in an integrated approach that includes ING policy, the regulatory environment in which we operate, and the daily processes which are active throughout the group. Application to these three areas is the essential requirement to ensure data quality standards and discipline remains high.

The customer-centric data model conforms to the three core business needs of ING:
- To transact efficiently with our counterparties;
- To be compliant with our internal and external obligations; and
- To monitor the risks we undertake.

The customer-centric approach ensures that ING can react quickly to changing regulations, business needs and best practices in our dealings with our clients and prospects.

Data Governance and Data Quality

ING recognises that information and underlying data are assets that are key (together with people, processes and IT systems) to further develop its digital profile. Cooperation and mutual agreement on global data management roles and responsibilities in ING are critical success factors to meet this objective. As such ING has embraced multiple data management and governance initiatives triggered by internal and external stakeholders (e.g. Principles for Effective Risk Data Aggregation and Risk Reporting). In the Financial Risk and Risk COO departments, these principles are embedded into the credit risk data management and enshrined within the Data Governance framework. The framework outlines roles and responsibilities relevant for the credit risk lifecycle and data quality assurance.

Credit risk data lifecycle

The credit risk data governance framework used by ING is based on the credit risk data lifecycle. The governance related to the data delivery and exchange is described in various data agreements between data users and data suppliers.
The scope of credit risk data is the data set determined and assigned for the ING's external and internal reporting requirements and credit risk modelling requirements. Principally, data can be categorised into one of the two following types:
- **Atomic data**: the lowest level of detail and provides the base data for all data transformations. The guiding principles are that each data element is only input once, and have a clear data owner and 'home' system or database which is leading throughout all uses of that data element. From the data 'home', the data may then be redistributed to other systems or databases that may require that data in an automated Straight through Processing (STP) method. Depending on the need, the data may be transferred in real time, near real time, daily, weekly or monthly.
- **Derived data**: data derived from other data elements (atomic or derived) as a result of data transformations such as credit risk models, calculations and aggregation. Derived data is hosted in the central credit risk system (Vortex).

A key component of credit risk data is that this data is continuously used throughout all the stages of the credit risk management cycle. By using and re-using data, there is a continuous incentive for all data providers and users to assure high standard data quality with regards to data delivery and data usage.

The credit risk data lifecycle describes the interlinked stages of the lifecycle from data definition to data usage as shown in the figure below:

- **Data Definitions**: this process step ensures that atomic and derived credit risk data terms have a single definition and definition owner throughout the organization. It also ensures that defined data is fit for the purpose it will be used for.
- **Capture:** ensures that atomic data is captured by business units and is available for exchange according to pre-agreed standards and specifications.
- **Exchange:** ensures data exchange is executed as agreed between data owner and data user.
- **Processing & Calculation:** processes delivered atomic data and uses it to calculate credit risk derived data. The outcome of this stage is used as input for credit risk data aggregation in for example risk reporting.
- **Data Usage:** ensures data aggregation and usage fit for multiple purposes for example modelling, regulatory and statutory reporting. Ensures that data usage or distribution is according to agreed purpose and data confidentiality, protection, security and retention rules.
- **Data Quality Assurance:** establishes data quality management with the primary focus how credit risk data quality is managed throughout the credit risk data lifecycle. It covers the data quality cycle, data quality criteria and relevant activities through the stages.
  The data quality cycle consists of four stages: define, implement, monitor and improve. During the data definitions step, data quality rules are determined. Having set the definitions, local data quality rules are implemented in the source systems, and both successively and simultaneously, data quality rules are implemented in the central credit risk system. The next stage consists of data validations, monitoring and control activities performed early in the data exchange and after data processing and calculation stage. The last stage is the continuous improvement of data quality which can be split into two categories:
  - One off issues and reoccurring issues that are identified, prioritised and subject to resolution;
  - The periodic review of data quality rules and improvements based on lessons learned from solving issues, audits and best practices.

After the last stage, the data quality cycle resumes from the start, ultimately leading to high standard credit risk data quality.

Credit risk portfolio

ING's credit exposure is mainly related to traditional lending to individuals and businesses followed by investments in bonds and other securitised assets. Loans to individuals are mainly mortgage loans secured by residential property. Loans (including guarantees issued) to businesses are often collateralised, but can be unsecured based on internal analysis of the borrowers' creditworthiness. Bonds in the investment portfolio are generally unsecured. Securitised assets such as mortgage backed securities and asset backed securities are secured by the pro rata portion of the underlying diversified pool of assets (commercial or residential mortgages, car loans and/or other assets) held by the security's issuer. The last major credit risk source involves pre-settlement exposures which arise from trading activities, including derivatives, repurchase transactions and securities lending/borrowing transactions. This is also identified as counterparty credit risk.

Unless specifically stated, the figures in the tables included in the credit risk section are calculated on the basis of CRR/CRD IV regulatory standards and includes 'intercompany loans' to ING Group. The portfolio breakdown of ING per exposure class and per risk category is shown below.

Exposure classes: ING Bank portfolio per risk category, as % of total regulatory EAD

	Lending		Investment		Money Market		Pre-Settlement		Total		Total (ALL)
2017	AIRB	SA	AIRB	SA	AIRB	SA	AIRB	SA	AIRB	SA	AIRB + SA
Sovereigns	1.8%	0.2%	7.0%	0.1%	2.4%	0.1%	0.4%	0.0%	11.6%	0.4%	12.0%
Institutions	3.9%	0.6%	1.1%	0.0%	0.3%	0.0%	3.8%	0.1%	9.2%	0.6%	9.8%
Corporate	33.7%	0.8%	0.4%	0.0%	0.1%	0.0%	1.3%	0.0%	35.5%	0.8%	36.3%
Residential mortgages	33.4%	1.9%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	33.4%	1.9%	35.3%
Other retail	4.5%	1.3%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	4.5%	1.3%	5.8%
Securitisation	0.2%	0.0%	0.6%	0.0%	0.0%	0.0%	0.0%	0.0%	0.8%	0.0%	0.8%
Total	**77.6%**	**4.7%**	**9.1%**	**0.1%**	**2.7%**	**0.2%**	**5.5%**	**0.1%**	**94.9%**	**5.1%**	**100.0%**

Exposure classes: ING Bank portfolio per risk category, as % of total regulatory EAD

	Lending		Investment		Money Market		Pre-Settlement		Total		Total (ALL)
2016	AIRB	SA	AIRB	SA	AIRB	SA	AIRB	SA	AIRB	SA	AIRB + SA
Sovereigns	2.2%	0.0%	7.9%	0.1%	1.7%	0.2%	0.2%	0.0%	12.0%	0.3%	12.3%
Institutions	3.1%	0.3%	1.8%	0.0%	0.4%	0.0%	4.9%	0.1%	10.2%	0.3%	10.5%
Corporate	32.8%	1.4%	0.4%	0.0%	0.1%	0.0%	1.7%	0.0%	35.0%	1.5%	36.5%
Residential mortgages	33.4%	0.9%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	33.4%	0.9%	34.3%
Other retail	4.2%	1.4%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	4.2%	1.4%	5.6%
Securitisation	0.1%	0.0%	0.6%	0.0%	0.0%	0.0%	0.1%	0.0%	0.8%	0.0%	0.8%
Total	**75.8%**	**4.0%**	**10.8%**	**0.1%**	**2.1%**	**0.2%**	**6.9%**	**0.1%**	**95.6%**	**4.4%**	**100.0%**

During 2017, the total ING portfolio size decreased by 0.5% to EUR 842 billion READ (EUR 774 billion outstandings) mainly driven by foreign exchange rate changes partly offset by volume growth. The decrease related to foreign exchange rate changes was driven by the depreciation of the US Dollar (12.2%) and Australian Dollar (5.1%) against the euro. The concentration in SA portfolio increased mainly driven by a combination of volume growth and portfolio shifts from AIRB to SA approach.

The concentration in corporates slightly decreased mainly caused by shift in exposure from corporate lending SA bucket to residential mortgage SA bucket to align the scope with regular capital reporting practices. The increase in AIRB bucket was mainly driven by volume growth in the Wholesale Banking portfolios of Transaction Services, Corporate & Financial Institutions (C&FI) Lending and Structured Finance. The volume growth in C&FI Lending was mainly observed in Belgium and Germany, growth in Transaction Services was mainly witnessed in Asia while growth in Structured Finance was mainly observed in Europe. The growth was partly offset by the depreciation of the US Dollar which mainly impacted the Structured Finance portfolio.

In residential mortgages, the concentration increased mainly due to shifting exposure from corporate lending SA bucket to the residential mortgage SA bucket to align the scope with regular capital reporting practices. The decline was mainly visible in the Netherlands due to repayments in the core mortgage book, continued transfer of mortgages from WestlandUtrecht (WU) Bank to NN Bank and the run-off of the WU Bank mortgage book. This was partly offset by growth in residential mortgages in Belgium, Germany, Poland and Spain.

In other retail, the concentration increased mostly driven by a higher volume of consumer loans in the retail portfolios in Retail Challengers and Growth Markets.

The concentration in sovereigns declined caused by a decrease in government bond exposures of France, the Netherlands, Austria and Belgium, which was partly offset by increase in money market exposure towards the central banks of Luxembourg and Belgium. The concentration in institutions went down due to a decline in interest rate derivatives to a central counterparty clearinghouse.

Risk rating buckets per line of business and credit risk types

Risk rating buckets are defined based upon the quality of the exposures in terms of creditworthiness, varying from investment grade to non-performing loan expressed in S&P, Moody's and Fitch rating equivalents.

Risk classes: ING Bank portfolio per line of business, as % of total outstandings[1,2,3]

	Wholesale Banking		Retail Benelux		Retail Challengers & Growth Markets		Corporate Line		Total	
Rating class	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
1 (AAA)	6.0%	7.1%	0.2%	0.2%	7.3%	7.3%	57.5%	42.7%	5.5%	5.5%
2-4 (AA)	11.4%	11.9%	3.1%	5.7%	16.3%	16.1%	0.1%	0.3%	10.1%	11.0%
5-7 (A)	20.2%	18.9%	8.2%	4.2%	19.8%	15.0%	4.8%	3.9%	16.4%	13.4%
8-10 (BBB)	27.5%	27.0%	42.3%	34.5%	28.1%	32.7%	26.7%	7.5%	31.9%	30.5%
11-13 (BB)	26.9%	26.5%	34.6%	43.2%	21.0%	21.5%	8.3%	42.2%	27.3%	30.3%
14-16 (B)	5.2%	5.5%	7.1%	7.5%	5.6%	5.6%	0.0%	0.0%	5.8%	6.1%
17-22 (CCC & NPL)	2.8%	3.0%	4.5%	4.7%	1.9%	1.8%	2.6%	3.5%	3.0%	3.2%
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

1 Based on credit risk measurement contained in lending, pre-settlement, money market and investment activities.
2 Covered bonds are presented on the basis of the external credit rating of the issuer in question. Covered bond issues generally possess a better external credit rating than the issuer standalone, given structural features of such covered bonds.
3 Outstandings (OS) split per business line: Wholesale Banking (EUR 335 billion OS), Retail Benelux (EUR 225 billion OS), Retail Challengers & Growth Markets (EUR 201 billion OS), Corporate Line (EUR 12 billion OS).

Overall the rating class concentration improved, decreased concentrations are observed for all classes below rating class BBB whereas the other classes mainly show increased concentrations. The overall exposure for ING remained concentrated in the BBB and BB rating classes.

For AAA-rated assets, the concentration in Wholesale Banking reduced while it increased in Corporate Line due to a shift of the regulatory reserve deposits at the Dutch Central Bank between these business lines. The decrease in Wholesale Banking was partly offset by increase in money market assets to the central banks of Luxembourg and Belgium. The concentration in the A rating class for Wholesale Banking increased mainly driven by an improved rating for one German financial institution shifting pre-settlement exposure from rating class BBB to A. The increase in rating class A was partly offset by decreased exposure in money market assets for Wholesale Banking. A rating upgrade of the Bank of Beijing shifted equity investment exposure from rating class BB to rating class BBB in Corporate Line.

The rating distribution for Retail Benelux improved mostly driven by an updated Dutch mortgage PD model shifting concentration from risk classes BBB to A. Further positive risk migration in Retail Netherlands was due to positive rating changes and decreased defaulted exposures. Following a one notch rating downgrade for the government of Belgium, Belgian government related organisations were downgraded throughout the year shifting exposure from rating class AA to A. In Retail Challengers & Growth Markets exposures shifted from rating class BBB to A following a refinement of the PD mortgage model in Retail Germany. The decrease in rating class BBB was partly offset by an update of the ING Italy mortgage PD model increasing concentration in rating class BBB.

Risk classes: ING Bank portfolio per credit risk type, as % of total outstandings[1,2]

	Lending		Investment		Money Market		Pre-settlement		Total	
Rating class	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
1 (AAA)	1.8%	1.9%	29.7%	28.3%	22.6%	14.5%	5.4%	3.4%	5.5%	5.5%
2-4 (AA)	4.5%	5.2%	39.6%	40.4%	58.8%	50.4%	14.0%	14.8%	10.1%	11.0%
5-7 (A)	14.2%	10.1%	17.6%	16.9%	7.3%	14.0%	49.0%	47.5%	16.4%	13.4%
8-10 (BBB)	36.6%	35.3%	9.6%	6.9%	3.0%	4.2%	19.4%	23.3%	31.9%	30.5%
11-13 (BB)	32.2%	36.0%	3.3%	7.2%	7.9%	15.4%	10.2%	9.1%	27.3%	30.3%
14-16 (B)	7.0%	7.5%	0.0%	0.2%	0.4%	1.5%	1.4%	1.5%	5.8%	6.1%
17-22 (CCC & NPL)	3.7%	4.0%	0.2%	0.1%	0.0%	0.0%	0.6%	0.4%	3.0%	3.2%
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

1 Based on credit risk measurement contained in lending, pre-settlement, money market and investment activities.
2 Covered bonds are presented on the basis of the external credit rating of the issuer in question. Covered bond issues generally possess a better external credit rating than the issuer standalone, given structural features of such covered bonds.

Risk industry concentration

ING uses a common industry classification methodology based on the NAICS system (North American Industry Classification System). This methodology has over 1,500 detailed industry descriptions, which are aggregated into 22 industry classes at the highest level. Certain countries require ING to report locally based on other industry classification methodologies, which are generally derived from the NAICS classifications presented here. Residential mortgages are generally only extended to private individuals.

Notes to the Consolidated annual accounts of ING Bank - continued

Risk concentration: ING Bank portfolio per economic sector, as % of total outstandings[1]

	Wholesale Banking		Retail Benelux		Retail Challengers & Growth Markets		Corporate Line		Total	
Industry	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Private Individuals	0.0%	0.0%	72.6%	73.4%	72.6%	68.8%	0.0%	0.0%	40.1%	39.5%
Commercial Banks	14.7%	14.8%	0.1%	0.2%	4.9%	6.5%	40.1%	56.4%	8.3%	8.8%
Natural Resources	15.7%	15.0%	0.4%	0.4%	0.6%	0.7%	0.0%	0.0%	7.1%	6.8%
Real Estate	10.8%	10.2%	5.1%	4.7%	1.0%	0.9%	0.0%	0.0%	6.4%	6.0%
Central Governments	8.7%	9.9%	1.1%	0.9%	4.9%	5.6%	26.4%	36.3%	5.8%	6.5%
Non-Bank Financial Institutions	9.7%	10.4%	1.0%	0.9%	1.2%	3.2%	6.5%	7.3%	4.9%	5.7%
Transportation & Logistics	7.3%	8.0%	1.2%	1.1%	0.4%	0.4%	0.0%	0.0%	3.6%	3.9%
Central Banks	4.7%	5.1%	0.1%	0.1%	1.9%	1.6%	27.0%	0.0%	3.0%	2.7%
Services	3.7%	3.2%	4.0%	3.6%	0.6%	0.6%	0.0%	0.0%	2.9%	2.6%
Food, Beverages & Personal Care	3.8%	3.7%	2.2%	2.1%	1.3%	1.3%	0.0%	0.0%	2.6%	2.6%
Lower Public Administration	1.1%	1.2%	2.2%	2.8%	5.8%	5.6%	0.0%	0.0%	2.6%	2.8%
General Industries	4.0%	3.4%	1.6%	1.5%	1.5%	1.5%	0.0%	0.0%	2.6%	2.3%
Chemicals, Health & Pharmaceuticals	2.5%	2.4%	2.8%	2.8%	0.7%	0.7%	0.0%	0.0%	2.1%	2.1%
Other	13.3%	12.7%	5.6%	5.5%	2.6%	2.6%	0.0%	0.0%	8.0%	7.7%
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

1 Based on the total amount of credit risk in the respective column using ING's internal credit risk measurement methodologies. Economic sectors below 2% are not shown separately but grouped in Other.

The main concentration in Private Individuals is related to mortgage lending. Mortgage volume growth, mainly in Belgium, Germany and Spain, was offset by a decline in mortgage exposures in Netherlands. The decrease in the Netherlands was due to repayments in the core mortgage book, continued transfer of mortgages from WestlandUtrecht (WU) Bank to NN Bank and the run-off of the WU Bank mortgage book.

The concentration in Central Governments decreased following a reduction in government bond exposures of France, the Netherlands, Austria and Belgium within Wholesale Banking and Retail Challengers & Growth Markets. In the Wholesale Banking portfolio this was partly offset by an increase in US government bonds.

The concentration in Non-Bank Financial Institutions decreased due to lower pre-settlement exposures in Wholesale Banking Netherlands and lower exposures in covered bonds and asset backed securities in Retail Challengers & Growth Markets. Further, the depreciation of the US Dollar against the euro caused a decrease in concentration in the Transportation & Logistics and Non-Bank Financial Institutions sectors within Wholesale Banking. Within Central Banks, the increase in concentration in Corporate Line is explained by the shift of the regulatory reserve deposits at the Dutch Central Bank from the Wholesale Banking. Following this shift the proportions of the other buckets in Corporate Line decreased.

Country risk

The country risk concentration changes for the Netherlands, Belgium and Germany were mainly related to the residential mortgage loans. Additionally, for the Netherlands exposures to the Dutch central bank shifted from Wholesale Banking to Corporate Line. The concentration in the Rest of Europe decreased in Retail Challengers & Growth Markets mainly due to reduction in bond investments in Spain and lending exposure in Turkey. In Asia, the concentration in Wholesale Banking increased mainly driven by higher exposures to financial institutions in China and corporates in Taiwan and United Arab Emirates. Further, the decrease in concentration in Asia for the Corporate Line was related to lower investment exposure.

Country risk exposures: ING Bank portfolio, by geographic area[1]

		Wholesale Banking		Retail Benelux		Retail Challengers & Growth Markets		Corporate Line		Total	
Region		2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Europe	Netherlands	12.8%	14.2%	62.3%	65.5%	0.2%	0.5%	64.4%	50.6%	24.0%	25.7%
	Germany	5.7%	5.4%	0.2%	0.2%	46.0%	44.4%	0.3%	0.1%	13.8%	13.3%
	Belgium	6.8%	6.2%	35.1%	32.1%	0.3%	0.5%	0.0%	0.0%	12.9%	12.0%
	Rest of Europe[2]	41.0%	40.8%	2.2%	2.0%	34.4%	35.5%	0.6%	0.2%	28.3%	28.2%
Americas		19.5%	19.5%	0.1%	0.1%	1.2%	1.5%	0.1%	0.1%	9.5%	9.5%
Asia/Pacific		11.9%	11.6%	0.1%	0.1%	0.1%	0.1%	34.5%	48.8%	6.1%	6.0%
Australia		1.4%	1.3%	0.0%	0.0%	17.8%	17.5%	0.1%	0.2%	5.0%	4.8%
Rest of World		0.9%	1.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.4%	0.5%
Total		**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

1 Geographic areas are based on country of residence, except for private individuals for which the geographic areas are based on the primary country of risk.
2 The top 5 exposures within Rest of Europe are to the United Kingdom (3.8%), Poland (3.8%), France (3.2%), Spain (3.1%) and Italy (2.4%).

Credit risk mitigation

ING's lending and investment businesses are subject to credit risk. As such, the creditworthiness of our customers and investments is continually monitored for their ability to meet their financial obligations to ING. In addition to determine the credit quality and creditworthiness of the customer, ING uses various credit risk mitigation techniques and instruments to mitigate the credit risk associated with an exposure and to reduce the losses incurred subsequent to an event of default on an obligation a customer may have towards ING. The most common terminology used in ING for credit risk protection is 'cover'. While a cover can be an important mitigant of credit risk and an alternative source of repayment, generally it is ING's practice to lend on the basis of the customer's creditworthiness rather than exclusively relying on the value of the cover. Within ING, there are two distinct forms of covers: assets and third party obligations.

Cover forms

Assets

The asset that has been pledged to ING as collateral or security gives ING the right to liquidate it in cases where the customer is unable to fulfil its financial obligation. As such, the proceeds can be applied towards full or partial compensation of the customer's outstanding exposure. An asset can be tangible (such as cash, securities, receivables, inventory, plant & machinery and mortgages on real estate properties) or intangible (such as patents, trademarks, contract rights and licenses).

Third party obligation

Third party obligation, indemnification or undertaking (either by contract and/or by law) is a legally binding declaration by a third party that gives ING the right to expect and claim from that third party to pay an amount, if the customer fails on its obligations to ING. The most common examples are guarantees (such as parent guarantees and export credit insurances) and letters of comfort.

Cover valuation methodology

General guidelines for cover valuation are established to ensure consistency of the application within ING. These general guidelines also require that the value of the cover needs to be monitored on a regular basis. Covers are revalued accordingly and whenever there is reason to believe that the market is subject to significant changes in conditions. The frequency of monitoring and revaluation depends on the type of covers.

The valuation method also depends on the type of covers. For asset collateral, the valuation sources can be the customer's balance sheet (e.g. inventory, machinery, and equipment), nominal value (e.g. cash, receivables), market value (e.g. securities and commodities), independent valuations (commercial real estate) and market indices (residential real estate). For third party obligations, the valuation is based on the value which is attributed to the contract between ING and that third party.

Covers

This section provides insight on the type of covers and to which extent a loan is collateralised. The cover disclosures are presented by risk category: Lending, Investment, Money Market and Pre-settlement. The cover amounts are presented by the most relevant collateral forms, being mortgages and financial collateral (cash and securities), and the most relevant third party obligation being guarantees. ING obtains covers which are eligible for credit risk mitigation under CRR/CRDIV, as well as those that are not eligible. Collateral covering financial market transactions is valued on a daily basis. To mitigate the credit risk arising from Financial Markets transactions, the bank enters into legal agreements exchanging financial collateral (high quality government bonds and cash).

The cover values are presented for the total portfolio of ING. Covers of both AIRB and SA portfolios are presented in detail reflecting ING's complete portfolio. Next to that, detailed information is provided on the cover coverage for the performing and non-performing portfolio. The non-performing loan definition is explained in detail in the section 'Credit Restructuring'. To understand the nature of the collateralised loans, insight is given in the industry and geography breakdown of ING's portfolio as well. For comparability reasons with previous tables, outstandings are used to show ING's portfolio.

Exposures are categorised into different Value to Loan (VTL) buckets that give insight in the level of collateralisation of ING's portfolio. VTL is calculated as the cover value divided by the outstandings at the balance sheet date. The cover values are indexed and exclude any cost of liquidation. Covers can either be valid for all limits, sub-limits or a particular outstanding of a borrower, the latter being the most common. For the purpose of aggregation, the coverage of all outstanding is capped at 100%. Over-collateralisation is ignored in this overview for the VTL. Each limit is subsequently assigned to one of the six defined VTL buckets: no cover, >0% to 25%, >25% to 50%, >50% to 75%, >75% to <100%, and ≥ 100%. As the nature of the Pre-settlement portfolio determines that collateral is netted, these VTL buckets are not shown.

The first two tables give an overview of the collateralisation of the total portfolio of ING Bank.

Cover values including guarantees received - Total ING Bank – 2017

		Cover type					Value to Loan		
	Outstan-dings	Mortgages	Eligible Financial Collateral	Other CRR/CRDIV eligible	Guaran-tees	Non CRR/CRD IV eligible	No Cover	Partially covered	Fully covered
Consumer Lending	308,349	512,709	3,680	338	25,130	38,551	6.3%	9.3%	84.4%
Business Lending	320,153	134,667	15,185	99,569	90,777	128,985	35.3%	24.1%	40.6%
Investment and Money Market	100,450		59	117	522		99.5%	0.4%	0.2%
Total Lending, Investment and Money Market	**728,951**	**647,376**	**18,923**	**100,024**	**116,429**	**167,536**	**31.9%**	**14.6%**	**53.6%**
Pre-settlement[1]	44,685								
Total Bank	**773,636**	**647,376**	**18,923**	**100,024**	**116,429**	**167,536**	**31.9%**	**14.6%**	**53.6%**

1 More information on the credit risk mitigants can be found in the Pre-settlement section.

Cover values including guarantees received - Total ING Bank – 2016

		Cover type					Value to Loan		
	Outstan-dings	Mortgages	Eligible Financial Collateral	Other CRR/CRDIV eligible	Guaran-tees	Non CRR/CRD IV eligible	No Cover	Partially covered	Fully covered
Consumer Lending	304,448	486,156	3,494	391	25,846	34,839	5.6%	14.3%	80.1%
Business Lending	310,395	128,578	17,004	89,204	98,559	132,672	33.6%	28.1%	38.3%
Investment and Money Market	110,218				989		99.1%	0.3%	0.6%
Total Lending, Investment and Money Market	**725,061**	**614,734**	**20,498**	**89,595**	**125,395**	**167,511**	**31.8%**	**18.1%**	**50.1%**
Pre-settlement[1]	50,003								
Total Bank	**775,065**	**614,734**	**20,498**	**89,595**	**125,395**	**167,511**	**31.8%**	**18.1%**	**50.1%**

1 More information on the credit risk mitigants can be found in the Pre-settlement section.

Over the year, the collateralisation level of the total portfolio improved. Excluding the pre-settlement portfolio, 53.6% of the total ING Bank's outstandings were fully collateralised in 2017 (2016: 50.1%). Since investments traditionally do not require covers, the percentage for 'no covers' in this portfolio is close to 100%. However, 96% of the investment outstandings are investment grade. Improved economic conditions in ING's main markets have led to improved collateral valuations resulting in an improved coverage ratio. The increase in business lending for 'Other CRR/CRDIV eligible' covers was mainly situated in the Americas region, while the decrease in 'Guarantees' was seen in the Americas and Asia regions.

Consumer lending portfolio

The consumer lending portfolio accounts for 39.9% of ING Bank's total outstandings. The consumer lending portfolio is comprised of residential mortgage loans (92.7%) and other consumer lending loans, which mainly comprise term loans, revolvers and personal loan to consumers. As a result, most of the collateral consists of mortgages. The mortgage values are collected in an internal central database and in most cases external data is used to index the market value (e.g. on a quarterly basis the mortgage values for the Netherlands are updated using the NVM house price index).

A significant part of ING's residential mortgage portfolio is provided in the Netherlands (42.0%), followed by other main markets such as Germany (24.7%), Belgium & Luxembourg (11.8%) and Australia (10.7%). Given the size of the Dutch mortgage portfolio, the valuation methodology to determine the cover values for the Dutch residential mortgages is provided below.

Dutch mortgages valuation

When a mortgage loan is granted in the Netherlands, the policy dictates maximum loan to market value (LTMV) for an existing property and for construction property financing of 101% (in 2016: 102%). In 2018 the LTMV will reduce further to 100%. The cover values are captured in the local systems which are subsequently fed into a central data system. All valuations are performed by certified valuators that are registered at one of the organisations accepted by ING. In addition, the valuator must be a member of the NVM (Nederlandse Vereniging van Makelaars – Dutch Association of Real Estate Agents), VBO (Vereniging Bemiddeling Onroerend Goed – Association of Real Estate Brokers), VastgoedPRO (Association of Real Estate Professionals) or NVR (Nederlandse Vereniging van Rentmeesters).

Consumer lending portfolio – cover values

The below tables show the values of different covers and the VTL split between performing and non-performing loans.

Cover values including guarantees received - Consumer lending portfolio – 2017

		Cover type						Value to Loan					
	Out-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)	277,776	500,753	2,980	116	23,597	32,104	0.0%	0.0%	0.1%	1.2%	8.5%	90.2%
Residential Mortgages (SME)[1]	4,882	7,411	68	67	155	1,342	0.0%	0.4%	1.2%	1.6%	7.7%	89.1%
Other Consumer Lending	21,791	246	604	142	1,147	4,384	84.6%	0.3%	0.1%	0.2%	0.7%	14.1%
Total Performing	**304,449**	**508,409**	**3,652**	**325**	**24,900**	**37,830**	**6.1%**	**0.1%**	**0.1%**	**1.1%**	**7.9%**	**84.7%**
Non-performing												
Residential Mortgages (Private Individuals)	2,883	4,046	26	4	211	646	0.8%	0.2%	0.6%	4.1%	18.9%	75.4%
Residential Mortgages (SME)[1]	159	249		5	10	21	0.7%	1.9%	0.6%	1.8%	10.7%	84.2%
Other Consumer Lending	857	6	1	4	9	53	95.6%	0.3%	0.1%	0.2%	0.7%	3.0%
Total Non-performing	**3,900**	**4,300**	**27**	**13**	**230**	**720**	**21.6%**	**0.3%**	**0.5%**	**3.1%**	**14.6%**	**59.9%**
Total Consumer Lending	**308,349**	**512,709**	**3,680**	**338**	**25,130**	**38,551**	**6.3%**	**0.1%**	**0.1%**	**1.1%**	**8.0%**	**84.4%**

1 Consists mainly of residential mortgages to small one man business clients

Notes to the Consolidated annual accounts of ING Bank - continued

Cover values including guarantees received - Consumer lending portfolio – 2016

		Cover type						Value to Loan					
	Out-stan-dings	Mort-gages	Eligible Financial Colla-teral	Other CRR/CRD IV eligible	Guaran-tees	Non CRR/CRD IV eligible	No Cover	>0% - 25%	>25%-50%	>50% - 75%	>75% - <100%	≥ 100%
Performing												
Residential Mortgages (Private Individuals)	276,412	473,271	2,754	136	24,664	29,421	0.0%	0.1%	0.1%	1.4%	13.4%	85.0%
Residential Mortgages (SME)[1]	4,439	6,911	62	70	145	827	0.0%	0.4%	0.4%	1.3%	8.6%	89.3%
Other Consumer Lending	19,448	1,599	647	167	761	3,939	83.6%	0.3%	0.2%	0.3%	1.0%	14.6%
Total Performing	**300,299**	**481,781**	**3,463**	**373**	**25,570**	**34,187**	**5.4%**	**0.1%**	**0.1%**	**1.3%**	**12.5%**	**80.6%**
Non-performing												
Residential Mortgages (Private Individuals)	3,197	4,097	29	5	255	567	0.5%	0.3%	0.8%	6.1%	27.4%	64.9%
Residential Mortgages (SME)[1]	176	265	1	10	10	25	0.8%	0.3%	1.1%	2.1%	13.4%	82.3%
Other Consumer Lending	776	13	1	3	11	60	94.1%	0.4%	0.2%	0.3%	1.1%	3.9%
Total Non-performing	**4,149**	**4,375**	**31**	**18**	**276**	**652**	**18.0%**	**0.3%**	**0.7%**	**4.8%**	**21.9%**	**54.3%**
Total Consumer Lending	**304,448**	**486,156**	**3,494**	**391**	**25,846**	**34,839**	**5.6%**	**0.1%**	**0.1%**	**1.4%**	**12.7%**	**80.1%**

1 Consists mainly of residential mortgages to small one man business clients

The collateralisation of the consumer lending portfolio continued to improve over the year 2017. The rise in collateralisation levels was due to improved housing prices, seen over different mortgage markets, driven by the Netherlands as main market.

Total ING Bank's residential mortgage outstandings increased mainly in Australia, Germany and Spain where the coverage ratio is nearly 100% and which further improved the VTL distribution. Mortgage outstandings in the Netherlands continued to decrease due to repayments combined with the run-off and transfer of WU Bank mortgages to NN Bank. Overall NPLs have shown a substantial improvement, especially in the Netherlands.

For the residential mortgages portfolio, the cover type guarantees relates to mortgages covered by governmental insurers under the Nationale Hypotheek Garantie (NHG) in the Netherlands. The NHG guarantees the repayment of a loan in case of a forced property sale.

Business lending portfolio

Business lending accounts for 41.4% of ING Bank's total outstandings. In line with our objective to give stakeholders insight into the portfolio, we present the business lending portfolio per industry breakdown in accordance with the NAICS definition and per region and main market. Business Lending presented in this section does not include pre-settlement, investment and money market exposures, which are outlined in the next sections.

Business lending per economic sector

Cover values including guarantees received - Business lending portfolio – 2017		Cover type					Value to Loan					
Industry	Out-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	50,754	1,090	2,359	20,529	16,162	18,501	32.6%	12.4%	10.5%	10.7%	9.2%	24.6%
Real Estate	49,098	81,749	1,641	1,363	7,179	8,084	6.4%	1.1%	0.9%	3.2%	9.3%	79.2%
Transportation & Logistics	26,352	3,151	139	21,428	6,983	7,734	19.2%	5.0%	1.3%	4.5%	12.9%	57.2%
Commercial Banks	26,265	324	126	2,370	1,624	746	86.2%	1.1%	0.2%	1.0%	2.3%	9.1%
Services	21,369	8,747	2,800	4,318	7,148	12,315	34.8%	4.0%	4.2%	5.8%	9.1%	42.1%
Food, Beverages & Personal Care	18,739	7,170	269	7,791	7,529	15,287	26.2%	4.2%	5.2%	10.7%	11.6%	42.1%
General Industries	18,711	4,676	210	6,529	6,152	12,169	36.9%	3.4%	6.0%	7.7%	8.5%	37.5%
Non-Bank Financial Institutions	17,394	1,774	5,362	13,018	5,070	10,255	36.4%	6.2%	5.0%	8.9%	2.6%	41.0%
Chemicals, Health & Pharmaceuticals	14,905	8,159	240	3,381	3,171	7,239	36.3%	2.6%	3.3%	7.6%	12.1%	38.0%
Builders & Contractors[1]	14,242	6,517	230	4,789	4,535	7,886	35.4%	4.2%	5.0%	6.0%	8.9%	40.4%
Utilities	13,503	777	911	4,134	3,920	6,325	39.7%	8.7%	3.3%	4.8%	6.4%	37.1%
Others[2]	48,821	10,534	899	9,918	21,302	22,444	49.7%	5.3%	4.4%	4.4%	8.3%	27.9%
Total Business Lending	**320,153**	**134,667**	**15,185**	**99,569**	**90,777**	**128,985**	**35.3%**	**5.2%**	**4.3%**	**6.1%**	**8.6%**	**40.6%**
of which Total Non-performing	**8,531**	**4,132**	**441**	**3,261**	**2,947**	**2,877**	**0.23**	**3.9%**	**6.1%**	**7.3%**	**17.0%**	**42.4%**

1 In 2017 the sector 'builders and constructors' is shown seperately.
2 'Others' comprises industries with outstandings below EUR 13 billion.

Notes to the Consolidated annual accounts of ING Bank - continued

Cover values including guarantees received - Business lending portfolio – 2016

		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[1]	64,231	16,805	1,563	13,551	25,657	30,112	51.3%	2.5%	5.2%	5.5%	8.3%	27.2%
Total Business Lending	**310,395**	**128,578**	**17,004**	**89,204**	**98,559**	**132,672**	**33.6%**	**4.1%**	**5.9%**	**7.4%**	**10.6%**	**38.3%**
of which Total Non-performing	***9,438***	***4,352***	***293***	***3,210***	***3,961***	***3,705***	***24.1%***	***4.4%***	***6.4%***	***14.2%***	***13.8%***	***37.2%***

1 'Others' comprises industries with outstandings below EUR 13 billion.

Total business lending outstandings increased by EUR 9.8 billion, after accounting for a decline due to an FX impact of EUR 14.5 billion following the depreciation of the US Dollar. The largest increase in outstandings is visible in Commercial Banks (19.2%) mainly driven by growth in trade related transactions, followed by Real Estate and Services. The largest decrease was observed in Transportation & Logistics where outstandings as well as covers declined, mainly seen in Energy Transportation in the Netherlands and United States.

Similar to the retail lending portfolio, the risk profile of the business lending portfolio continued improving in 2017. Lower NPLs and increased levels of collateralisation contributed to this improvement. The cover values of Real Estate (traditionally a well collateralised sector) further improved during 2017. New transactions were done on more conservative collateral terms and improved values in real estate markets further helped to boost the total coverage in Real Estate. The major part of the overall decrease in non-performing outstandings was in the Real Estate and Telecom (part of Others) industries while an increase was observed in Natural Recourses.

Business lending per region

Cover values including guarantees received - Business lending portfolio – 2017

			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		2,713	10	60	238	2,007	608	26.0%	3.7%	3.2%	9.0%	19.8%	38.2%
America		40,603	4,819	4,504	29,677	6,712	18,799	35.0%	3.5%	5.0%	7.4%	8.4%	40.7%
Asia		41,100	670	1,343	12,319	15,126	9,061	45.8%	10.2%	6.1%	6.4%	4.7%	26.9%
Australia		5,578	4,266	49	1,018	685	857	34.8%	1.3%	3.4%	4.6%	7.3%	48.6%
Europe	Belgium	46,993	32,474	1,280	6,483	18,514	27,670	27.5%	1.9%	2.7%	4.7%	6.4%	56.8%
	Germany	11,952	2,067	41	575	1,485	3,400	56.3%	4.6%	4.3%	4.3%	3.6%	26.8%
	Netherlands	62,391	51,973	2,406	24,229	8,233	13,005	26.5%	2.8%	3.5%	7.7%	15.1%	44.3%
	Rest of Europe	108,822	38,389	5,502	25,029	38,014	55,585	37.8%	6.9%	4.7%	5.3%	7.6%	37.7%
Total Business Lending		**320,153**	**134,667**	**15,185**	**99,569**	**90,777**	**128,985**	**35.3%**	**5.2%**	**4.3%**	**6.1%**	**8.6%**	**40.6%**
of which Non-performing		**8,531**	**4,132**	**441**	**3,261**	**2,947**	**2,877**	**23.2%**	**3.9%**	**6.1%**	**7.3%**	**17.0%**	**42.4%**

Cover values including guarantees received - Business lending portfolio – 2016

			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%***

The two tables above provide the collateralisation of ING Bank's business lending portfolio with a breakdown per geographical region or main market, which are defined based on the residence of the borrowers. The total increase in the business lending portfolio is in line with the increase in covers. Largest increases in outstandings were seen in Germany, Belgium Rest of Europe (mainly Poland and France) and Asia.

The increase in Germany was due to a large increase in central bank deposits. As these deposits are not collateralised this increase had no influence on the total cover amounts. The Rest of Europe increase was mainly observed in Poland C&FI Lending, while the largest increases in France were observed in C&FI Lending and Real Estate. The increase in Asia was driven by trade related transactions in Wholesale Banking Transaction Services despite the decreasing impact from FX changes. The depreciation of the US Dollar impacted the Asian and American Structured Finance portfolios which are primarily denominated in US Dollars.

Pre-settlement portfolio

ING uses various market pricing and measurement techniques to determine the amount of credit risk on pre-settlement activities. These techniques estimate ING's potential future exposure on individual and portfolios of trades. Master agreements and collateral agreements are frequently entered into to reduce these credit risks.

ING matches trades with similar characteristics to determine their eligibility for offsetting. This offsetting effect is called 'compensation'. Therefore, ING reduces the amount by any legal netting that may be permitted under various types of Master Agreements, such as ISDA Master Agreements, Global Master Repurchase Agreements (GMRA), Global Master Securities Lending Agreements (GMSLA), etc. Lastly, the amount is further reduced by any collateral that is held by ING under Credit Support Annexes (CSAs) or other similar agreements.

The use of Central Clearing Parties (CCPs) is becoming more important for the derivatives business and as a consequence the credit risk is shifting from Counterparties to CCPs. In 2017, the notional Pre-Settlement exposure that was cleared via CCPs formed 56.8% of the total notional (55.5% in 2016).

As part of its securities financing business, ING entities actively enter into agreements to sell and buy back marketable securities. These transactions can take many legal forms. Repurchase and reverse repurchase agreements, buy/sell-back and sell/buyback agreements, and securities borrowing and lending agreements are the most common. As a general rule, the marketable securities that have been received under these transactions are eligible to be resold or re-pledged in other (similar) transactions. ING is obliged to return equivalent securities in such cases.

The table below represents the different types of exposures in 2017 and 2016.

- The 'Gross MtM before netting and collateral' is the exposure calculated in accordance with the Current Exposure Method (CEM, which in the EU regulation is referred to as the Mark-to-Market method) without accounting for any netting or collateral benefit;
- The 'MtM after netting' is the exposure, according to the CEM, taking into account the benefit of legally enforceable netting agreements (e.g. ISDAs), but without considering the benefit of margin collateral (e.g. CSAs);
- The 'MtM after netting and collateral' is the exposure according to the CEM, taking into account both the benefit of netting and marginal collateral. In other words, the gap between the 'MtM after netting' and 'MtM after netting and collateral' is the liquid collateral (cash and securities); and
- The outstandings column represents CEM exposure (MtM after netting plus the Potential Future Exposure - PFE) at a 97.5% confidence level for derivatives and securities.

Pre-settlement portfolio

		2017				2016			
Region		Gross MtM before netting and collateral	MtM after netting	MtM after netting and collateral	Out-standings	Gross MtM before netting and collateral	MtM after netting	MtM after netting and collateral	Out-standings
Africa		107	96	85	119	84	49	47	89
America		21,296	10,864	6,846	7,690	20,866	10,891	6,549	9,241
Asia		7,150	3,663	3,020	3,542	8,318	4,743	3,558	3,918
Australia		483	264	241	532	537	303	228	492
Europe	Belgium	5,165	3,761	2,880	2,215	5,463	3,368	2,871	2,455
	Germany	4,481	2,091	1,397	2,264	5,300	2,757	1,842	3,479
	Netherlands	6,701	4,174	2,771	4,062	9,146	5,859	3,741	4,848
	Rest of Europe	104,788	22,404	17,637	24,260	124,173	31,656	26,648	25,481
Total Pre-settlement		**150,171**	**47,316**	**34,877**	**44,685**	**173,887**	**59,626**	**45,484**	**50,003**
of which Non-performing		**23**	**25**	**25**	**29**	***37***	***36***	***36***	***36***

During 2017 the pre-settlement portfolio decreased when expressed in terms of outstandings. The pre-settlement portfolio was mainly concentrated in rest of Europe to a central counterparty clearinghouse and commercial banks in the UK, mostly consisting of interest rate derivatives. The decrease in gross MtM before netting and collateral was also observed in this derivatives portfolio.

Credit quality

Following, the somewhat higher credit risk levels seen as a result of the financial crisis and economic downturn, credit quality has been improving since 2014 and also continued the improving trend in 2017.

Notes to the Consolidated annual accounts of ING Bank - continued

Credit risk categories

	Regular	Watch List	Restructuring [1]	Non-performing [1]
Possible ratings	1–19	1–19	11–20	20-22
Typical ratings	1–14	15–17	18–20	20-22
Deterioration in risk	Not significant	Significant	Significant	Significant
Significant intervention	Not required	Not required	Required	Required
Includes impairments	No	No	Yes	Yes
Account Ownership	Front Office	Front Office	Front Office	Front Office
Credit Risk Management	Regular	Regular	Credit Restructuring	Credit Restructuring
Primary Manager	Front Office	Front Office	Credit Restructuring	Credit Restructuring
Accounting provisioning	IBNR	IBNR	IBNR/INSFA/ISFA	INSFA/ISFA

1 More information on the Restructuring and Non-performing categories can be found in the Credit restructuring section.

Credit quality: ING Bank portfolio, outstandings

	2017	2016
Neither past due nor non-performing	756,803	757,498
Consumer lending past due but performing (1–90 days)	4,352	3,970
Non-performing[1]	12,481	13,597
Total	**773,636**	**775,065**

1 Based on lending and investment activities

The credit quality of the ING portfolio improved with non-performing outstandings which continued to decrease. The decrease was mainly observed in Retail Netherlands and the Real Estate Finance portfolio. The reduction in the non-performing portfolio was due to write-offs combined with positive rating migration to the performing portfolio. The increase in the past due but performing portfolio mainly resulted from a change in the days count methodology related to IFRS 9.

Past due obligations

Retail Banking continuously measures its portfolio in terms of payment arrears and on a monthly basis it is determined if there are any significant changes in the level of arrears. This methodology is principally extended to loans to private individuals, such as residential mortgage loans, car loans, and other consumer loans. An obligation is considered 'past due' if a payment of interest or principal is more than one day late. ING aims to help its customers as soon as they are past due by communicating (e-mail, SMS, letter or outbound call) to remind them on their payment obligations. In its contacts with the customers, ING aims to solve the (potential) financial difficulties by offering a range of measures (e.g. payment arrangements, restructuring). If the issues cannot be cured, for example because the customer is not able or not willing to pay, the contract is sent to the recovery unit. The facility is downgraded to risk rating 20 (non-performing) when arrears exceed 90 days past due and to risk rating 21 or 22 (no more cure) when the contract is terminated. The table below captures all past due exposures starting from day 1.

Aging analysis (past due but performing): ING Bank consumer lending portfolio, outstandings[1]

	2017	2016
Past due for 1–30 days	3,464	3,368
Past due for 31–60 days	724	532
Past due for 61–90 days	163	70
Total	**4,352**	**3,970**

1 Based on consumer lending. The amount of past due but performing financial assets in respect of non-lending activities was not significant.

Total past due exposure for consumer loans increased by EUR 0.4 billion. The deterioration in past due obligations was a result of the change in the days count methodology related to IFRS 9 and was mainly seen in the 31-60 days bucket and the 61-90 days. The increase in the 1-30 days bucket was driven by increased residential mortgage exposure in Netherlands Retail and Poland Retail, the increase was offset by a decrease in past due exposure in Australia.

Aging analysis (past due but performing): ING Bank consumer lending portfolio by geographic area, outstandings[1]

		2017			2016
Region		Residential Mortgages	Other retail	Total	Total
Africa		1		1	1
America		3		3	2
Asia		1		1	2
Australia		251		251	540
Europe	Belgium	1,123	547	1,671	1,444
	Germany	407	89	497	251
	Netherlands	1,028	35	1,062	947
	Rest of Europe	411	455	866	783
Total		**3,225**	**1,127**	**4,352**	**3,970**

1 Based on consumer lending. The amount of past due but performing financial assets in respect of non-lending activities was not significant.

Wholesale Banking: for business loans (governments, institutions, and corporates), ING classifies the relevant obligors as non-performing when any of the following default triggers occurs:

- The borrower has failed in the payment of principal or interest/fees and such payment failure has remained unresolved for the following period:
  - Corporates: more than 90 days; and
  - Financial Institutions and Governments: from day 1, however, a research period of 14 calendar days will be observed in order for ING to establish whether the payment default was due to non-operational reasons (i.e. the deteriorated credit quality of the financial institution) or due to operational reasons. The latter does not trigger default.
- ING believes the borrower is unlikely to pay: the borrower has evidenced significant financial difficulty, to the extent that it will have a negative impact on the future cash flows of the financial asset. The following events could be seen as examples of financial difficulty indicators:
  (1) The borrower (or third party) has started insolvency proceedings.
  (2) NPL status of a group company/co-borrower.
  (3) Significant fraud (affecting the company's ability to service its debt)
  (4) There is doubt as to the borrowers' ability to generate stable and sufficient cash flows to service its debt.
  (5) Restructuring of debt
- ING has granted concessions relating to the borrower's financial difficulty, the effect of which is a reduction in expected future cash flows of the financial asset below current carrying amount.

Wholesale Banking has an individual name approach, using Early Warnings indicators to signal possible future issues in debt service.

Credit restructuring

Global Credit Restructuring (GCR) is the dedicated and independent department that deals with non-performing loans and loans that hold a reasonable probability that ING will end up with a loss, if no specific action is taken. GCR deals with accounts or portfolios requiring an active approach, which may include renegotiation of terms & conditions and business or financial restructuring. This concerns mainly WB clients. The loans are managed by GCR or by units in the various regions and business units.

ING uses three distinct statuses in categorizing the management of clients with (perceived) deteriorating credit risk profile, i.e. there is doubt as to the performance and the collectability of the client's contractual obligations:

- **Watch List**: Usually, a client is first classified as Watch List when there are concerns of any (potential or material) deterioration in the credit risk profile that might affect the ability of the client to adhere to its debt service obligations or to refinance its existing loans. Watch List status requires more than usual attention, increased monitoring and quarterly reviews. Some clients with a Watch List status may develop into a Restructuring status or even a Recovery status.
- **Restructuring**: A client is classified as Restructuring when there are concerns about the client's financial stability, credit worthiness and/or its ability to repay, but where the situation does not call for recalling or acceleration of facilities or liquidating the collateral. ING's actions aim to maintain the going concern status of the client by:
  - Restoring the client's financial stability;
  - Supporting the client's turnaround;
  - Restoring the balance between debt and equity; and
  - Restructuring the debt to a sustainable situation.
- **Recovery:** A client is classified as in Recovery when ING and/or the client concludes that the client's financial situation cannot be restored and a decision is made to end the (credit) relationship or even to enter into bankruptcy. ING will prefer an amicable exit, but will enforce and liquidate collateral or claim under the guarantees if deemed necessary.

Watch List, Restructuring and Recovery are discussed at least on a quarterly basis between Front Office, respective Credit Risk Management executives and GCR, at which time it may be decided to change the status of an account from Watch List to Restructuring or Recovery or vice versa.

Non-performing loans
ING's loan portfolio is under constant review. Loans with past due financial obligations of more than 90 days are reclassified as non-performing. For commercial lending portfolios, there generally are reasons for declaring a loan non-performing prior to being 90 days past due. These reasons include, but are not limited to, ING's assessment of the customer's perceived inability to meet its financial obligations, or the customer filing for bankruptcy or bankruptcy protection.

The table below represents the breakdown by industry of credit risk outstanding for lending and investment positions that have been classified as non-performing.

Non-performing Loans: ING Bank portfolio, outstandings by economic sector

Industry	2017	2016
Private Individuals	4,094	4,382
Natural Resources	1,742	1,387
Real Estate	1,523	1,808
Transportation & Logistics	983	1,056
Builders & Contractors	863	955
General Industries	612	710
Services	578	689
Food, Beverages & Personal Care	570	705
Other[1]	1,516	1,905
Total	**12,481**	**13,597**

1 Economic sectors not specified in above overview are grouped in Other.

The overall amount of NPLs decreased in 2017, mainly witnessed in the Private Individuals and Real Estate sectors. The decrease in NPLs for Private Individuals was mainly due to the improved credit quality in the Retail Benelux portfolio as a result of the improved economic conditions in the Netherlands and Belgium. The decline in NPLs in the Real Estate sector was observed in Real Estate Finance Netherlands and was driven by both cures and write-offs. Other significant decreases were witnessed in Food, Beverages & Personal Care, General Industries, Services and Builders & Contractors. The overall decrease in NPLs was offset by an increase in NPLs in the Natural Resources portfolio, observed in Wholesale Banking Structured Finance Netherlands and Belgium, and was driven by a few clients becoming non-performing during 2017. The decreased NPLs in "Other" were driven by the industries Telecom, Retail, Automotive and Media.

Provisioning
Loan Loss Provisions (LLP) are calculated and accounted for in accordance with IFRS. LLP are reported for financial assets that are measured against amortised costs (loans and receivables, held-to-maturity investments). There are three types of LLP:
- Individually Significant Financial Asset (ISFA) provisions: when there is objective evidence that a financial asset is defaulted as result of one or more prescribed default trigger events. In such cases, ING assigns a risk rating 20, 21 or 22. Specific provisions are calculated if the exposure to a borrower exceeds the threshold amount. The threshold amount varies per business unit, but generally is EUR 1 million. Provisions are calculated based on discounted future cash flows under 1 or more likely scenarios to arrive at a best estimate of future recoveries. Provisions are made on a quarterly basis.
- Individually Not Significant Financial Asset (INSFA) provisions: are made for non-performing loans (ratings 20-22), if the exposure to a borrower is below the threshold amount. A collective model based approach is taken to determine these provisions; and
- Incurred But Not Recognised (IBNR) provisions: are made for the 'performing' loan portfolio as an estimate or proxy for the losses/defaults that may have already occurred in the portfolio. The PD time horizon used in the calculation of IBNR provisions refers to the period during which an asset is impaired (in default), but not yet recognised as such - due to lack of objective evidence – and the moment that objective evidence of impairment occurs and becomes available to ING ('loss emergence period').

ISFA, INSFA and IBNR provisions are reported and calculated by using common standards across ING. In case there is objective evidence that one of the default triggers is applicable, ISFA or INSFA provisions are calculated. An analysis takes place on a quarterly basis in order to determine the appropriate level of LLP and Risk Costs. The ING Provisioning Committee (IPC) discusses and approves the LLP for ING, on the basis of proposals originating from ING's business units.

At the end of 2017, ING Bank held specific (ISFA) and collective provisions (INSFA) of EUR 2,511 million and EUR 1,391 million, respectively (2016: EUR 3,044 million and EUR 1,443 million, respectively), representing the difference between the amortised cost of the portfolio and the estimated recoverable amount discounted at the effective rate of interest. In addition, there was EUR 726 million (2016: EUR 821 million) in provisions (IBNR) against the performing portfolio.

Provisions: ING Bank portfolio[1,2]

	Wholesale Banking		Retail Benelux		Retail Challengers & Growth Markets		Total ING Bank	
	2017	2016	2017	2016	2017	2016	2017	2016
Opening Balance	2,147	2,371	1,884	2,199	1,277	1,216	5,308	5,786
Amounts written off	-566	-625	-519	-681	-194	-188	-1,279	-1,494
Recoveries of amounts written off	3	49	53	38	3	7	59	94
Net addition to loan loss provisions	284	367	117	347	274	260	676	974
Exchange rate or other movements	-92	-15	-2	-19	-42	-18	-136	-52
Closing Balance	1,776	2,147	1,533	1,884	1,318	1,277	4,628	5,308

1 At the end of 2017, the stock of provisions included provisions for amounts due from banks: EUR 8 million (2016: EUR 11 million).
2 Includes EUR 104 million provisions for contingent liabilities (2016: EUR 119 million).

The favourable trend in risk costs continued during the year 2017. ING Bank recorded EUR 676 million of risk costs in 2017, down from EUR 974 million in 2016. Risk costs improved to 22 basis points of the average RWA (2016: 31 basis points). The total stock of provisions decreased by EUR 0.7 billion to EUR 4.6 billion as net additions were more than offset by amounts written off. The provisions coverage ratio decreased to 37.1% (2016: 39.0%) driven by a stronger decrease in provisions than a decline in non-performing loan outstandings.

The Retail Benelux and Wholesale Banking portfolios continued to improve and were the contributors to the decline in the stock of provisions. Retail risk costs were substantially lower in Retail Netherlands due to improved macro-economic and Dutch housing market conditions. In Wholesale Banking, risks costs were lower as a result of significant releases combined with limited increases. The lower stock of provisions was mainly observed in Real Estate Finance and the Netherlands Wholesale Banking portfolio, which was partly offset by increased provisions in the Belux Wholesale Banking loan book. The Retail Challengers & Growth Markets increase in stock of provisions was mainly observed in Poland and Spain, which was partly offset by a decrease in Germany.

Challenges continued in the shipping industries and oil & gas while on the other hand, improved risk profiles were witnessed in other portfolios of the bank such as the residential mortgages portfolio.

Large parts of the investment portfolio are not accounted for at amortised costs and therefore out of scope for LLP. Instead, these assets are evaluated for impairment. The ING Bank Impairment Meeting is held quarterly and reviews all assets that are subject to an IFRS-EU impairment test.

As of 1 January 2018, the IFRS 9 accounting rules on loan loss provisioning will be implemented. These accounting rules will not change the actual credit losses, but will have an impact on the timing of the reflection of these losses in the P&L. Where in current accounting practice loan loss provisions are booked from the moment losses are incurred, under IFRS 9 loan loss provisions are booked given expected losses. More specifically, loan loss provisioning becomes more forward-looking under IFRS 9 partly due to the fact that provisions will be based on the macroeconomic outlook. Furthermore, loan loss provisioning will be calculated on lifetime expected losses for assets that have been significantly deteriorated in credit quality. As a result of these elements, loan loss provisioning in the P&L could become more volatile.

Forbearance

Forbearance occurs when a client is considered to be unable to meet its financial commitments under the contract due to financial difficulties and ING decides to grant concessions towards the client. Forborne exposures are exposures in respect of which forbearance measures have been granted. Forbearance measures can be either modifications to existing contractual terms and conditions or total or partial refinancing. Within ING, forbearance is based on the European Implementing Technical Standards.

To identify forbearance, ING assesses clients with Early Warning Signals, Watch List, Restructuring, Default or Recovery status. ING reviews the performance of forborne exposures at least quarterly, either on a case-by-case (business) or on a portfolio (retail) basis.

For corporate customers, ING applies forbearance measures to support clients with fundamentally sound business models that are experiencing temporary difficulties. The aim is to maximise the repayment ability of the clients.

For ING retail units, clear criteria have been established to determine whether a client is eligible for forbearance – generally as part of an automated process. Specific approval mandates are in place to approve the measures, as well as procedures to manage, monitor and report the forbearance activities.

Exposures with forbearance measures can be either performing (Risk Ratings 1-19) or non-performing (Risk Ratings 20-22). ING applies criteria to move forborne exposures from non-performing to performing as well as criteria to remove the forbearance status that are consistent with the corresponding EBA standards. An exposure is reported as forborne for a minimum of two years, plus a probation period of one year is observed for forborne exposures to move from non-performing back to performing.

ING Bank: Summary Forborne assets[1]

	2017				2016			
Business Line	Forborne assets	Of which: Perfor-ming	Of which: Non-Perfor-ming	% of total portfolio	Forborne assets	Of which: Perfor-ming	Of which: Non-Perfor-ming	% of total portfolio
Wholesale Banking	6,162	2,776	3,386	2.1%	7,776	3,978	3,799	2.7%
Retail Banking	5,657	3,074	2,583	1.3%	7,104	3,944	3,159	1.7%
Total	**11,819**	**5,849**	**5,969**	**1.6%**	**14,880**	**7,922**	**6,958**	**2.1%**

1 Undrawn commitments are excluded.

ING implemented its forbearance policy in 2014. In 2016 based on a detailed re-assessment of the relevant standards set by EBA and subsequent regulatory guidance, ING tightened the definitions under its forbearance policy. As a result of these revisions in definition and scope, performing forborne exposure recognized by ING increased significantly in 2016 as measures taken in previous periods were then recognized as forbearance. Examples of measures taken were commercially justifiable measures, modifications of covenants as well as waivers of covenant breaches.

Due to further refinement of aforementioned policy, recognition of forborne assets has been changed from client level to facility level as a result of which forborne assets have substantially reduced.

ING's forborne assets decreased by EUR 3.1 billion (21%) to EUR 11.8 billion per 2017, of which Wholesale Banking decreased by EUR 1.6 billion and Retail Banking decreased by EUR 1.4 billion.

Wholesale Banking

As per end of December 2017, Wholesale Banking forborne assets amounted to a total of EUR 6.2 billion, which represented 2.1% of the total Wholesale Banking portfolio.

Wholesale Banking: Forborne assets by geographical area[1]

		2017			2016		
Region		Forborne assets	Of which: Perfor-ming	Of which: Non-Perfor-ming	Forborne assets	Of which: Perfor-ming	Of which: Non-Perfor-ming
Europe	Netherlands	1,593	816	777	2,200	1,100	1,100
	Belgium	223	105	118	245	103	142
	Germany	45	23	22	41	13	28
	Rest of Europe	2,456	867	1,589	3,016	1,496	1,521
Africa		156	84	72	197	112	85
America		1,212	584	628	1,387	709	678
Asia		428	291	137	663	445	218
Australia		49	7	42	27		27
Total		**6,162**	**2,776**	**3,386**	**7,776**	**3,978**	**3,799**

1 Undrawn commitments are excluded.

The main concentration of forborne assets in a single country was in the Netherlands with 26% (2016: 28%) of the total Wholesale Banking forborne assets. Wholesale Banking forborne assets decreased by EUR 1.6 billion compared to 2016, of which performing EUR 1.2 billion and non-performing EUR 0.4 billion. Underlying, main changes were in the Netherlands and Asia where forborne assets decreased by EUR 0.6 billion and EUR 0.2 billion respectively. The decrease in the Netherlands was mainly driven by repayments and write offs, the decrease in Asia was mainly visible in Transportation & Logistics (EUR 0.1 billion) and Natural Resources (EUR 0.1 billion), driven by the respective Shipping and Oil & Gas portfolio's.

Wholesale Banking: Forborne assets by economic sector[1]

	2017			2016		
Industry	Forborne assets	Of which: Perfor-ming	Of which: Non-Perfor-ming	Forborne assets	Of which: Perfor-ming	Of which: Non-Perfor-ming
Natural Resources	1,995	743	1,251	2,385	1,232	1,152
Real Estate	1,467	824	643	1,775	1,015	759
Transportation & Logistics	988	398	590	1,319	685	634
Builders & Contractors	435	174	261	429	269	160
General Industries	329	140	189	411	112	299
Services	289	137	151	414	198	216
Food, Beverages & Personal Care	199	139	60	207	141	66
Utilities	177	9	168	259	58	201
Retail	82	56	26	49	18	31
Chemicals, Health & Pharmaceuticals	56	52	4	76	65	11
Non-Bank Financial Institutions	51	49	3	12	7	5
Telecom	39	14	25	152	39	114
Other	55	40	15	290	139	150
Total	**6,162**	**2,776**	**3,386**	**7,776**	**3,978**	**3,799**

1 Undrawn commitments are excluded.

Wholesale Banking forborne assets were mainly concentrated in Natural Resources, Real Estate and Transportation & Logistics. Together they accounted for 72% (2016: 70%) of the total Wholesale Banking forborne assets and 73% (2016: 67%) of the total Wholesale Banking non-performing forborne assets. Decreases in forborne assets were mainly in the Natural Resources (EUR 0.4 billion), Real Estate (EUR 0.3 billion) and Transportation & Logistics (EUR 0.3 billion) industries.

Retail Banking

As per end of December 2017, Retail Banking forborne assets amounted to a total of EUR 5.7 billion, which represented 1.3% of the total Retail Banking portfolio.

Retail Banking: Forborne assets by geographical area[1]

		2017			2016		
Region		Forborne assets	Of which: Perfor-ming	Of which: Non-Perfor-ming	Forborne assets	Of which: Perfor-ming	Of which: Non-Perfor-ming
Europe	Netherlands	3,036	1,727	1,309	4,301	2,395	1,906
	Belgium	1,096	399	697	1,139	418	721
	Germany	541	432	109	644	511	132
	Rest of Europe	639	342	297	651	335	317
Africa		1		1	1		1
America		1		1	3		2
Asia		2	2		1		1
Australia		342	172	170	364	285	79
Total		**5,657**	**3,074**	**2,583**	**7,104**	**3,944**	**3,159**

1 Undrawn commitments are excluded.

The main concentration of forborne assets in a single country was in the Netherlands with 54% of the total Retail Banking forborne assets (2016: 61%) and 51% of the non-performing forborne assets (2016: 60%). Retail banking forborne assets decreased by EUR 1.4 billion compared to 2016, and was mainly visible in consumer lending and mortgages. Specifically forborne assets decreased by EUR 0.6 billion in the Dutch Residential mortgage portfolio. Due to a continued improved economic environment, visible by the increasing house prices and improved credit worthiness of our clients.

Securitisations

ING primarily plays three roles in its exposure to securitisations programs which are:

ING as Investor
ING's goal is to maintain a portfolio of high quality liquid assets that meets the regulatory requirements of CRR/CRD IV and the Delegated Act of October 2014 regarding liquidity. ING invests in high quality Asset Backed Securities (ABS) keeping close track of the securitisation investment positions via monthly monitoring reports and weekly update calls. Additionally, ING may invest in securitisation positions in order to facilitate client business from its Disintermediation & Asset Securitisation unit.

ING as Originator
ING occasionally originates its own securitisation transactions for economic and regulatory capital purposes, as well as liquidity and funding purposes. Securitisations originated by a company may only be considered for balance sheet de-recognition when the requirements for significant credit risk transfer have been fulfilled. ING has executed a very limited number of external transactions as originator.

ING as Sponsor
In the normal course of business, ING structures financing transactions for its clients by assisting them in obtaining sources of liquidity by selling the clients' receivables or other financial assets to a special purpose vehicle (SPV). Senior positions in these transactions are often funded by the ING administered multi-seller asset backed commercial paper (ABCP) conduit Mont Blanc Capital Corp. (rated A-1/P-1). Mont Blanc Capital Corp. funds itself externally in the ABCP markets. In its role as administrative agent, ING facilitates these transactions by providing structuring, accounting, funding and operations services. ING also provides support facilities (liquidity facilities) backing the transactions funded by the conduit. Mont Blanc is fully consolidated into the ING annual accounts.

Market risk

Introduction
Market risk is the risk that movements in market variables, such as interest rates, equity prices, foreign exchange rates, credit spreads and real estate prices negatively impact the bank's earnings, capital, market value or liquidity position. Market risk either arises through positions in banking books or trading books. The banking book positions are intended to be held for the long-term (or until maturity) or for the purpose of hedging other banking book positions. The trading book positions are typically held with a short-term trading intent or in order to hedge other positions in the trading book. This means that financial instruments in the trading books should be free of restrictions on their tradability. Policies and processes are in place to monitor inclusion of positions into either a trading or a banking book and transfer of risk from trading to banking book and vice versa.

ING recognises the importance of sound market risk management and bases its market risk management framework on the approach to identify, assess, control and manage market risks. The approach consists of a cycle of five recurring activities: risk identification, risk assessment, risk control, risk monitoring and risk reporting.

- Risk identification is a joint effort of the first and second line of defence (the 'three lines of defence governance' model is explained in the risk governance paragraph of the general risk management section). Its goal is to detect potential new risks and changes in known risks;
- Identified risks are assessed and measured by means of various risk metrics to determine the importance of the risk to ING Bank and subsequently to identify the control measures needed;
- Control measures used by ING include policies, procedures, minimum standards, limit frameworks, buffers and stress tests;
- An important element of risk management is to continuously monitor whether the implemented risk controls are executed and complied with and check that the controls are effective; and
- Market risk management results and findings are reported to the governing departments and approval bodies.

Governance
A governance framework has been established defining specific roles and responsibilities of business management units, market risk management units and internal approval bodies per activity.

Supervision of market risk falls under responsibility of the Management Board Banking (MBB) and is delegated to the ALCO function, where ALCO Bank is the highest approval authority and sets the market risk appetite. ALCO Bank monitors adherence to the risk appetite for market risk and sets additional limits where appropriate. These limits are cascaded through the organisation through lower level ALCO's. This ALCO structure facilitates top-down risk management, limit setting and the monitoring and control of market risk.

Monitoring and control of market risk are within the responsibilities of FR and Financial Institutions – Financial Markets (FI-FM) Risk. FR and FI-FM Risk are the designated departments of the second line of defence, independent from the first line of defence (front office) that report to the CRO function and that are responsible for the design and execution of the bank's market risk and counterparty credit risk management functions in support of the ALCO function. FR focuses on the market risks in the banking books, the Capital Management department and the Bank Treasury department, whereas FI-FM is responsible for counterparty credit risk and market risks resulting from the Financial Markets trading books. FR and FI-FM Risk are responsible for determining adequate policies and procedures for actively managing market risk in banking and trading books and for monitoring the compliance with these guidelines.

Besides monitoring and control of market risk, FR and FI-FM maintain a limit framework in line with ING's Risk Appetite Framework. The businesses are responsible for adhering to limits that are ultimately approved by ALCO Bank. Limit excesses are reported to senior management on a timely basis and the business is required to take appropriate actions to reduce the risk position. To adhere to the established limit framework, ING implements hedging and risk mitigation strategies that range from the use of traditional market instruments, such as interest rate swaps, to more sophisticated hedging strategies to address a combination of risk factors arising at the portfolio level.

The organisational structure facilitates top-down risk management by recognising that risk taking and risk management to a large extent occur at the regional/local level. Bottom-up reporting from regional/local units to head office units allows each management level to fully assess the market risk relevant at the respective levels.

Several committees govern the communication between the parties involved in market risk management. Market Risk Model Committee (MRMC) is the highest dedicated authority within ING for the approval of all trading and banking risk models, methodologies and parameters related to market risk. Trading Pricing Model Committee (TPMC) approves pricing models for trading and banking books. The GCTP is the highest dedicated authority with representatives from Financial Risk, CRO Challengers & Growth Markets and CRO Wholesale Banking for the approval of policies, models, methodologies and parameters related to credit risk and trading risk and for consideration of risk appetite and risk governance. Systematic risk reporting takes place by departments of Financial Risk and FI-FM Risk to the EB and MBB, senior executive management of CRO function and senior executive management of related business functions.

FI-FM Risk Management Framework governs the boundary between trading books and banking books. It defines the activities ING considers to be trading according to a regulatory definition and as constituting part of the trading book for own funds requirement purposes. Trading activity is systematically reviewed and positions against the mandates are assessed jointly by first and second lines of defence. As specified in the framework, transfer of risk or positions between banking and trading books is not allowed.

This market risk paragraph elaborates on the various elements of the risk management framework for:
- Market risk economic capital for trading and banking books;
- Market risks in the banking books; and
- Market risks in the trading books.

Economic capital for market risk

Economic capital for market risk is the economic capital necessary to withstand unexpected value movements due to changes in market variables and model risk.

Economic Capital for market risk is calculated for exposures both in trading portfolios and banking portfolios and includes interest rate risk, credit spread risk, equity price risk, foreign exchange rate risk, real estate risk, model risks and pension risk. Economic capital for market risk is calculated using internally developed methodologies with a 99.95% confidence interval and a horizon of one year.

For the trading books, the linear interest rate risk in the banking books and equity investments, the Value at Risk (VaR) is taken as a starting point for the economic capital calculations for market risk. The VaR is measured at a 99% confidence interval, a one day holding period and under the assumption of an expected value of zero.

To arrive at the economic capital for market risk, a simulation based model is used which includes scaling to the required confidence interval and holding period. In determining this scaling factor, several other factors are also taken into account like the occurrence of large market movements (events) and management interventions.

Embedded options, e.g. the prepayment option and offered rate option in mortgages in the banking books, result in non-linear interest rate risk in the banking books. The embedded options are economically hedged using a delta-hedging methodology, leaving the mortgage portfolio exposed to convexity and volatility risk. For the calculation of economic capital for this non-linear interest rate risk ING performs a Monte Carlo simulation.

Real estate price risk includes the market risks in both the real estate investment and the development portfolio of ING Wholesale Banking. The economic capital for real estate price risk is calculated by stressing the underlying market variables.

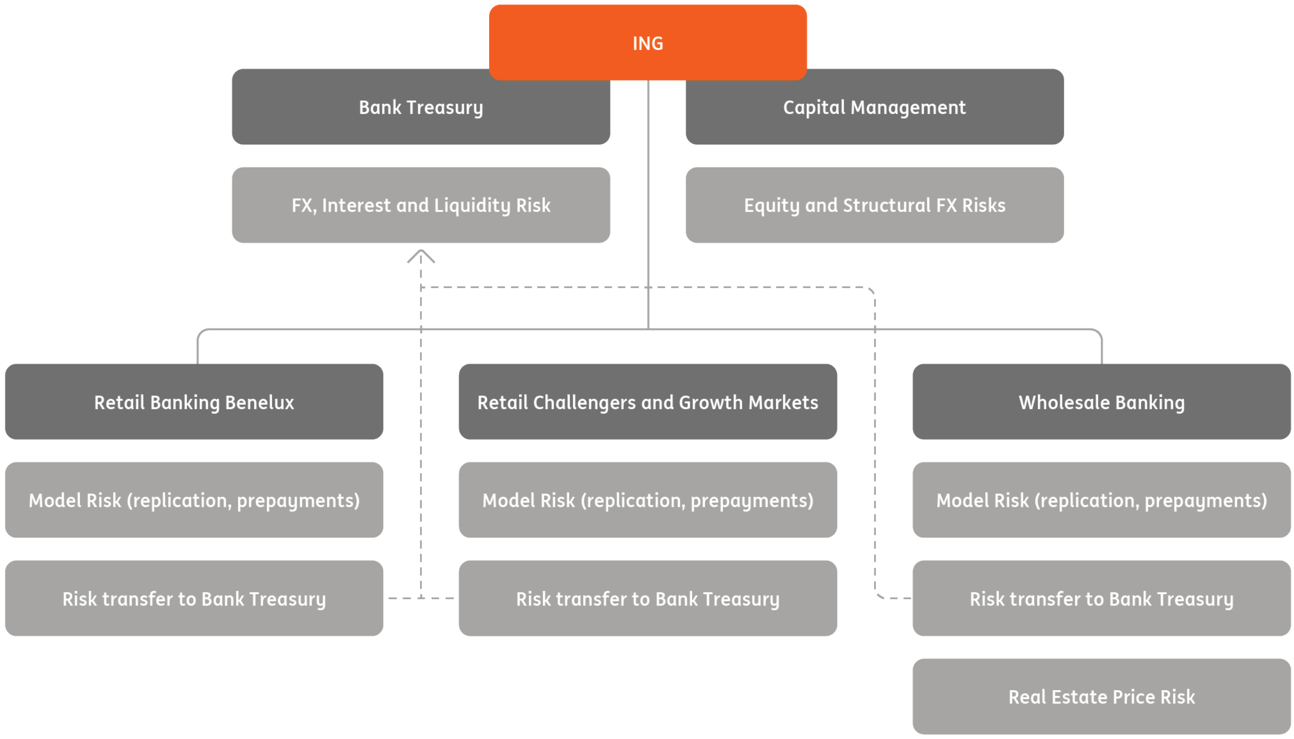
While aggregating the different economic capital market risk figures for the different portfolios, diversification benefits (based on stressed correlations) are taken into account as it is not expected that all extreme market movements will appear at the same moment.

Market risk in banking books

ING makes a distinction between trading and banking (non-trading) books. Positions in banking books originate from the market risks inherent in commercial products that are sold to clients, the Bank Treasury exposures and from the investment of own funds (core capital). Both the commercial products, and the products used to hedge market risk exposures in these products are intended to be held until maturity, or at least for the long-term.

Risk transfer

An important element of the management of market risks in the banking books is the process of risk transfer. In this process the interest rate, FX, funding and liquidity risks are transferred from the commercial books through matched funding to Bank Treasury, where it is centrally managed. The scheme below presents the transfer and management process of market risks in the banking books:



In November 2017, it was approved to merge Bank Treasury and Capital Management into a new department named Group Treasury. This merge is expected to be completed by June 2018.

Risk measurement

The main concepts and metrics used for measuring market risk in the banking books are described below per risk type.

Interest rate risk in banking book

Interest rate risk in the banking books is defined as the exposure of a bank's earnings, capital and market value to adverse movements in interest rates originated from positions in the banking books.

Governance

The management of interest rate risk follows the interest rate risk in the banking book framework as approved by ALCO Bank. This framework describes roles and responsibilities, risk metrics, and it defines the policies and procedures related to interest rate risk management. Furthermore, on an overall level, ALCO Bank sets the risk appetite for interest rate risk, which is translated into limits for interest rate risk metrics.

ING's approach to interest rate risk management, as set forth in this framework, is centralisation of risks from commercial books (that capture the products sold to clients) to central interest rate risk books. This enables a clear demarcation between commercial business results and results on unhedged interest rate positions.

ING distinguishes three types of activities that generate interest rate risk in the banking books:
- Investment of own funds (by Capital Management)
- Commercial business (e.g. Retail business)
- The strategic interest rate position (Bank Treasury)

Below the three activities are described in more detail:

Capital Management is responsible for managing the investment of own funds (core capital), more information can be found in the Capital Management section. Capital is invested for longer periods, targeting to maximise return, while keeping earnings stable.

The commercial activities can result in linear interest rate risk, for example when re-pricing tenors of assets differ from those of liabilities. Also interest rate risk can arise from customer behaviour depending on the nature of the underlying product characteristics. Customer behaviour risk is defined as the potential future value loss due to deviations in the actual behaviour of clients versus the modelled behaviour towards the embedded options in commercial products. General sources of customer behaviour risk include the state of the economy, competition, changes in regulation, legislation and tax regime, and developments in the housing market. Since these risk factors cannot be (fully) mitigated, ING holds capital to be able to absorb possible losses as a result of changed customer behaviour.

From an interest rate risk perspective the commercial activities can typically be divided into three main product types: savings and demand deposits, mortgages and loans.
- Savings and demand deposits are generally invested with the goal to hedge their value and minimize the sensitivity of the margin to market interest rates. Interest rate risk can arise when there is a lag between savings rate adjustments versus adjustments experienced through market rates or when market rate changes cannot be passed on to clients. The interest rate risk is modelled based on the stability of the deposit and the pass through rate. This takes into account different elements, such as pricing strategies, volume developments and the level and shape of the yield curve. Savings volumes are typically assumed not to be sensitive to interest rate shocks;
- Interests rate risk for mortgages arises through prepayment behaviour. In modelling this risk, interest rate dependent pre-payments are considered. Next to dependence on interest rates, modelled prepayment may include other effects such as loan to value, seasonality and age of the loan. In addition, the interest sensitivity of embedded offered rate options is considered; and
- Wholesale Banking loanstypically do not experience interest rate prepayment behavior they are hedged from an interest rate risk perspective and therefore not contain significant convexity risk.

Customer behaviour in relation to mortgages, loans, savings and demand deposits is modelled, based on extensive research. Per business unit and product type, exposures are typically segmented into different portfolios based on expected client behaviour. For each of the segments, model parameters for example for the pass through rate and customer behaviour are determined based on historical data and expert opinion. Models are typically back tested at least semi-annually and updated when deemed necessary. Model parameters and the resulting risk measures are approved by (local) ALCO.

Linear interest rate risk is transferred from the commercial business to the treasury books (Bank Treasury), if necessary using estimations of customer behaviour. The originating commercial business is ultimately responsible for estimating customer behaviour, leaving convexity risk and (unexpected) customer behaviour risk with the commercial business. Risk measurement and the risk transfer process take place on a monthly basis, but more often if deemed necessary, for instance in volatile markets.

The commercial business manages the convexity risk that is the result of products that contain embedded options, like mortgages. Here the convexity risk is defined as the optionality effects in the value due to interest rate changes, excluding the first-order effects. In some cases, convexity risk is transferred from the commercial books to treasury books using cap/floor contracts.

Bank Treasury manages the strategic interest rate position excluding capital investments. The main objective is to maximise the economic value of the book and to generate adequate and stable annual earnings within the risk appetite boundaries set by ALCO Bank.

In the following sections, the interest rate risk exposures in the banking books are presented. ING uses risk measures based on both an earnings and a value perspective. Net Interest Income (NII)-at-Risk is used to provide the earnings perspective and the Net Present Value (NPV)-at-Risk and Basis Point Value (BPV) figures provide the value perspective. Please note that corrective management actions are not taken into account in these figures although price adjustments are included in the earnings risk measure.

Developments relating to IRRBB
During 2017 ING implemented a number of refinements to the risk measurement for IRRBB following the review and update of the interest rate risk policy and minimum standards. The following refinements were implemented during 2017:
- To accommodate interest rate scenarios to go negative, while in previous years the downward scenarios contained a floor of 0% on the interest rates (in line with regulatory guidelines).

- Implementation of currency specific scenarios calculated from historical data aligned to the overall risk appetite framework, whereas previously the same scenario (+/-100bps) for different currencies was applied.
- The scenarios for the earnings perspective (NII) are applied gradually over a 12 month (ramped) period whereas previously the scenarios were applied instantaneously.
- Addition of the market spreads in the calculation of the NPV-at-Risk measure.
- Savings model updates for market developments

Net Interest Income (NII) at Risk
NII-at-Risk measures the impact of changing interest rates on (before tax) net interest income of the banking books for year one. This excludes credit spread sensitivity and longer term earnings impact. The NII-at-Risk figures in the tables below reflect a parallel interest rate shock with a time horizon of one year. Next to parallel scenarios also the impact of non-parallel scenarios and the impact over a longer horizon is part of IRRBB monitoring and management. The NII-at-Risk asymmetry between the downward scenario and upward shock scenarios is primarily caused by the convexity risk in the mortgage and savings portfolio due to the embedded options and pricing constraints.

NII-at-Risk banking books per business - year 1

	2017		2016	
	Ramped, unfloored		Instantaneous, floored	
	parallel ▼	parallel ▲	parallel ▼	+100 bps
By business				
Wholesale Banking	-185	201	-15	138
Retail Banking Benelux	17	-48	-73	-88
Retail Challengers & Growth Markets	101	-133	20	58
Corporate Line Banking	-24	13	8	116
Total	**-91**	**33**	**-60**	**224**

The NII-at-Risk is mainly influenced by the sensitivity of savings to interest rate movements due to pass through rate differences between savings rates and investment yields and is partially offset by the sensitivity of mortgages. The investment of own funds only impacts the Earnings sensitivity marginally, as only a relatively small part has to be (re)invested within the 1-year horizon.

NII-at-Risk banking book per currency - year 1

	2017		2016	
	Ramped, unfloored		Instantaneous, floored	
	parallel ▼	parallel ▲	parallel ▼	+100 bps
By currency				
Euro	-83	9	-54	186
US Dollar	10	-20	-14	19
Other	-19	44	8	19
Total	**-91**	**33**	**-60**	**224**

Year-on-year variance analysis
The revised IRRBB measures explain to a large extent the change in NII-at-Risk, foremost the difference in the shock applied. Previous year the earnings sensitivity was calculated based on an instantaneous upward and downward floored scenario of 100bps while as of March 2017, the NII-at-Risk is calculated based on a gradual upward – and downward unfloored scenario. In 2016 the same scenario (+/-100bps) for different currencies was applied while as of 2017 currency specific scenarios were calculated.

Further, the change in NII-at-Risk for Retail Challengers & Growth Markets is driven by the savings model updates for market developments in Italy, Spain and ING Germany.

Wholesale Banking shows a more negative NII sensitivity in the downward scenario as a result of the removal of the floor.
The change in NII-at-Risk for the Corporate Line is due to investments in longer tenors of own funds.

Net Present Value (NPV) at Risk
NPV-at-Risk measures the impact of changing interest rates on value. The NPV-at-Risk is defined as the outcome of an instantaneous increase and decrease in interest rates applying currency specific scenarios. The NPV-at-Risk asymmetry between the downward and upward shock is primarily caused by convexity risk in the mortgage and savings portfolio. The NPV-at-Risk figures are also calculated using the updated approach for interest rate movements.

The full value impact cannot be directly linked to the balance sheet or profit and loss account, as fair value movements in banking books are not necessarily reported through the profit and loss account or through equity. The value mutations are expected to materialise over time in the profit and loss account, if interest rates develop according to forward rates throughout the remaining maturity of the portfolio.

NPV-at-Risk banking books per business

	2017		2016	
		unfloored		floored
	parallel ▼	parallel ▲	parallel ▼	+100 bps
By business				
Wholesale Banking	309	-184	-157	-19
Retail Banking Benelux	-492	-468	-224	-287
Retail Challengers & Growth Markets	-368	-17	328	-435
Corporate Line Banking	1,476	-1,404	115	-1,186
Total	**926**	**-2,073**	**61**	**-1,926**

NPV-at-Risk banking books per accounting category

	2017		2016	
		unfloored		floored
	parallel ▼	parallel ▲	parallel ▼	+100 bps
By accounting category				
Amortised costs	-2,390	1,052	114	248
Available for Sale	2,839	-2,719	115	-2,153
Fair value through profit and loss	476	-406	-168	-21
Total	**926**	**-2,073**	**61**	**-1,926**

The NPV-at-Risk is dominated by the interest rate sensitive long-term investments of own funds, as the equity itself is not modelled and hence is not presented as an offset for the investments of own funds. The value of these investments is impacted significantly if interest rates move up. The asymmetry between the NPV-at-Risk for a downward scenario and an upward shock is primarily caused by the convexity risk due to (embedded) optionality in the savings and mortgage portfolio.

Year-on-year variance analysis
NPV-at-Risk for the downward scenario changed by EUR 865 million during 2017. The main driver of the positive change is the Corporate Line Banking due to the removal of the floor. The removal of the floor is the main contributor to the change in the downward scenario for the other business lines next to the model updates for the savings portfolio for Retail Banking Benelux and Retail Challengers & Growth Markets.

The NPV-at-Risk in the upward scenario changed by EUR -147 million. The change for the Corporate Line can be attributed to longer term investments. The changes for Retail Banking Benelux and Retail Challengers & Growth Markets are due to the savings model updates.

The change in impact per accounting category for both the downward and upward scenario is primarily a result of the update of the IRRBB measures. In the downward scenario the change in the NPV-at-Risk is a result of the removal of the floor. The downward and upward scenario for the Available for Sale and Fair value through profit and loss accounting category show a more symmetric impact as a result of the removal of the floor.

Basis Point Value (BPV)
BPV measures the impact of a one basis point increase in interest rates on value. To a large extent the BPV and NPV-at-Risk reflect the same risk - the difference being that BPV does not reflect convexity risk, given the small shift in interest rates.

BPV banking books per currency

in EUR thousand	2017	2016
By currency		
Euro	-18,446	-13,043
US Dollar	-1,417	-550
Other	1,583	-1,303
Total	**-18,280**	**-14,896**

In line with NPV-at-Risk, the bank's overall BPV position is dominated by the long-term investment of own funds, as the present value of this position is significantly impacted if interest rates move up by one basis point.

Year-on-year variance analysis
The overall BPV decreased by EUR 3.4 million to EUR -18.3 million in 2017. This mainly results from longer term investments of own funds in Corporate Line (BPV impact of EUR -3.9 million).

Foreign exchange (FX) risk in banking books
FX exposures in banking books result from core banking business activities (business units doing business in other currencies than their base currency), foreign currency investments in subsidiaries (including realised net profit and loss) and strategic equity stakes in foreign currencies. The policy regarding these exposures is briefly explained below.

Governance – Core banking business
Every business unit hedges the FX risk resulting from core banking business activities into its base currency. Consequently, assets and liabilities are matched in terms of currency.

Governance – FX translation result
ING's strategy is to keep the target CET1 ratio within a certain range when FX rates fluctuate, whilst limiting the volatility in the profit and loss account. Therefore, hedges are only done to the extent that hedge accounting can be applied. Taking this into account, the CET1 ratio hedge can be achieved by deliberately taking foreign currency positions equal to certain target positions, such that the target CET1 capital and risk-weighted assets are equally sensitive in relative terms to changing FX rates. A selection of emerging market currencies that meet specific requirements do not have a target position, but are allowed to remain open under the policy.

Risk profile – FX translation result
The following table presents the currency exposures in the banking books for the most important currencies for FX translation result. Positive figures indicate long positions in the respective currency. As a result of the strategy to hedge the CET1 ratio a net foreign currency exposure exists.

Net banking currency exposures banking books

	Foreign Investments		Hedges		Net exposures	
	2017	2016	2017	2016	2017	2016
US Dollar	**2,487**	2,852	**4**	280	**2,491**	3,133
Pound Sterling	**667**	701		-128	**667**	573
Polish Zloty	**2,398**	1,927	**-618**	-584	**1,780**	1,344
Australian Dollar	**3,769**	3,856	**-2792**	-3,324	**977**	532
Turkish Lira	**1,828**	2,066		-3	**1,828**	2,063
Chinese Yuan	**2,762**	3,012		-161	**2,762**	2,851
Korean Won	**954**	958	**-817**	-779	**137**	179
Indian Rupee	**937**	714			**937**	714
Brazilian Real	**211**	253			**211**	253
Russian Rouble	**549**	589	**-154**	-224	**395**	364
Other currency	**2,828**	2,863	**-1,200**	-1,472	**1,628**	1,391
Total	**19,390**	19,792	**-5,576**	-6,396	**13,815**	13,396

In order to measure the sensitivity of the target CET1 ratio against FX rate fluctuations, the Historical Value at Risk is used based on historical series of the last 12 months FX rates. It measures the drop in the CET1 ratio from the target based on historical FX rates. Based on these time series and with a probability of 1%, the drop in the CET1 ratio would be 0.16%. As this methodology has been newly developed in 2017, the comparable 2016 measure is not available.

Equity price risk in banking books

Governance
ING maintains a strategic portfolio with substantial equity exposure in its banking books. Local offices are responsible for the management of the equity investments positions. Financial Risk is responsible for monitoring the regulatory capital for Equity Investments on a monthly basis and it acts independently from the management in monitoring these positions.

Risk Profile
Equity price risk arises from the possibility that equity security prices will fluctuate, affecting the value of equity securities and other instruments whose value reacts similarly to a particular security, a defined basket of securities, or a securities index. ING's equity exposure mainly consists of the investments in associates and joint ventures of EUR 947 million (2016: EUR 1,003 million) and equity securities held in the available-for-sale (AFS) portfolio of EUR 3,983 million (2016: EUR 4,024 million). The value of equity securities held in the available-for-sale portfolio is directly linked to equity security prices with increases/decreases being recognised in the revaluation reserve, except in the case of impairment. Investments in associates and joint ventures are measured in accordance with the equity method of accounting and the balance sheet value is therefore not directly linked to equity security prices.

Equities Unrealised Gains and Losses in the AFS portfolio

	2017	2016
Gross unrealised gains	2,478	2,675
Gross unrealised losses	-4	-19
Total	**2,474**	**2,656**

Year-on-year variance analysis
The revaluation reserve relating to equity securities held in the available-for-sale portfolio moved from EUR 2,656 million per year end 2016 to EUR 2,474 million per year end 2017. In 2017 the AFS portfolio slightly decreased by EUR 41 million to EUR 4.0 billion, the decrease in the value of the investment in Bank of Beijing and some sales of equity stakes was largely compensated by the increase in value of the stake in Kotak Mahindra Bank.

Real Estate price risk in banking books
Real Estate price risk arises from the possibility that real estate prices fluctuate. This affects both the value of real estate assets and earnings related to real estate activities.

Governance
Real Estate is a run-off business consisting of Real Estate Development and Real Estate Investment Management activities which are being wound down by sale of assets, strict execution of contract maturity or through portfolio sales.

Risk profile
ING has two main different categories of real estate exposure on its banking books: first, its own buildings which ING occupies, and second, development assets, which mostly consists of former Real Estate Development and Real Estate Investment Management activities. The total real estate exposure amounts to EUR 0.9 billion (excluding property from foreclosures and third party interest). ING has EUR 0.1 billion recognised at fair value through profit and loss and EUR 0.8 billion is recognised at cost or revalued through equity (with impairments going through profit and loss). A split on the real estate exposure per continent and sector based on the risk management view is shown below.

Real Estate market risk exposure in banking books (by geographic area and sector type)

	2017	2016		2017	2016
Continent			**Sector**		
Europe	**827**	969	Residential	**72**	104
Americas	**25**	36	Office	**785**	895
Australia	**0**	0	Retail	**8**	19
Asia	**0**	0	Industrial	**12**	18
Other	**82**	104	Other	**57**	72
Total	**934**	1,109	**Total**	**934**	1,108

Main exposure arises from office buildings in own use located in Netherlands and Belgium (EUR 0.78 billion), as well as retail and residential exposures in Europe (EUR 0.08 billion).

Year-on-year variance analysis
In total, real estate market risk exposure in the banking books decreased by nearly EUR 0.2 billion mainly as a result of divestments. The remainder is due to impairments and fair value changes.

Market risk in trading books
Within the trading portfolios, positions are maintained in the professional financial markets. These positions are often a result of transactions with clients and may serve to benefit from short-term price movements. In 2017, ING continued its strategy of undertaking trading activities to develop its client-driven franchise and deliver a differentiating experience by offering multiple market and trading products efficiently and effectively.

Governance
The Financial Markets Risk Committee (FMRC) is the market risk committee that, within the risk appetite set by ALCO Bank, sets market risk limits both on an aggregated level and on a desk level, and approves new products. FI-FM Risk advises both FMRC and ALCO Bank on the market risk appetite of trading activities.

With respect to the trading portfolios, FI-FM Risk focuses on the management of market risks of Wholesale Banking (mainly Financial Markets) as this is the only business line within ING where trading activities take place. Trading activities include facilitation of client business and market making. FI-FM Risk is responsible for the development and implementation of trading risk policies and risk measurement methodologies, the reporting and monitoring of risk exposures against approved trading limits and the validation of pricing models. FI-FM Risk also reviews trading mandates and limits, and performs the gatekeeper role in the product review process. The management of market risk in trading portfolios is performed at various organisational levels. FI-FM Risk Management Framework defines policies and procedures for the overall management of trading books. Trading activity is systematically reviewed and positions against the mandates are assessed jointly by first and second lines of defence.

Fair values of financial assets and liabilities
ING aligns the pricing sources it uses with the Fair Value Hierarchy. The best evidence of Fair Value are published price quotations in active markets. Where quoted prices are not available, other pricing sources and valuation techniques are used to determine fair value.

Examples of other pricing sources are, independent market vendors, brokers, or recent transactions. The range of prices obtained from these sources can diverge. The choice for one or the other pricing source can therefore result in different estimates of fair value. Selecting the most appropriate price within this range requires expertise and judgement. The selection of the pricing sources used is subject to internal approval and review in the Market Data Committee.

Valuation techniques range from discounting of cash flows to valuation models. Such models are based on relevant risk factors such as the market price of underlying reference instruments, market parameters (volatilities, correlations and credit ratings) and customer behaviour. Some of these risk factors require assumptions which imply that valuation models are subjective by nature. Depending on what valuation technique is used and what assumptions are made, the obtained fair value can be different. Hence the implied downward and/or upward uncertainty of the accounting value may vary. For a classification of fair valued exposure to products in accordance with their degree of valuation uncertainty, refer to the section 'Financial instruments at fair value' of Note 34 'Fair value of assets and liabilities'.

All valuation models used are subject to a model governance framework. Model governance refers to a set of policies and procedures that have to be strictly followed and that cover the complete lifecycle of a model, i.e. its development, validation, approval, implementation, and maintenance. The pillars of the model governance framework are independent validation and periodic review. A periodic review aims to determine whether a model is still appropriate for its intended use. Where models are used for valuations, there can be uncertainty on the assumptions of the underlying models and/or parameters. In those cases where significant uncertainty on assumptions arises, a model risk valuation adjustment is applied.

In general, positions are valued by taking the bid price for a long position and the offer price for a short position. In cases where positions are marked at mid-market prices, a fair value adjustment is calculated.

ING has aligned existing fair valuation adjustments with the regulatory standards for fair valued instruments issued by EBA, hence where possible it follows a unified valuation framework which meets both IFRS and CRR requirements. This approach is supported by a bank-wide valuation policy framework. Detailed methodologies for fair valued instruments per product and degree of liquidity are available. These cover among others close out costs and mid-price uncertainty. Benefits of this framework and chosen approach are a significant increase in consistency and transparency of the fair valuation of financial instruments across different locations and books. For compliance with EBA regulatory standards an additional valuation adjustment through capital on the concentrated positions (the Concentration AVA) of EUR 13 million after tax is booked for ING in 2017. On a quarterly basis all valuation adjustments are discussed and approved in the Global Pricing and Impairment Committee (GP&IC). This committee oversees the valuation framework and Independent price verification.

To include credit risk in the fair valuation, ING applies both credit and debit valuation adjustments (hereafter referred to as respectively, CVA and DVA). Own issued debt and structured notes that are priced at Fair Value are adjusted for credit risk by means of an own credit adjustment. Additionally, derivatives valued at fair value are adjusted for credit risk by a credit valuation adjustment. This CVA is of a bilateral nature; both the credit risks on the counterparty as well as on ING are included in the adjustment. All market data that is used in the determination of the CVA is based on market implied data. Additionally, wrong-way risk (when exposure to a counterparty increases and the credit quality of that counterparty decreases) and right way risk (when exposure to a counterparty decreases and the credit quality of that counterparty decreases) are included in the adjustment. ING also includes the CVA component in its pricing of the credit risk for new external trades with counterparties. Risk limits and controls are in place to monitor and anticipate CVA risk on a daily basis. The CVA is managed by global risk governance, where the risk limits and controls for CVA are managed and monitored on a global level. The approach of ING on CVA risk management is driven by increased control, cost efficiency and the global scope of CVA.

ING applies a Funding Valuation Adjustment (FVA) to address the funding costs associated with the collateral funding asymmetry on uncollateralized or partially collateralized OTC derivatives in the portfolio. This adjustment is based on the expected exposure profiles of the uncollateralized or partially collateralized OTC derivatives and market-based funding spreads.

FI-FM Risk has the role to challenge the valuation and pricing sources used in the valuation models by Front Office. FI-FM Risk performs independent price verification to ensure that valuations are correct. The independent price verification and valuation adjustments are confirmed in the local parameter committee. To ensure segregation of duties between Front Office and FI-FM Risk, the systems for pricing and price testing are secured in order to prevent unauthorised access.

Risk measurement

ING uses a comprehensive set of methodologies and techniques to measure market risk in trading books: Value at Risk (VaR) and Stressed Value at Risk (SVaR), Incremental Risk Charge (IRC), and Event Risk (stress testing). Systematic validation processes are in place to validate the accuracy and internal consistency of data and parameters used for the internal models and modelling processes.

Basel Committee/CRD IV
ING follows the regulatory framework set out in the Capital Requirements Regulation (CRR/CRD IV) for its regulatory capital calculations. The BCBS is performing a Fundamental Review of the Trading Book (FRTB), which may have a significant impact on the Pillar I calculations. In December 2017 the Governors and Heads of Supervision (GHOS) presented the final Basel 3 update package, in this package the new BCBS target date for implementation and start of reporting of FRTB is 1 January 2022.

Value at Risk
FI-FM Risk uses the historical simulation VaR methodology as its primary risk measure. The VaR for market risk quantifies, with a one-sided confidence level of 99%, the maximum overnight loss that could occur in the trading portfolio of ING due to changes in risk factors (e.g. interest rates, equity prices, foreign exchange rates, credit spreads, implied volatilities) if positions remain unchanged for a time period of one day. Next to general market movements in these risk factors, VaR also takes into account market data movements for specific moves in e.g. the underlying issuer of securities. A single model that diversifies general and specific risk is used. In general a full revaluation approach is applied, only for a limited number of linear trading positions and a limited number of risk factors in commodity and equity risk classes a sensitivity-based approach is applied. The potential impact of historical market movements on today's portfolio is estimated, based on equally weighted observed market movements of the previous year (260 days). When simulating potential movements in risk factors, depending on the risk factor type either an absolute or a relative shift is used. The data used in the computations is updated daily. ING uses VaR with a 1-day horizon for internal risk measurement, management control, and backtesting, and VaR with a 10-day horizon for determining regulatory capital. To compute VaR with a 10-day horizon the one day risk factor shifts are scaled by the square root of ten and then used as input for the revaluation. The same model is used for all legal entities within ING with market risk exposure in the trading portfolio.

Limitations
VaR has some limitations, such as the following: VaR uses historical data to forecast future price behaviour. Future price behaviour could differ substantially from past behaviour. Moreover, the use of a one-day holding period (or ten days for regulatory capital calculations) assumes that all positions in the portfolio can be liquidated or hedged in one day. In periods of illiquidity or market events, this assumption may not hold. Also, the use of 99% confidence level means that VaR does not take into account any losses that occur beyond this confidence level.

Backtesting
Backtesting is a technique for the ongoing monitoring of the plausibility of the VaR model in use. Although VaR models estimate potential future trading results, estimates are based on historical market data. In a backtest, the actual daily trading result (excluding fees and commissions) is compared with the 1-day VaR. In addition to using actual results for backtesting, ING also uses hypothetical results, which excludes the effect of intraday trading, fees, and commissions. When the actual or hypothetical loss exceeds the VaR, an 'outlier' occurs. Based on ING's one-sided confidence level of 99%, an outlier is expected once in every 100 business days. In 2017 there were no occurrences where an actual or hypothetical daily trading loss exceeded the daily consolidated VaR of ING. ING reports the backtesting results on a quarterly basis to ECB.

Stressed VaR
The SVaR is intended to replicate a VaR calculation that would be generated on the bank's current portfolio with inputs calibrated to the historical data from a continuous 12-month period of significant financial stress relevant to the bank's portfolio. To calculate SVaR, ING uses the same model that is used for VaR with a 10-day horizon. The historical data period used currently includes the height of the credit crisis around the fall of Lehman Brothers, and is reviewed regularly. The historical data period is chosen so that it gives the worst scenario loss estimates for the current portfolio. The same SVaR model is used for management purposes and for regulatory purposes. The same model is used for all legal entities within ING with market risk exposure in the trading portfolio.

Incremental Risk Charge
The IRC for ING is an estimate of the default and migration risks for unsecuritised credit products in the trading book, over a one-year capital horizon, with a 99.9% confidence level. The same IRC model is used for all legal entities within ING with market risk exposure in the trading portfolio. Non-securitised trading positions of ING, which are subject to specific interest rate risk included in the internal model approach for market risk regulatory capital, are in scope of the IRC model. By model choice, equity is excluded from the model. For the calculation of IRC, ING performs a Monte-Carlo simulation based on a Gaussian copula model. The asset correlations used in the Gaussian copula model are determined using the IRB correlation formula. The rating change is simulated for all issuers over the different liquidity horizons (i.e. time required to liquidate the position or hedge all significant risks) within one year. Movements across different rating categories and probabilities of default are governed by a credit-ratings transition matrix. An external transition matrix is obtained from Standard & Poor's (S&P). The financial impact is then determined for the simulated migration to default, or for the simulated migration to a different rating category, based on LGD or credit spread changes, respectively.

The liquidity horizon has been set to the regulatory minimum of three months for all positions in scope. ING reviews the liquidity horizons regularly based on a structured assessment of the time it takes to liquidate the positions in the trading portfolio.

ING periodically assesses the compliance of the IRC model with the regulatory requirements by performing gap analyses, substantiating the modelling choices, and quantifying the impact of alternative approaches.

Stress Testing and Event Risk

Stress Testing and Event Risk are valuable risk management tools. Event Risk evaluates the bank's financial stability under severe but plausible stress scenarios and assists in decision-making aiming to maintain the bank being a financially healthy going-concern institution after a severe event occurs. In addition to the bank-wide stress test framework as described in the stress testing section, FI-FM Risk performs separate stressed scenario tests under Event Risk framework to monitor market risks under extreme market conditions. Since VaR in general does not produce an estimate of the potential losses that can occur as a result of extreme market movements, ING uses structured stressed scenario tests to calculate Event Risk for monitoring the market risk under these extreme conditions. Event Risk is based on historical as well as hypothetical extreme scenarios. The result is an estimate of the profit and loss caused by a potential event and its world-wide impact for ING. The Event Risk number for the ING trading activity is generated on a weekly basis. Like VaR, Event Risk is limited by ALCO Bank.

ING's Event Risk policy is based on a large set of possible stress scenarios per risk type (fixed income, equity, foreign exchange, credit and related derivative markets). In stress scenarios, shocks are applied to prices (credit spreads, interest rates, equity, commodities, and fx rates) and volatilities. Depending on the type of stress test, additional scenario assumptions could be made, for example on correlations, dividends, or recovery rates. For example, for equity products both a crisis scenario (prices decrease) as well as a bull scenario (prices increase) are assumed. Scenarios are calculated based on events happening independently, jointly by region, or in all countries simultaneously. This way, for each risk type, a large set of scenarios is calculated. The worst scenarios per market are combined across markets by assessing both independent events per market, and worst events happening in all markets at the same time.

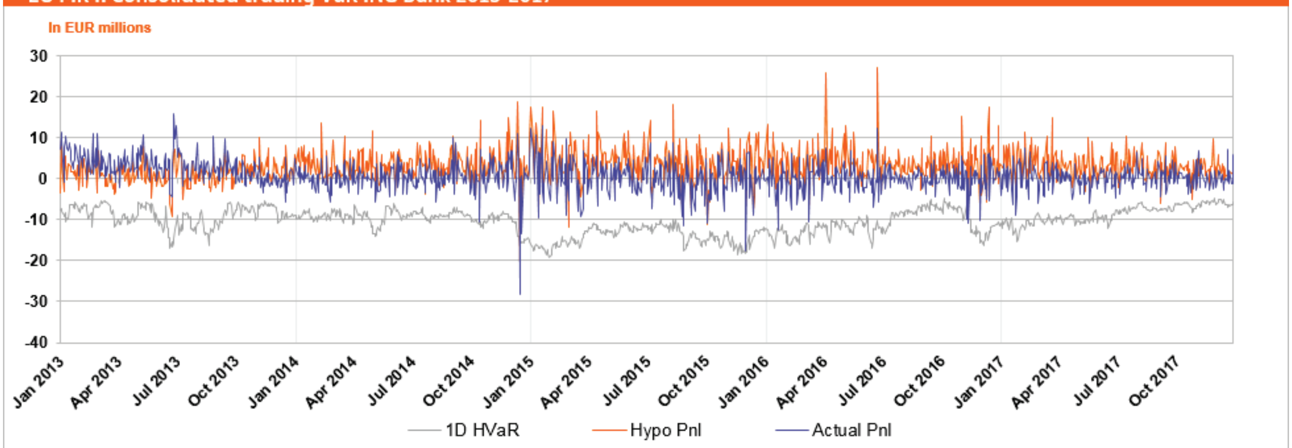
Other trading controls

VaR and Event Risk limits are the most important limits to control the trading portfolios. Additionally, limits have been set on SVaR and IRC. Furthermore, ING uses a variety of other controls to supplement these limits. Position and sensitivity limits are used to prevent large concentrations in specific issuers, sectors, or countries. In addition to this, other risk limits are set with respect to the activities in complex derivatives trading. The market risk of these products is controlled by product specific limits and constraints.

Risk profile

The following chart shows the development of the overnight VaR under a 99% confidence interval and a 1-day horizon versus actual and hypothetical daily trading profits and losses. In calculation of the hypothetical daily profit and loss, the trading position is kept constant and only the market movement is taken into account. The overnight VaR is presented for the ING trading portfolio from 2013 to 2017.

EU MR4: Consolidated trading VaR ING Bank 2013-2017[1]



1 CVA risk is not included in VaR. Reserves are not included in the P&L figures.

The risk figures in the table below only relate to the trading books for which the internal model approach is applied.

1d VaR for Internal Model Approach trading portfolios[1]

	Minimum		Maximum		Average		Year end	
amounts in millions of euros	2017	2016	2017	2016	2017	2016	2017	2016
Interest rate	3	3	8	10	4	5	4	5
Equity and commodity	1	2	4	11	3	5	2	4
Foreign exchange	1	1	4	5	2	2	1	2
Credit spread	3	4	7	11	5	6	4	7
Diversification[2]					-7	-7	-6	-12
Total VaR	**4**	**5**	**9**	**22**	**6**	**11**	**5**	**6**

1 CVA risk is not included in VaR.
2 The total VaR for the columns Minimum and Maximum cannot be calculated by taking the sum of the individual components since the observations for both the individual markets as well as total VaR may occur on different dates.

In 2017, the average VaR was at a lower level compared to last year, as notable also in different risk types. Over these two years (2016-2017), the trading portfolios saw a decline in both the level and the volatility of 1-day VaR, thanks to the development of equity derivatives trading strategy and generally more positive market conditions.

EU MR3: Internal Model Approach values for trading portfolios

amounts in millions of euros		2017	2016
VaR (10 day 99%)			
1	Maximum value	43	64
2	Average value	22	33
3	Minimum value	14	9
4	Period end	17	36
Stressed VaR (10 day 99%)			
5	Maximum value	96	131
6	Average value	56	72
7	Minimum value	33	40
8	Period end	67	84
Incremental Risk Charge (99.9%)			
9	Maximum value	158	292
10	Average value	114	207
11	Minimum value	78	120
12	Period end	78	120
Comprehensive Risk capital charge (99.9%)			
13	Maximum value	n/a	n/a
14	Average value	n/a	n/a
15	Minimum value	n/a	n/a
16	Period end	n/a	n/a

Risk position changes were also reflected in the 10 day VaR and 10 day Stressed VaR statistics. Compared to 10 day VaR in 2016, in 2017 position changes led to lower maximum, average, and a lower 10 day VaR at year-end. Similar dynamics are observed in 10 day Stressed VaR. The overall decrease in IRC in 2017 was largely caused by decreased debt exposures to a number of sovereigns.

Regulatory Capital

According to the Capital Requirements Regulation (CRR/CRD IV), regulatory capital (own funds requirements) for market risk can be calculated using the standardised approach or an internal model approach. ING received regulatory approval to use an internal model to determine the regulatory capital for the market risk in all trading books of ING. Market risk capital of trading books is calculated according to the CRR, using internal VaR, SVaR, and IRC models, where diversification is taken into account. Commodities risk in the banking books is calculated under Internal Model Approach. However, mismatches in foreign exchange risk from the banking books are calculated using Standardised Approach with fixed risk weights. ING does not have a Correlation Trading Portfolio or any other securitisations in the trading book.

Standardised Approach

EU MR1: Market risk under Standardised Approach

amounts in EUR millions		2017 RWA	2017 Capital requirements	2016 RWA	2016 Capital requirements
Outright products					
1	Interest rate risk (general and specific)				
2	Equity risk (general and specific)				
3	Foreign exchange risk	1,074	86	1,081	87
4	Commodity risk				
Options					
5	Simplified approach				
6	Delta-plus method				
7	Scenario approach				
8	Securitization (specific risk)				
9	**Total**	1,074	86	1,081	87

The market risk regulatory capital under Standardized Approach is fully driven by the foreign exchange risk in the banking books. The foreign exchange risk in the banking books in 2017 remained at comparative level to 2016.

Internal Model Approach

EU MR2-A: Market risk under Internal Model Approach

amounts in EUR millions		2017 RWA	2017 Capital requirements	2016 RWA	2016 Capital requirements
1	**VaR (higher of values a and b)**	**649**	**52**	**1,123**	**90**
(a)	Previous day's VaR (Article 365(1) (VaRt-1))	209	17	449	36
(b)	Average of the daily VaR (Article 365(1)) on each of the preceding sixty business days (VaRavg) x multiplication factor ((mc) in accordance with Article 366)	649	52	1,123	90
2	**SVaR (higher of values a and b)**	**1,750**	**140**	**2,546**	**204**
(a)	Latest SVaR (Article 365(2) (sVaRt-1))	842	67	1,054	84
(b)	Average of the SVaR (Article 365(2) during the preceding sixty business days (sVaRavg) x multiplication factor (ms) (Article 366)	1,750	140	2,546	204
3	**Incremental risk charge -IRC (higher of values a and b)**	**1,205**	**96**	**1,910**	**153**
(a)	Most recent IRC value (incremental default and migration risks section 3 calculated in accordance with Section 3 articles 370/371)	981	78	1,500	120
(b)	Average of the IRC number over the preceding 12 weeks	1,205	96	1,910	153
4	**Comprehensive Risk Measure – CRM** (higher of values a, b and c)				
(a)	Most recent risk number for the correlation trading portfolio (article 377)				
(b)	Average of the risk number for the correlation trading portfolio over the preceding 12-weeks				
(c)	8 % of the own funds requirement in SA on most recent risk number for the correlation trading portfolio (Article 338(4))				
5	**Total**	**3,604**	**288**	**5,579**	**446**

The decrease in market risk regulatory capital for trading as of 2017 is mainly due to a decrease in exposures to sovereign issuers and as a result of a decrease in IRC, and a change in risk positions during 2017 that resulted in decreases in VaR and SVaR. The main changes in risk positions throughout the year were in trading books within credit and interest rate asset classes, including CVA hedge portfolio. The CVA hedges are capitalized under market risk framework, while CVA is capitalized under credit risk framework according to Basel rules.

Sensitivities

As part of the risk monitoring framework, FI-FM Risk actively monitors the daily changes of sensitivities of the trading portfolios. Sensitivities measure the impact of movements in individual market risk factors (foreign exchange rates, interest rates, credit spreads, equity, and commodity prices) on profit and loss results of the trading positions and portfolios.

The following tables show the five largest trading foreign exchange positions, and interest rate and credit spread sensitivities. The credit spread sensitivities are furthermore split in different risk classes and sectors. Due to the nature of the trading portfolios, positions change from day to day.

Most important foreign exchange year-end trading positions

amounts in EUR millions	2017		2016
Foreign exchange		Foreign exchange	
US Dollar	-45	US Dollar	201
Polish Zloty	28	Romanian New Leu	45
South Korean Won	26	Chinese Yuan	-40
Japanese Yen	-21	South Korean Won	-22
Taiwan New Dollar	21	Czech Koruna	21

Most important interest rate and credit spread sensitivities at year-end

amounts in EUR thousands	2017		2016
Interest Rate (BPV[1])		**Interest Rate (BPV[1])**	
US Dollar	141	Euro	-119
Russian Ruble	-66	South Korean Won	-44
Japanese Yen	61	Polish Zloty	-32
Taiwan New Dollar	52	Indian Rupee	-23
Polish Zloty	47	Romanian New Leu	22
Credit Spread (CSO1[2])		**Credit Spread (CSO1[2])**	
United States	341	United States	333
Supranational	-92	Germany	173
India	-78	Belgium	74
France	63	India	-38
Netherlands	-60	Poland	-38

1 Basis Point Value (BPV) measures the impact on value of a 1 basis point increase in interest rates. The figures include commodity risk in banking books.
2 Credit Spread Sensitivity (CS01) measures the impact on value of a 1 basis point increase in credit spreads. Exposures to supranational institutions are not assigned to a specific country.

Credit spread sensitivities per risk class and sector at year-end

		2017		2016
amounts in EUR thousands	Corporate	Financial Institutions	Corporate	Financial Institutions
Credit Spread (CSO1[1])				
Risk classes				
1 (AAA)	-20	-233	-3	-48
2–4 (AA)	-5	-53	-21	26
5–7 (A)	-83	-87	13	-9
8–10 (BBB)	-127	-151	-126	-154
11–13 (BB)	-78	-90	-104	-88
14–16 (B)	-14	-2		-9
17–22 (CCC and NPL)	-4	-1	-1	-2
Not rated			1	1
Total	**-331**	**-618**	**-241**	**-283**

1 Credit Spread Sensitivity (CS01) measures the impact on value of a 1 basis point increase in credit spreads.

Funding and liquidity risk

Introduction

Funding and liquidity risk is the risk that ING Bank or one of its subsidiaries cannot meet its financial liabilities when they come due, at reasonable cost and in a timely manner. ING incorporates funding and liquidity management in its business strategy, applying a funding and liquidity risk framework in order to manage such risks within pre-defined limits. The main objective of ING's funding and liquidity risk management is to maintain sufficient liquidity to ensure safe and sound operations under normal market circumstances and in times of stress.

Governance

Within ING 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.

Liquidity risk management within ING falls under the supervision of the ALCO function, which determines the liquidity risk (limit) framework and appetite after which this is cascaded down in the organisation. ING's liquidity risk framework is based on the three lines of defence concept, whereby risk principles are implemented, monitored and controlled in conjunction with both first and second line functions within the bank.

Bank Treasury and Capital Management are 1st line of defence functions and its main funding and liquidity responsibilities are to manage ING's (regulatory) liquidity and funding position. Bank Treasury together with Capital Management are ING's primary contacts to the market for long and short term funding. In November 2017, it was approved to merge Bank Treasury and Capital Management into a new department named Group Treasury. This merge is expected to be completed by June 2018.

The 2nd line Financial Risk function is responsible for defining the governance with regard to funding and liquidity management and sets the standards for the funding and liquidity risk approach (identify, assess, control, monitor and report). Furthermore, it determines adequate policies and procedures for managing and monitoring liquidity risk and it checks compliance with guidelines and limits.

Funding & Liquidity Management Framework

The liquidity buffer ING holds is part of the counterbalancing capacity, i.e. the total of available sources and measures within ING to generate liquidity (including also limiting professional lending), and serves as a cushion for liquidity needs under normal and stressed conditions.

The size and composition of the Liquidity buffer depends on ING's risk appetite and regulatory liquidity standards. In the buffer, only assets are included that are 'unencumbered' and freely available for liquidity purposes. Bank Treasury ensures functional management of all liquidity buffers within ING, both buffers at ING level and buffers at local business unit level.
The liquidity buffer is held as an insurance against a range of stress scenarios, covering the additional need for liquidity that may arise over a defined short period of time under stress conditions.

Stress testing allows ING to examine the effect of exceptional but plausible future events on the liquidity position of the bank and provides insight into which entities, business lines or portfolios are vulnerable to which type of risks and/or in which type of scenarios. In line with SREP and EBA guidance, ING's liquidity position is stress tested on a monthly basis under a particular scenario that is a mix between a market event and an ING specific event. The outcomes of stress tests are evaluated and provide input to any follow-up on the need for additional contingency measures.

ING also monitors an internal net liquidity position metric, which is reported on a consolidated (bank) level for the main entities and split in euro and US Dollar. On a monthly basis ING reports the Liquidity Coverage Ratio (LCR) and an internally defined stress scenario related to a specific time-to-survive period. Additionally, on a quarterly basis, ING reports a number of internally defined stress scenarios related to specific time-to-survive periods as well as the Net Stable Funding Ratio (NSFR) which is reported based on EBA guidance.

Overall, (reverse) stress testing is an integral part of the liquidity and funding risk management framework and also serves as input for the contingency funding plan and risk appetite statements.

In the contingency funding plan, contingency liquidity risk is addressed which specifically relates to the organisation and planning of liquidity management in time of stress. The contingency funding plans are developed in line with the ING Recovery Plan and are tested on a regular basis, both centrally and at business unit level.

Liquidity risk appetite

ING Group's liquidity risk appetite expresses the level of liquidity risk ING is willing to take in pursuit of its strategic objectives. The Liquidity Risk Appetite Statements (RAS) are aligned with the ING strategy and are allocated to the ING entities by way of limits. Where relevant the RAS are cascaded down to specific regional and local levels.

ING has defined the following funding and liquidity risk management risk appetite statements:
- Home/host regulatory liquidity limits must be pro-actively complied with;
- The time-to-survive in a funding stress situation must extend over defined period, depending on the level of stress applied;
- Funding of longer-term assets and investments must be done by stable and longer-term liabilities;
- Geographical dependencies with respect to intra-group funding are to be limited; and
- Diversification must be in place of funding profile, across funds providers, instrument types, geographic markets, tenors and currencies.

Funding and Liquidity approach

ING Group takes an integrated approach to assessing the adequacy of its funding and liquidity position in relation to its balance sheet profile and its operating environment, whilst taking into account the interests of its various stakeholders.
The starting point for ING Group's assessment of the adequacy of its liquidity position is the overall business strategy and the risk appetite i.e. the level of financial risk ING Group is willing to accept for growth and value creation, while maintaining a sound balance sheet. Other relevant factors are developments in the business environment and corresponding business opportunities and risk exposures as well as developments in the (future) regulatory framework. For example: ING Group takes into account the developments in applicable regulatory and accounting standards and the setting of MREL/TLAC requirements.

ING Group distinguishes several key drivers of – future – liquidity and funding needs:

- The boundaries set by current and future regulatory requirements (EUR and USD);
- The boundaries set by risk appetite statements (EUR and USD);
- The findings from various stress tests;
- The boundaries regarding the distribution and transferability of liquidity; and
- Any funding/refinancing needs.

Based on all these perspectives ING Group assesses the current and future adequacy of its liquidity position and, if deemed necessary, takes steps to further improve the position. Aim is to ensure that ING Group has sufficient counterbalancing capacity.

Funding sources

In 2017, ING had readily access to a large variety of funding sources, both short term and long term. In the table below, the various funding sources are presented in the funding mix:

ING Bank Funding Mix

	2017	2016
Funding type		
Retail deposits	**51%**	51%
Corporate & other deposits	**22%**	21%
Interbank (incl. central bank)	**5%**	5%
Lending/repurchase agreement	**6%**	5%
Public debt	**14%**	16%
Subordinated debt	**2%**	2%
Total	**100%**	100%

The funding mix remained well diversified. Retail deposits remained ING's primary sources of funds and remained stable at 51% of the total funding mix per year end 2017. The Loan-to-Deposit ratio (excluding securities at amortised costs) remained stable at 1.05 per year end 2017.

Non-Financial Risk

Introduction

The Non-Financial Risk (NFR) function encompasses the Operational Risk, Information Risk, Corporate Security & Investigations and Compliance Risk management functions. Risk controls for these functional areas have been implemented by means of policies and minimum standards which apply to ING business processes in the divisions. There is an infrastructure in place enabling management to track events and non-financial risk issues. ING has a system of internal controls, that is reviewed and updated periodically and as necessary. ING goal's is to create an environment of continuous improvement in managing non-financial risks.

ING believes that an effective control environment is essential to build and maintain sustainable businesses, and preserves and enhances the trust of its customers, employees and shareholders. The Orange Code sets the foundation for the high ethical standards ING expects from all its employees, business activities and partners. The Orange Code is a manifesto that describes our way of working. It is comprised of ING Values, requiring all staff to act with integrity, whilst being honest, prudent and responsible - and the ING Behaviours - our way of being that makes us different from the rest.

Governance

The Head of Corporate Operational Risk Management (CORM), Corporate Information Risk Management (CIRM), Corporate Security & Investigations (CSI) and Corporate Compliance Risk Management (CCRM) report to the Chief Compliance Officer (CCO)/Head of Non-Financial Risk (NFR) and are jointly responsible for developing the framework of non-financial risk policies and standards within ING and for monitoring the adherence to and quality of non-financial risk management in the business.

The Chief Compliance Officer (CCO) is the Head of the Compliance Risk Management function. This is an independent function responsible for developing and establishing the Bank-wide policies and minimum standards for managing compliance risks. The CCO assists and supports the MBB in managing ING's compliance risks and control framework. The CCO is a permanent participant of the Risk Committee of the Supervisory Board and meets regularly with its Chairman.

Non-Financial Risk Committees (NFRCs) and Management Teams (MTs) manage, measure and monitor operational, information and compliance risks. The Bank NFRC is the primary approval and oversight committee for non-financial risk matters. Additionally NFRCs exist at Division and/or Entity level providing input to the Bank NFRC. They are chaired by the first line of defence with the purpose to steer the risk management activities of the first and second lines of defence in their scope. Non-financial risk topics are an integral part of the agenda of regular MTs at various levels in the organisation.

The NFR function uses a layered functional approach within divisions to support a systematic and consistent implementation of the framework of policies and minimum standards within ING. To avoid potential conflicts of interests, it is imperative that staff in this function are independent and objective when advising business management on non-financial risk matters in their business unit or business line. To facilitate this, a functional reporting line to the next higher level within Operational Risk Management (ORM), Information Risk Management (IRM) and Compliance is in place. The functional reporting line has clear accountabilities with regard to objectives setting, remuneration, performance management and appointment of new staff as well as obligations to veto and escalate.

Framework

Non-financial risk is the risk of financial loss, legal or regulatory sanctions, or reputational damage due to inadequate or failing internal processes, people and systems; a failure to comply with laws, regulations and standards; or external events. ING has a framework for non-financial risks that supports and governs the process of identifying, measuring, mitigating, monitoring and reporting non-financial risks. It reflects the stages described in the Enterprise Risk Management model of COSO (Committee of Sponsoring Organisations of the Treadway Commission).

Processes aims at identifying key threats, vulnerabilities and the associated risks which might cause adverse events. Event identification is performed and precedes a risk assessment. Different techniques for event identification exist within ING, e.g. Risk & Control Self-Assessments, scenario analysis, external events inventories, internal events analyses (e.g. lessons learned based on information from event reporting), business environment assessment and monitoring.

Risk & Control Self-Assessment

Identification and assessment (RCSA) of non-financial risks inherent to ING products, activities, people, processes and systems provide management with an understanding of the operational risk profile. Based on the identification and assessment, internal controls are designed for mitigation of risks to remain within the risk appetite.

Business Environment Assessment

The Business Environment Assessment (BEA) assesses internal control factors and external factors that could influence the internal and external operating environment in the future, and which may lead to unacceptable operational risk exposure and endanger achieving our strategic objectives.

Scenario analysis

Scenario analysis is a process used to consider the impact of rare, significant, yet plausible future events, taking into consideration alternative possible outcomes for those events, their severity and frequency. Input for scenario analysis includes the results of various internal and external assessments such as the BEA. Scenario analysis is an important component in the calculation of operational risk capital.

Internal events analyses

Analysis of internal non-financial loss data assists in identifying, quantifying, mitigating and monitoring operational risk exposure. It provides insight into causes and effectiveness of associated controls. Supporting the creation and sharing of Lessons Learned for significant internal events is one of the means by which NFR enhances the internal control framework of ING.

External events inventories

External non-financial loss data provides valuable information about the losses experienced by other businesses, and assists ING to quantify its exposure to risk events that have not been experienced internally.

Business units and departments perform regular monitoring activities, BEAs and Risk & Control Self-Assessments (RCSAs) to identify and assess risks. These are conducted with involvement of the business and their ORM, IRM, Compliance and/or Legal departments. Based on the results of the risk assessment, response measures must be determined for the identified risks beyond the risk appetite.

Risk response can be achieved through several combinations of mitigation strategies, for example reducing likelihood of occurrence, reducing impact, risk avoidance, risk acceptance or through the transfer of risk. Tracking takes place through ING's central risk management system.

The risk appetite (defined as the acceptable and authorised maximum level of risk) is set by the Supervisory Board based on a proposal made by the Bank NFRC and approved by the MBB. Adherence to this risk appetite is monitored quarterly through the NFR Dashboard which reports the key non-financial risk exposures. The NFR Dashboard provides management at country, divisional and bank level with an overview of key risks within the non-financial risk areas including compliance risks, information security risks, continuity risks, control & processing risks, fraud, unauthorised activities risks, and personal and physical security risks, enabling management to focus and set priorities.

The yearly objective setting process for both business management and NFR professionals aims to keep improving the management of non-financial risk throughout ING to safeguard that ING stays in control of its current and future non-financial risks.

The Non-Financial Risk (NFR) reporting deliverables consist primarily of the quarterly Non-Financial Risk Dashboard (NFRD) report and a monthly NFRD booklet. The iRisk tool (Governance, Risk & Compliance solution) serves as the single source of truth for NFR information and supports the three lines of Defence in their Risk Management and Reporting activities.

Advanced Measurement Approach (AMA)
ING has an Operational Risk Capital model in place in which the risk profile is closely tailored to its internal risk profile and its divisions, by using scenario data for capturing severe unlikely risks and internal loss and RCSA data for capturing day-to-day risks. The business has a leading role in assessing scenario severities, with the ORM function validating and challenging the results. The internal data are combined with external loss data (ORX) in the AMA capital calculation. Since April 2013, ING is allowed to use its AMA model for regulatory supervision purposes. ING reports the regulatory capital numbers on a quarterly basis. The AMA capital requirement per the end of 2017 amounts to EUR 3,207 million, compared to EUR 3,242 million per 2016 year-end.

Risk mitigations
ING is currently not using any insurance or risk transfer mechanisms for the mitigation of risk in the context of the AMA capital calculation.

Operational risk
Definition
Operational risk is defined as the risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems or from external events.

Risk categories
ING categorises operational risks in a number of risk areas:

- *Information (Technology) risk* is the risk of financial loss, regulatory sanctions or reputational damage due to breaches of confidentiality, integrity or availability within business processes or information or lack of information quality;
- *Continuity risk* is the risk of financial loss, regulatory sanctions or reputational damage due to business disruptions (loss of people, processes, systems, data, premises);
- *Control and processing risk* are the risks of financial loss, regulatory sanctions or reputational damage due to ineffective organisation structures and governance procedures (including unclear roles and responsibilities and inadequate reporting structure), failed (transaction) processing (input, execution, output) or failing process management; monitoring and enforcement of risk mitigating measures; and risk culture;
- *Internal fraud risk* is the risk of financial loss, regulatory sanctions or reputational damage due to deliberate abuse of procedures, systems, assets, products and/or services of ING by employees (incl. temporary workers, third party contractors, internships and consultants) who intend to deceitfully or unlawfully benefit themselves or others;
- *External fraud risk* is the risk of financial loss, regulatory sanctions or reputational damage due to deliberate abuse of procedures, systems, assets, products and/or services of ING by external parties (clients, potential clients or other third parties, including vendors and outside agencies) who intend to deceitfully or unlawfully benefit themselves or others;
- *Unauthorised activity risk* is the risk of financial loss, regulatory sanctions or reputational damage due to employees performing outside the normal course of their business, intentionally giving unauthorised approvals or overstepping of their authority;
- *Personal and physical security risk* is the risk of financial loss, regulatory sanctions or reputational damage due to criminal and environmental threats that might endanger the security or safety of ING personnel at work, people in ING locations, ING assets or assets entrusted to ING, people at ING event locations, or might have an impact on ING organisation's confidentiality, integrity or availability; and
- *Employment practice risk* is the risk of financial loss, regulatory sanctions or reputational damage due to acts inconsistent with employment, health and/or safety laws, regulations or agreements, from payment of personal injury claims, or from diversity /discrimination events.

Operational risk includes the related risk of reputation loss, as well as legal risk; strategic risks are not included. Reputational risk is defined as the possibility that adverse publicity regarding ING's business practices and associations, whether accurate or not, will cause a loss of confidence in the integrity of ING. Reputational risk is multidimensional and reflects the perception of other market participants, like customers, counterparties, shareholders, investors or regulators that can adversely affect ING's ability to maintain existing, or establish new, business relationships and continued access to sources of funding (e.g. through the interbank or securitisation markets).

Legal risk is defined as the risk related to (i) a failure (or perceived failure) to adhere to applicable laws, regulations and standards, (ii) contractual liabilities or contractual obligations that are defaulted or cannot be enforced as intended, or are enforced in an unexpected or adverse way, and (iii) liability (tort) towards third parties due to an act or omission contributable to ING (potentially) resulting in impairment of ING Bank's integrity, leading to damage to ING's reputation, legal or regulatory sanctions, or financial loss.

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

Main developments in 2017

Internal and external fraud

The risk of clients and ING staff being targeted by fraudsters using social engineering techniques to execute payments is still increasing and CxO impersonation fraud (criminals investigate the senior management structure of an organisation and target key positions) and invoice fraud remain significant threats. Efforts are undertaken to mitigate the risk such as creating awareness for customers and staff, and sharing of lessons learned across ING. ING stringently monitors both this type of fraud and new emerging fraud methodologies. In addition, ING is increasingly using innovative methods such as big data analytics to further strengthen its fraud resilience.

ING continues working on strengthening its global fraud resilience and to strengthen its control environment as fraudsters turn their interest to the end-user. Combining automated fraud detection tools that can be used for monitoring or early detection of fraudulent incoming and outgoing payments remains important in fraud prevention. These are used to further enhance an effective set of organisational controls.

Cybercrime

Cybercrime remains a continuous threat to companies in general and to financial institutions specifically. Both the frequency and the intensity of attacks increase on a global scale.

Particularly threats from Distributed Denial of Service (DDoS), targeted attacks (also called Advanced Persistent Threats) and Ransomware intensify worldwide. ING builds on its cybercrime resilience, further enhancing the control environment to protect, detect and respond to e-banking fraud, DDoS and targeted attacks. Additional controls continue to be embedded in the organisation as part of the overall internal control framework and are regularly re-assessed against existing and new threats.

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

User Access Management (UAM)

User Access Management (UAM) is an important element of our control framework to mitigate unauthorized and / or inappropriate access to our data and information. The standards of controls on UAM are high and best practices illustrate that the trends are towards further increasing requirements, resulting in a updated set of UAM requirements in 2017. We have started compliance testing and identified control deficiencies related to UAM at an early stage in 2017. A dedicated central UAM team coordinated, assessed, monitored and tracked remediation efforts that resulted in early response and early mitigation of deficiencies due to increased focus by the EB, senior management and ING staff. These ongoing global initiatives resulted in a significant improvement in 2017. In 2018, management continue to enhance the internal controls, mitigation and monitoring the progress of mitigation and remediation.

Compliance risk

Definition

Compliance risk is defined as the risk of impairment of ING's integrity, leading to damage to ING's reputation, legal or regulatory sanctions, or financial loss, due to a failure (or perceived failure) to comply with applicable laws, regulations and standards and the ING Values as part of the Orange Code. We aim to effectively manage compliance risks that could expose ING to reputational damage, fines, civil and criminal penalties, payment of damages, court orders and suspension or revocation of licenses that would adversely impact our customers, staff, shareholders and other stakeholders.

The Compliance Risk Management function established a compliance control framework in which controls are defined based on laws, regulations and standards that are part of the internal control framework of ING applicable to non-financial risks. To support management in mitigating compliance risks, the Bank Compliance Risk Management function trains and advices the business in managing compliance risks related to e.g. money laundering, terrorist financing, sanction and export control compliance, conflicts of interests, misselling, corruption and protection of customers' interests, Financial Account Tax Compliance Act (FATCA), Common Reporting Standard (CRS), and US withholding tax and information reporting regulations.

Risk categories

ING categorises compliance risk into four conduct-related integrity risk areas:

- *Client conduct* refers to the compliance risks arising from the relationship with or generated by the conduct of our clients and/or business partners, like money laundering or terrorist financing. Those risks are generally defined within ING as Financial Economic Crimes ("FEC"). Furthermore, *Client conduct* refers to the compliance risks relating to FATCA, CRS, and US withholding tax and information reporting regulations;
- *Personal conduct* refers to the compliance risks arising from the conduct of ING employees;
- *Financial Services conduct* refers to the compliance risks arising from or generated by the conduct of ING when developing, marketing and/or selling products and services to its clients; and
- *Organisational conduct* refers to the compliance risks arising from the way the Bank is organising itself to develop its activities. This category covers for instance the licences required to perform its regulated banking activities or the operating effectiveness of its information barriers.

Controls aiming to mitigate the compliance risks associated with the above mentioned risk areas are designed and applied to the day-to-day processes in the bank. The effectiveness of the controls is tested periodically, and senior management has responsibility that their processes are compliant with applicable laws and regulations, ING's internal policies and the Orange Code.

In cases where an employee of ING suspects an actual or suspected irregularity or misconduct within ING that leads or could lead to a violation of ING Orange Code, any ING policy and/or any law, regulation or code, this can be reported anonymously in line with the Whistle-blower Policy, via internal or external channels next to normal reporting channels.

Financial Economic Crime (FEC) Policy and Minimum Standards

The FEC Policy and Minimum Standards reflect relevant national and international laws, regulations and industry standards. The FEC Policy is mandatory and applies to all ING entities, majority owned ING business, businesses under management control, staff departments, product lines and to all client engagements and transactions.

Management of ING entities maintain local procedures aiming at enabling them to comply with local laws, regulations and the FEC Policy and Minimum Standards. Where local laws and regulations are more stringent, the local laws and regulations are applied. Likewise the FEC Policy and Minimum Standards prevail when the standards therein are stricter than stipulated in local laws and regulations and if not specifically forbidden.

The FEC Policy and Minimum Standards set the requirements for all ING entities to guard against any involvement in criminal activity. The requirements in the FEC Policy cover minimum standards and controls related to: money laundering, terrorist financing, export trade controls, proliferation financing, sanctions (economic, financial and trade) and countries designated by ING as Ultra High Risk Countries (UHRC).

As a result of frequent evaluation of the businesses from economic, strategic and risk perspective ING continues to believe that for business reasons doing business involving certain specified countries should be discontinued. In that respect, ING has a policy not to enter into new relationships with clients from these countries and processes remain in place to discontinue existing relationships involving these countries. At present these countries are Cuba, Iran, North Korea, Sudan and Syria. Each of these countries is subject to EU and/or US sanctions regimes. Iran, Sudan, and Syria are identified by the US as state sponsors of terrorism and are subject to US economic sanctions and export controls.

Also in 2017, the Ukraine-related sanctions as imposed earlier by both the US (including further extensions of the scope have been imposed by the US) and the EU remained in force. Those sanctions restrict amongst others the dealing in specific (financial) products with certain named parties. Management of ING entities use their existing control framework to remain compliant. Newly imposed sanctions on Venezuela also include restrictions on financing Venezuelan government owned entities.

Main developments in 2017

Regulatory developments

Compliance with applicable laws and regulations is resource-intensive. Banks continue to be faced with new and increasingly onerous regulatory requirements, and we expect the scope and extent of regulations in the jurisdictions in which we operate to generally increase further.

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

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

4th AML Directive
The 4th AML Directive as issued by the European Union has been incorporated into the update of the ING Financial Economic Crime Policy and Minimum Standards. The main changes in this Directive (compared to the 3rd AML Directive) are related to: the establishment of an Ultimate Beneficial Owner (UBO) register (at national level with the potential to share the information within the European Economic Area (EEA)) and a stronger approach towards the application of due diligence on ING's customers. The implementation date of the Directive was 26 June 2017. The implementation of the directive into Dutch law was expected in July 2017, but has been delayed, probably until early 2018. ING started to implement several KYC enhancements in 2017.

On 5 July 2016 the European Commission presented a new proposal for a Directive amending the 4th AML Directive (so called 5th AML Directive). The aim of the proposal is to tackle new means of terrorist financing, increase transparency to combat money laundering and help strengthen the fight against tax avoidance. On 8 June 2017, the EU Council adopted its position on the proposed Directive. The Council and the Parliament will enter into negotiations on the final text as soon as the latter has decided on its position.

In addition, the European Supervisory Authorities (ESAs) issued their final Guidelines on risk factors on 26 June 2017, which will become applicable by 26 June 2018. These Guidelines promote a common understanding of the risk-based approach to AML/CFT and set out how it should be applied in the context of the 4th EU AML Directive. Furthermore, on 22 September 2017 the ESAs also issued their final Guidelines to prevent the abuse of funds transfers for terrorist financing and money laundering purposes. These guidelines will apply from six months after the date on which they are issued.

A bank-wide programme has been launched in the area of Know Your Customer (KYC). Its objective is twofold : (i) to enhance the information the bank is required to maintain about its clients, in line with the additional requirements stemming from the 4th Anti-Money Laundering directive, and (ii) to address the areas for improvement that have been identified about the effectiveness of the control framework applicable to the Financial Economic Crime domain, especially with respect to its Client Activity Monitoring capabilities and the integrated risk profiles of the clients. The programme aims to develop solutions of a structural nature to support a compliant-by-design approach. Other client-related policies are in scope of the KYC programme (e.g. FATCA, CRS). The programme is expected to run till end of 2020. With respect to specific proceedings, see Note 42 'Legal proceedings' to the consolidated annual accounts.

Financial Account Tax Compliance Act (FATCA)
Under provisions of US tax law commonly referred to as FATCA, non-US financial institutions are required to provide certain information on their US account holders and/or certain US investors to the US Internal Revenue Service ("IRS"). A 30% withholding tax will be imposed on 'withholdable payments' made to non-compliant non-US financial institutions. The Group intends to take all necessary steps to comply with FATCA and other US withholding tax regulations. ING is for example updating and strengthening its withholding compliance programme and reviewing, amending and filing the necessary tax returns and information reports.

Many countries, including the Netherlands, have entered into agreements ('intergovernmental agreements' or 'IGAs') with the US to facilitate the type of information reporting required under FATCA. While the existence of IGAs will not eliminate the risk of the withholding described above, these agreements are expected to reduce that risk for financial institutions and investors in countries that have entered into IGAs. IGAs often require financial institutions in those countries to report information on their US account holders to the taxing authorities of those countries, who then passes the information to the IRS.

If the Bank cannot rely on IGA or satisfy the requirements, certain payments to the Group may be subject to withholding under FATCA. Certain payments may also be subject to other US withholding tax regulations. The possibility of such withholding and the need for account holders and investors to provide certain information may adversely affect the sales of certain of the Group's products. In addition, compliance with the terms of such IGAs and with FATCA, any regulations or other guidance promulgated thereunder, or any legislation promulgated under an IGA, and offering products that generate 'withholdable payments', may substantially increase the Group's compliance costs. Failure to comply with FATCA and other US withholding tax regulations could harm our reputation and could subject the Group to enforcement actions, fines and penalties, which could have a material adverse effect on our business, reputation, revenues, results of operations, financial condition and prospects.

In 2017, FATCA Policy ownership (including advisory and monitoring) transferred from Corporate Tax to Corporate Compliance. Also in 2017, ING issued a new, comprehensive policy which addresses the compliance requirements for withholding US taxes from our customers, remitting the tax to the US Internal Revenue Service ('IRS'), and annually providing our customers and the IRS with summary reports of payments made and taxes withheld.

Common Reporting Standard (CRS)
Similarly, the Organisation for Economic Cooperation and Development ('OECD') has developed a Common Reporting Standard ('CRS') and model competent authority agreement to enable the multilateral and automatic exchange of financial account information. CRS requires financial institutions to identify and report the tax residency and account details of non-resident customers to the relevant authorities in jurisdictions adhering to CRS. As 10 November 2017, 96 jurisdictions ('signatory countries'), including the Netherlands, have signed a multilateral competent authority agreement to automatically exchange information pursuant to CRS. The majority of countries where ING has a presence have committed to CRS. The EU has made CRS mandatory for all its member states. The first information exchange by the Netherlands (as for approximately half of the signatory countries) was executed in 2017. Other signatory countries commence their information exchange in 2018.

Non-Financial Risk Awareness & Learning

Promoting Integrity Programme
The Promoting Integrity Programme was started in 2010 and is a programme consisting of e-learning modules on key bank-wide topics that can be followed-up with dialogue sessions in which managers discuss the issues raised with their teams. The programme is sponsored by board members and senior managers and is created for the benefit of every employee in every part of ING to enhance the understanding of how their actions and behaviour can help earn and retain customer and stakeholder trust. In 2017, Integrity led behaviour was addressed by means of the mandatory PIP e-learning 'ING Values: Integrity in practice' which was rolled out globally.

Compliance Forum ING
In 2017, Compliance Risk Management developed a Compliance Forum for Compliance Officers within ING worldwide. This forum is about building expertise and sharing experience. The focus is on regulatory developments, innovation and the future of compliance – what compliance officers can do to Think Forward. Participants are engaged in lively discussions on current topics, take part in workshops and plenary sessions to experience and develop the new ways of working within ING. Participants can connect with colleagues from across the globe and share knowledge and views on the compliance function of the future. Part of the Compliance community was trained in 2017 and in 2018 the remainder will be trained.

Compliance Risk Culture Monitoring
The Compliance Risk Management function enhanced its control framework by assessing the operation of soft controls in relation to compliance risks in addition to hard controls. The aim of Compliance Risk Culture Monitoring is to assess the risks that might influence the conduct and risk culture, promoting the individual integrity of the employees and enhancing the overall culture that is led by integrity.

Business Risk

Introduction
Business Risk for ING has been defined as the exposure to value loss due to fluctuations in volumes/margins as well as expenses. It is the risk inherent to strategy decisions and internal efficiency. Business risk capital is calculated via the variance-covariance methodology for expense risk, covering the risk that expenses will deviate from the expected expenses over the horizon of the relevant activities. This risk primarily relates to the (in)flexibility to adjust expenses, when that is needed. Expense risk only concerns non-financial expenses (e.g. staff and IT expenses); financial expenses are not in scope.

Governance and risk management
The governance and management of Business Risk differs from the risk types that have been described in the sections before. In the course of 2017 ING has developed explicit risk appetite statements regarding business risk, focusing on earnings stability and diversification of the business mix, as avoiding to put all eggs in one basket reduces the risk that volumes and/or margins will suddenly drop due to unexpected changes in the business environment for certain markets and products. Furthermore, the underlying risk types (expense risk and volume-margin risk) are also mitigated and managed in a different way. Expense risk is monitored and managed via the financial performance of the bank and the local units, whereby the reported expense numbers are compared on a quarterly basis with the 2020 Ambition of having a cost/income ratio between 50% and 52%. Deviations from this ambition are monitored as part of the financial projections that are discussed continuously within different parts of the organisation.

Capital management

Objectives

ING Group Capital Management (Capital Management) is responsible for the adequate capitalisation given regulatory constraints of ING Group and ING Bank entities at all times in order to manage the risk associated with ING's business activities. This involves not only the management, planning and allocation of capital within ING Group, ING Bank and its various entities, but also the necessary capital market transactions, term (capital) funding and risk management transactions. ING takes an integrated approach to assess the adequacy of its capital position in relation to its risk profile and its operating environment. This implies taking into account the interests of its various stakeholders. Capital Management takes into account the metrics and requirements of regulators, rating agencies and internal risk based boundaries such as defined in the Risk Appetite Framework.

ING applies the following main capital definitions:

- Common equity Tier 1 capital, Tier 1 capital and Total capital – Common equity Tier 1 capital is defined as shareholders' equity less regulatory adjustments. Common equity Tier 1 capital including Additional Tier 1 (hybrid) securities and other regulatory adjustments is defined as Tier 1 capital. Total Capital is Tier 1 capital including subordinated Tier 2 liabilities and regulatory adjustments. Common equity Tier 1, Tier 1 and Total capital divided by risk-weighted assets equal the Common equity Tier 1, Tier 1 and Total capital ratios respectively. Common equity Tier 1 capital is equal to Tier 1 capital excluding Additional Tier 1 (hybrid) capital;
- Common equity Tier 1 Risk Appetite – the solvency risk appetite statement is not only compared to the actual reported level, but also includes the potential impact of a standardised and deterministic 1-in-10-year stress event (i.e. at a 90% confidence level with a 1-year horizon) as described in the Risk Management section;
- Overall Capital Requirement (OCR). The OCR means that ING's own funds exceeds the sum of the total SREP capital requirement (wherein per risk type the maximum is taken of Regulatory and Economic Capital requirements), capital buffer requirements and macro-prudential requirements.

Developments

The capital position further strengthened in 2017 reflecting strong profitability based on core lending growth and complemented with further optimisation of the capital structure. At both consolidated and entity level, ING has sufficient buffers to withstand certain adverse scenarios without breaching currently applicable and possible future requirements.

ING Bank N.V. continues to maintain a strong and high quality capital level, with a fully-loaded common equity Tier 1 ratio and a phased-in common equity Tier 1 ratio of 13.1%, thereby complying with CRR/CRD IV solvency requirements. ING Bank N.V. paid EUR 3.2 billion of dividend to ING Group in 2017. The fully loaded Tier 1 ratios (including grandfathered securities) remained stable at 14.7%, while the phased-in Tier 1 ratio (including grandfathered securities) increased form 14.4% to 14.6%, primarily reflecting developments in ING Bank's common equity Tier 1 ratio. The Banks's fully loaded and phased in total capital ratio (including grandfathered securities) respectively increased from 17.8% to 18.3% and 17.4% to 18.2%.

Dividend

ING Bank N.V. paid EUR 3.2 billion of dividend to ING Group in 2017. This is including the fourth quarter 2016 profit of EUR 0.6 billion which was upstreamed 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

Besides measuring capital adequacy, Capital Management also ensures that sufficient capital is available through setting targets and limits relevant to the above mentioned metrics for ING Group and ING Bank and ensuring adherence to the set limits and targets through planning and executing capital management transactions. The ongoing assessment and monitoring of capital adequacy is embedded in Capital Management's capital planning process. Following the annual budgeting process, each year a capital plan is prepared for the Group as a whole and each of its material businesses. This plan is updated on a quarterly basis and is assessed to what extent additional management actions are required. At all times maintaining sufficient financial flexibility should be preserved to meet important financial objectives. At the foundation of the capital plan are ING's risk appetite statements that determine target setting. These constraints are being cascaded to the different businesses in line with our risk management strategy.

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

In addition to internal stress test scenarios reflecting the outcomes of the annual risk assessment, ING also participates in regulatory stress test exercises. ING participated in the 2017 EU-wide stress test that the ECB conducted in order to assess the sensitivity towards Interest Rate Risk in the Banking Book.

ING Bank N.V. capital position according to CRR/CRD IV

	(fully-loaded)		(phased-in)	
	2017	2016	2017	2016
Shareholders' equity	43,662	43,540	43,662	43,540
Interim profit not included in CET1 capital[1]	–44	-617	–44	-617
Other adjustments	–3,043	–3,548	–3,017	–3,661
Regulatory adjustments	–3,087	–4,165	–3,061	–4,278
Available common equity Tier 1 capital	**40,576**	**39,375**	**40,602**	**39,262**
Additional Tier 1 securities[2]	4,989	6,496	4,989	6,496
Regulatory adjustments additional Tier 1	53	0	–374	–798
Available Tier 1 capital	**45,618**	**45,871**	**45,217**	**44,960**
Supplementary capital Tier 2 bonds[3]	11,086	9,488	11,086	9,488
Regulatory adjustments Tier 2	47	109	–44	–86
Available Total capital	**56,751**	**55,467**	**56,259**	**54,362**
Risk weighted assets	309,287	312,086	309,287	312,086
Common equity Tier 1 ratio	13.12%	12.62%	13.13%	12.58%
Tier 1 ratio	14.75%	14.70%	14.62%	14.41%
Total capital ratio	18.35%	17.77%	18.19%	17.42%

1 The interim profit not included in CET1 capital as per 31 December 2017 includes EUR 44 million.
2 Including EUR 3,123 million which is CRR/CRD IV-compliant (4Q2016 EUR 3,542 million), and EUR 1,866 million to be replaced as capital recognition is subject to CRR/CRD IV grandfathering rules (4Q2016 EUR 2,954 million).
3 Including EUR 8,995 million which is CRR/CRD IV-compliant (4Q 2016 EUR 7,347 million), and EUR 2,091 million to be replaced as capital recognition is subject to CRR/CRD IV grandfathering rules (4Q2016 EUR 2,141 million).

Regulatory requirements
Capital adequacy and the use of regulatory required capital are based on the guidelines developed by the Basel Committee on Banking Supervision (The Basel Committee) and the European Union Directives, as implemented by the Dutch Central Bank (Dutch Central Bank until 3 November 2014, the ECB thereafter) for supervisory purposes. In 2010, the Basel Committee on Banking Supervision issued new solvency and liquidity requirements, which superseded Basel II. The minimum requirements, excluding buffers, for the common equity Tier 1 ratio is 4.5%, the minimum Tier 1 requirement is 6% and the total capital ratio is 8% of all risk-weighted assets. Basel III requires Banks to hold a capital of at least 80% of the old Basel I requirements, which was 8% of the RWAs as calculated with the Basel I methodology. This Basel I floor has been extended until the end of 2017.

ICAAP/SREP process
On a yearly basis ING submits extensive documentation on the Internal Capital Adequacy Assessment Process (ICAAP) to its regulator as prescribed in the CRD IV frameworks. This documentation includes a description of ING's internal capital models, its risk appetite framework, an asset quality analysis and a capital planning, both under normal circumstances and in certain stressed scenarios. This documentation is an important input for the regulator's Supervisory Review and Evaluation Process (SREP) resulting in a letter to ING Management. The SREP is conducted by the ECB and examines on a regular basis ING's internal models and processes. The regulatory 2017 guidance indicated that the minimum capital ratios ECB considers adequate for ING Group and ING Bank sufficiently covered by ING's own capital standards.

Ratings

Main credit ratings of ING Bank N.V. at 31 December 2017

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

ING Bank's key credit ratings and outlook are shown in the table above. Each of these ratings reflects only the view of the applicable rating agency at the time the rating was issued, and any explanation of the significance of a rating may be obtained only from the rating agency.

A security rating is not a recommendation to buy, sell or hold securities and each rating should be evaluated independently of any other rating. There is no assurance that any credit rating will remain in effect for any given period of time or that a rating will not be lowered, suspended or withdrawn entirely by the rating agency if, in the rating agency's judgment, circumstances so warrant. ING accepts no responsibility for the accuracy or reliability of the ratings.

Authorisation of Consolidated Annual Accounts

Amsterdam, 5 March 2018

The Supervisory Board

J. (Jeroen) van der Veer, *chairman*
H.J.M. (Hermann-Josef) Lamberti, *vice-chairman*
J.P. (Jan Peter) Balkenende
E.F.C.B. (Eric) Boyer de la Giroday
H.W. (Henk) Breukink
M. (Mariana) Gheorghe
R.W.P. (Robert) Reibestein
G.J. (Hans) Wijers

The Management Board Banking

R.A.J.G. (Ralph) Hamers, CEO, chairman of the Management Board Banking
J.V. (Koos) Timmermans, CFO, vice-chairman
S.J.A. (Steven) van Rijswijk, *CRO*
M. I. (Isabel) Fernandez Niemann, head of Wholesale Banking
R.M.M. (Roel) Louwhoff, COO/CTO
A. (Aris) Bogdaneris, head of Challengers & Growth Markets
R.B. (Roland) Boekhout, head of Market Leaders

Parent company statement of financial position

as at 31 December before appropriation of result

in EUR million	2017	2016
Assets		
Cash and balances with central banks 1	7,390	9,941
Short-dated government paper 2	712	1,427
Loans and advances to banks 3	87,827	81,641
Loans and advances to customers 4	336,567	325,872
Debt securities 5		
– available-for-sale	22,336	27,624
– held-to-maturity	5,857	5,266
– trading	8,211	10,127
Equity securities 6		
– available-for-sale	2,759	2,970
– trading	9,344	4,939
Investments in group companies 7	32,325	32,946
Investments in associates and joint ventures 8	808	777
Intangible assets 9	855	895
Equipment 10	412	444
Other assets 11	43,849	56,008
Total assets	**559,252**	**560,877**
Liabilities		
Deposits from banks 12	59,133	53,215
Customer deposits 13	306,512	279,875
Debt securities in issue	84,080	101,671
Other liabilities 14	48,248	64,468
General provisions 15	1,247	1,562
Subordinated loans 16	16,370	16,546
Total liabilities	**515,590**	**517,337**
Equity 17		
Share capital	525	525
Share premium	16,542	16,542
Revaluation reserves	2,898	3,806
Legal and statutory reserves	1,415	1,914
Other reserves	17,416	16,650
Unappropriated result	4,866	4,103
Total equity	**43,662**	**43,540**
Total liabilities and equity	**559,252**	**560,877**

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

Parent company statement of profit or loss

for the years ended 31 December

in EUR million	2017	2016
Interest income	28,957	30,127
Interest expense	–22,599	–24,128
Net interest income 18	**6,358**	**5,999**
Investment income and results from participating interests 19	2,958	3,043
Commission income	1,791	1,680
Commission expense	–463	–486
Net commission income 20	**1,328**	**1,194**
Results from financial transactions 21	314	694
Other income 22	120	–50
Total income	**11,078**	**10,880**
Staff expenses 23	2,837	2,784
Depreciation and amortisation 24	223	238
Other expenses 25	1,980	2,575
Addition to loan loss provisions	194	451
Total expenses	**5,234**	**6,048**
Result before tax	**5,844**	**4,832**
Taxation 26	825	605
Result after tax	**5,019**	**4,227**

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 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
Realised and 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**
Unrealised revaluations available-for-sale investments and other revaluations			–476	182			–294
Realised gains/losses transferred to the statement of profit or loss			–21	–69			–90
Changes in cash flow hedge reserve			–365	–150			–515
Unrealised revaluations property in own use			3	–2	26		27
Remeasurement of the net defined benefit asset/liability			–49	19			–30
Exchange rate differences and other				–891			–891
Total amount recognised directly in equity			**–908**	**–911**	**26**		**–1,793**
Net result				153		4,866	5,019
			–908	**–758**	**26**	**4,866**	**3,226**
Transfer from unappropriated results					4,103	–4,103	
Dividends					–3,176		–3,176
Employee stock options and share plans					69		69
Changes in the composition of the group and other changes				259	–256		3
Balance as at 31 December 2017	**525**	**16,542**	**2,898**	**1,415**	**17,416**	**4,866**	**43,662**

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

Notes to the parent company annual accounts

amounts in millions of euros, unless stated otherwise

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.

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 statement of financial position

1 Cash and balances with central banks

Amounts held at central banks amount to EUR 6,559 million (2016: EUR 9,360 million). In 2017, 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 710 million (2016: EUR 1,350 million) for the company.

3 Loans and advances to banks

Loans and advances to banks

	2017	2016
Non-subordinated receivables from:		
Group companies	31,111	30,659
Third parties	55,806	50,737
	86,917	**81,396**
Subordinated receivables from:		
Group companies	867	177
Third parties	43	68
	87,827	**81,641**

As at 31 December 2017, Loans and advances to banks includes receivables with regard to securities, which have been acquired in reverse repurchase transactions amounting to EUR 36,817 million (2016: EUR 30,166 million).

4 Loans and advances to customers

Loans and advances to customers

	2017	2016
Non-subordinated receivables from:		
ING Groep N.V.	367	
Group companies	52,825	49,953
Third parties	281,975	275,919
	335,167	**325,872**
Subordinated receivables from:		
Group companies	1,400	
	336,567	**325,872**

As at 31 December 2017, receivables included in Loans and advances to customers that are part of the trading portfolio amount to EUR 19,476 million (2016: EUR 17,840 million).

Loans and advances to customers includes receivables with regard to securities which have been acquired in reverse repurchase transactions amounting to EUR 22,001 million (2016: EUR 17,302 million) for the company.

5 Debt securities

Debt securities by issuer

	2017	2016
Public sector	25,420	30,909
Other	10,984	12,108
	36,404	**43,017**

Notes to the Parent company annual accounts of ING Bank N.V. - continued

Debt securities analysed by listing	2017	2016
Listed	33,961	40,913
Unlisted	2,443	2,104
	36,404	**43,017**

Debt securities – subordinated and non-subordinated	2017	2016
Non-subordinated debt securities issued by:		
Third parties	36,404	43,017
	36,404	**43,017**

Changes in debt securities (available-for-sale)	2017	2016
Opening balance	27,624	25,481
Additions	8,396	11,476
Amortisation	–93	–28
Changes in unrealised revaluations	–255	222
Disposals and redemptions	–12,896	–9,666
Exchange rate differences	–445	137
Other changes	5	2
Closing balance	**22,336**	**27,624**

As at 31 December 2017, the cost of the trading debt securities amounts to EUR 8,211 million (2016: EUR 10,127 million).

As at 31 December 2017, an amount of EUR 20,244 million (2016: EUR 23,621 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 7,930 million as at 31 December 2017 (2016: EUR 10,257 million).

Borrowed debt securities are not recognised in the statement of financial position and amounts to nil (2016: nil) as at 31 December 2017.

6 Equity securities

Equity securities analysed by listing	2017	2016
Listed	11,890	7,731
Unlisted	213	178
	12,103	**7,909**

Changes in equity securities (available-for-sale)	2017	2016
Opening balance	2,970	2,784
Additions	254	18
Changes in unrealised revaluations	–310	343
Provision for impairments	–1	–5
Disposals	–9	–53
Exchange rate differences	–171	–92
Other changes	26	–25
Closing balance	**2,759**	**2,970**

The cost or purchase price of the shares in the trading portfolio approximates their fair value. As at 31 December 2017 the cost or purchase price of shares in the available-for-sale portfolio is EUR 2,134 million lower (2016: EUR 2,597million lower) than the carrying amount.

7 Investments in group companies

Investments in group companies

	2017		2016	
	Interest held (%)	Statement of financial position value	Interest held (%)	Statement of financial position value
ING België N.V.	100	10,211	100	10,306
ING Holding Deutschland GMBH	100	8,086	100	8,831
ING Bank (Australia) Limited	100	2,675	100	2,557
ING Financial Holdings Corporation	100	2,101	100	2,429
ING Bank Slaski S.A.	75	2,084	75	1,744
ING Bank A.S.	100	1,476	100	1,617
ING Mauritius Investments I Limited	100	939	100	713
ING Real Estate B.V.	100	454	100	366
ING Australia Holdings Limited	100	1,014	100	1,211
ING Corporate Investments B.V.	100	546	100	514
Other (including financing companies)		2,739		2,658
		32,325		**32,946**

As at 31 December 2017, Investments in group companies includes credit institutions of EUR 17,637 million (2016: EUR 17,398 million). As at 31 December 2017 listed investments in group companies amount to EUR 2,084 million (2016: EUR 1,744 million).

Changes in investments in group companies

	2017	2016
Opening balance	32,946	32,609
Repayment of capital injection	-707	–206
Revaluations	19	–454
Results from group companies	2,825	2,780
Dividends received	–1,986	–1,670
Capital contribution	26	18
Mergers and liquidations		–118
Exchange rate differences	–788	–118
Other changes	–10	105
Closing balance	**32,325**	**32,946**

8 Investments in associates and joint ventures

Investments in associates and joint ventures

	2017		2016	
	Interest held (%)	Statement of financial position value	Interest held (%)	Statement of financial position value
TMB Public Company Limited	25	737	25	723
Other		71		54
		808		**777**

Notes to the Parent company annual accounts of ING Bank N.V. - continued

Changes in investments in associates and joint ventures

	2017	2016
Opening balance	777	652
Additions	54	13
Share of results	42	42
Dividends received	–22	–17
Disposals	–25	
Revaluations	1	57
Exchange rate differences	–24	26
Other changes	5	4
Closing balance	**808**	**777**

9 Intangible assets

Changes in intangible assets

	Goodwill		Software		Other		Total	
	2017	2016	2017	2016	2017	2016	2017	2016
Opening balance	509	591	384	293	2	2	895	886
Additions			188	171			188	171
Disposal			–8	–1			–8	–1
Depreciation			–108	–104			–108	–104
Impairments			–28	–6			–28	–6
Exchange rate differences	–87	–82					–87	–82
Other changes			3	31			3	31
Closing balance	**422**	**509**	**431**	**384**	**2**	**2**	**855**	**895**

10 Equipment

Changes in equipment

	2017	2016
Opening balance	444	463
Additions	90	143
Depreciation	–114	–134
Disposals	–11	–36
Exchange rate differences	–2	–1
Other changes	5	9
Closing balance	**412**	**444**
Gross carrying amount as at 31 December	1,311	1,407
Accumulated depreciation as at 31 December	–899	–963
Net carrying value	**412**	**444**

11 Other assets

Other assets by type

	2017	2016
Derivatives	33,871	46,439
Deferred tax assets	387	442
Income tax receivables	138	61
Accrued interests and rents	3,784	4,276
Other accrued assets	838	511
Pension asset	520	595
Other receivables	4,311	3,684
	43,849	**56,008**

Other receivables includes EUR 2,343 million (2016: EUR 2,325 million) related to transactions still to be settled at balance sheet date.

Derivatives includes transactions with group companies of EUR 10,170 million (2016: EUR 12,980 million).

As at 31 December 2017, an amount of EUR 372 million (2016: EUR 273 million) is expected to be settled after more than one year from the balance sheet date.

12 Deposits from banks

Deposits from banks

	2017	2016
Group companies	28,528	25,114
Third parties	30,605	28,101
	59,133	**53,215**

13 Customer deposits

Customer deposits by group companies and third parties

	2017	2016
Group companies	59,344	42,663
Third parties	247,168	237,212
	306,512	**279,875**

Customer deposits by type

	2017	2016
Savings accounts	121,533	120,648
Credit balances on customer accounts	93,248	87,304
Corporate deposits	70,440	59,829
Other	21,291	12,094
	306,512	**279,875**

14 Other liabilities

Other liabilities	2017	2016
Derivatives	31,757	46,898
Trading liabilities	5,411	5,270
Accrued interest	3,989	4,548
Costs payable	1,669	1,422
Income tax payable	306	51
Other taxation and social security contribution	49	44
Other amounts payable	5,067	6,235
	48,248	**64,468**

Other amounts payable includes EUR 2,884 million (2016: EUR 4,258 million) related to transactions still to be settled at balance sheet date.

Derivatives includes transactions with group companies of EUR 7,931 million (2016: EUR 10,994 million).

As at 31 December 2017, an amount of EUR 649 million (2016: EUR 626 million) is expected to be settled after more than one year from the balance sheet date.

15 General provisions

General provisions	2017	2016
Deferred tax liabilities	389	435
Pension liabilities and other staff-related liabilities	9	9
Reorganisations and relocations	493	809
Other	356	309
	1,247	**1,562**

As at 31 December 2017, an amount of EUR 297 million (2016: EUR 932 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	2017	2016
Group companies	8,177	6,603
Third parties	8,193	9,943
	16,370	**16,546**

Subordinated loans by type	2017	2016
Capital debentures	9,228	9,889
Private loans	7,142	6,657
	16,370	**16,546**

The subordinated loans rank subordinated to the other liabilities in a winding-up of ING Bank.

Notes to the Parent company annual accounts of ING Bank N.V. - continued

17 Equity

Equity

	2017	2016
Share capital	525	525
Share premium	16,542	16,542
Revaluation reserves	2,898	3,806
Legal and statutory reserves	1,415	1,914
Other reserves	17,416	16,650
Unappropriated result	4,866	4,103
Total equity	**43,662**	**43,540**

Share capital

	Ordinary shares (par value EUR 1.13)			
	Number x 1,000		Amount	
	2017	2016	2017	2016
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 2017 and 2016.

Changes in revaluation reserves

2017	Property in own use reserve	Available-for-sale reserve	Cash flow hedge reserve	Net defined benefit assets/ liability remea-surement reserve	Total
Opening balance	7	2,849	845	105	3,806
Unrealised revaluations	3	–476			–473
Realised gains/losses transferred to the statement of profit or loss		–21			–21
Changes in cash flow hedge reserve			–365		–365
Change in net defined benefit assets/liability				–49	–49
Closing balance	**10**	**2,352**	**480**	**56**	**2,898**

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 legal and statutory reserves

2017	Share of associates and joint ventures reserve	Currency translation reserve	Statutory reserves	Capitalised software	Total
Opening balance	1,098	–795	1,325	286	1,914
Result for the year			153		153
Unrealised revaluations available-for-sale investments and other	182				182
Realised gains/losses transferred to the statement of profit or loss	–69				–69
Changes in cash flow hedge reserve	–150				–150
Unrealised revaluation property in own use	–2				–2
Changes in net defined benefit asset/liability remeasurement reserve	19				19
Exchange rate differences and other	–41	–850			–891
Changes in composition of the group and other changes	201			58	259
Closing balance	**1,238**	**–1,645**	**1,478**	**344**	**1,415**

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**

The Share of associates and joint ventures reserve includes the following components: Reserve for non-distributable retained earnings of associates of EUR 652 million (2016: EUR 453 million), Revaluation reserve of associates and joint ventures EUR 1,079 million (2016: EUR 1,117 million), Currency translation reserve of EUR –37 million (2016: EUR 4 million) and Net defined benefit asset/liability remeasurement reserve of EUR –456 million (2015: EUR –476 million).

The Statutory reserves include non-distributable reserves of EUR 1,478 million (2016: EUR 1,325 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

2017	Retained earnings	Total
Opening balance	16,650	16,650
Transfer from unappropriated result	4,103	4,103
Dividends	–3,176	–3,176
Employee stock options and share plans	69	69
Changes in the composition of the group and other changes	–230	–230
Closing balance	**17,416**	**17,416**

Notes to the Parent company annual accounts of ING Bank N.V. - continued

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**

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 7,603 million (2016: EUR 7,310 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	2017	2016
Interest income on loans	9,384	9,331
Interest income on impaired loans	51	61
Negative interest on liabilities	418	117
Total interest income on loans	**9,853**	**9,509**
Interest income on available-for-sale securities	331	390
Interest income on held-to-maturity securities	70	28
Interest income on trading derivatives	13,837	14,771
Interest income on other trading portfolio	596	416
Interest income on non-trading derivatives (no hedge accounting)	498	637
Interest income on non-trading derivatives (hedge accounting)	3,621	4,230
Other interest income	151	146
Interest income	**28,957**	**30,127**
Interest expense on deposits from banks	152	206
Interest expense on customer deposits	1,813	1,443
Interest expense on debt securities	1,567	1,882
Interest expense on subordinated loans	753	775
Interest expense on trading derivatives	13,801	14,952
Interest expense on other trading liabilities	353	43
Interest expense on non-trading derivatives (no hedge accounting)	678	612
Interest expense on non-trading derivatives (hedge accounting)	3,221	3,877
Other interest expense	242	317
Negative interest on assets	19	21
Interest expense	**22,599**	**24,128**
Net interest income	**6,358**	**5,999**

19 Investment income and results from participating interests

Investment income and results from participating interests	2017	2016
Results from shares and other non-fixed income securities	89	220
Results from group companies	2,825	2,780
Results from associates, joint ventures and other participations	44	43
	2,958	**3,043**

20 Net commission income

Fee and commission income	2017	2016
Funds transfer	753	698
Securities business	243	237
Insurance broking	30	35
Asset management fees	37	8
Brokerage and advisory fees	256	235
Other	472	467
	1,791	**1,680**

Fee and commission expenses	2017	2016
Funds transfer	261	256
Securities business	68	71
Asset management fees	5	5
Brokerage and advisory fees	36	35
Other	93	119
	463	**486**

21 Results from financial transactions

Results from financial transactions	2017	2016
Results from securities trading portfolio	643	43
Results from currency trading portfolio	1,228	–1,294
Results from non-trading derivatives	–1,392	1,558
Other	–165	387
	314	**694**

22 Other income

In 2017, Other income includes EUR 121 million related to a tax charge at ING Australia Holdings Ltd, for which a full reimbursement is expected to be received from NN Group. The remainder of Other income is made up of a number of small items, which are individually insignificant.

23 Staff expenses

Staff expenses	2017	2016
Staff expenses		
- Salaries	1,630	1,610
- Social security costs	204	222
Pension costs and other staff related benefit costs	275	249
Other management fees	728	703
	2,837	**2,784**

Remuneration of Senior management, Management board and Supervisory board
Reference is made to Note 46 'Related parties' (page 127 up to and including page 130) in the ING Bank Consolidated annual accounts.

24 Depreciation and amortisation

Depreciation and amortisation	2017	2016
Depreciation of equipment	114	134
Amortisation of software and other intangible assets	109	104
	223	**238**

25 Other expenses

Other expenses	2017	2016
Computer costs	420	451
Office expenses	217	222
Travel and accommodation expenses	85	84
Advertising and public relations	215	198
External advisory fees	275	230
Postal charges	27	25
Regulatory costs	450	427
Addition/(releases) of provision for reorganisations and relocations	–33	575
Impairments and reversals of impairments	24	9
Other	300	354
	1,980	**2,575**

26 Taxation

Taxation by type	2017	2016
Current taxation	689	324
Deferred taxation	136	281
	825	**605**

Notes to the Parent company annual accounts of ING Bank N.V. - continued

27 Maturity of certain assets and liabilities

Analysis of certain assets and liabilities by maturity

2017	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	19,392	6,946	7,740	14,033	5,841	33,875	87,827
Loans and advances to customers	39,044	8,295	28,552	79,013	162,187	19,476	336,567
Liabilities							
Deposits from banks	20,662	2,523	1,696	18,705	1,999	13,548	59,133
Customer deposits	221,145	14,218	31,920	16,292	7,104	15,833	306,512
Debt securities in issue	3,182	12,877	14,466	33,700	10,481	9,374	84,080
Subordinated loans					11.376	4,994	16,370

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

28 Assets not freely disposable

Assets not freely disposable

	2017	2016
Investments	144	1,255
Lending	67,890	68,007
Banks	3,423	4,716
Other assets	12,023	11,647
	83,480	**85,625**

The table includes assets relating to securities lending as well as sale and repurchase transactions.

Notes to the Parent company annual accounts of ING Bank N.V. - continued

29 Contingent liabilities and other commitments

Contingent liabilities by type

	2017	2016
Guarantees	28,233	38,351
Irrevocable letters of credit	7,688	6,587
Other	223	308
Contingent debts	**36,144**	**45,246**
Irrevocable facilities	45,137	43,832
	81,281	**89,078**

Contingent debts

	2017	2016
Group companies	15,855	24,199
Third parties	20,289	21,047
	36,144	**45,246**

Irrevocable facilities

	2017	2016
Group companies	86	12
Third parties	45,051	43,820
	45,137	**43,832**

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 issued third party guarantees (and third party letters of comfort/awareness) in a limited number of cases. Third party guarantees are used when ING Bank N.V. is requested to issue a guarantee to a third party creditor of one of its subsidiaries in order to guarantee the (financial) performance of this subsidiary.

Claim agreements

In the ordinary course of business we have entered into a number of agreements whereby we are provided and being provided indemnifications related to sale of our past businesses and agreements whereby we made detailed arrangements regarding allocation and handling of claims.

Fiscal unity

ING 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. Settlements of corporate income tax paid or received are executed by ING Bank N.V.

31 Proposed appropriation of results

For 2017, 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 February 2017 ING Bank N.V. paid a dividend of EUR 1,470 million to ING Groep N.V. In August and November 2017 ING Bank N.V. paid an interim dividend of EUR 853 million and EUR 853 million to ING Groep N.V.

Notes to the Parent company annual accounts of ING Bank N.V. - continued

Proposed appropriation of result	
	2017
Net result	5,019
Addition to reserves pursuant to Article 24 of the Articles of Association	2,416
Proposed to be added to the Other Reserves pursuant to Article 24 of the Articles of Association	**2,603**

32 Subsequent events

On 29 January 2018 ING announced it had reached agreement to acquire a 75% stake in Payvision. Payvison is a Netherlands based payments service provider with a total estimated value of EUR 360 million. The transaction is not expected to have material impact on ING's CET1 ratio.

Authorisation of Parent company annual accounts

Amsterdam, 5 March 2018

The Supervisory Board
J. (Jeroen) van der Veer, *chairman*
H.J.M. (Hermann-Josef) Lamberti, *vice-chairman*
J.P. (Jan Peter) Balkenende
E.F.C.B. (Eric) Boyer de la Giroday
H.W. (Henk) Breukink
M. (Mariana) Gheorghe
R.W.P. (Robert) Reibestein
G.J. (Hans) Wijers

The Management Board Banking
R.A.J.G. (Ralph) Hamers, CEO, chairman of the Management Board Banking
J.V. (Koos) Timmermans, CFO, vice-chairman and head of Market Leaders
S.J.A. (Steven) van Rijswijk, *CRO*
M. I. (Isabel) Fernandez Niemann, head of Wholesale Banking
R.M.M. (Roel) Louwhoff, COO/CTO
A. (Aris) Bogdaneris, head of Challengers & Growth Markets
R.B. (Roland) Boekhout, head of Market Leaders

Independent auditor's report

KPMG

Independent auditor's report

To: the Shareholder and the Supervisory Board of ING Bank N.V.

Report on the audit of the annual accounts 2017 included in the annual report

Our opinion

In our opinion:

- the accompanying consolidated annual accounts give a true and fair view of the financial position of ING Bank N.V. as at 31 December 2017 and of its result and its cash flows for the year then ended, in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRS) and with Part 9 of Book 2 of the Dutch Civil Code;
- the accompanying parent company annual accounts give a true and fair view of the financial position of ING Bank N.V. as at 31 December 2017 and of its result for the year then ended in accordance with Part 9 of Book 2 of the Dutch Civil Code.

What we have audited

We have audited the annual accounts 2017 of ING Bank N.V. (the 'Company' or 'ING Bank') based in Amsterdam. The annual accounts include the consolidated annual accounts and the parent company annual accounts.

The consolidated annual accounts comprise:

1 The consolidated statement of financial position as at 31 December 2017.
2 The following consolidated statements for 2017: the statement of profit or loss, the statements of comprehensive income, changes in equity and cash flows.
3 The notes comprising a summary of the significant accounting policies and other explanatory information.

The parent company annual accounts comprise:

1 The parent company statement of financial position as at 31 December 2017.
2 The parent company statement of profit or loss and statement of changes in equity for 2017.
3 The notes comprising a summary of the accounting policies and other explanatory information.

Basis for our opinion

We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. Our responsibilities under those standards are further described in the 'Our responsibilities for the audit of the annual accounts' section of our report.

We are independent of ING Bank N.V. in accordance with the EU Regulation on specific requirements regarding statutory audits of public-interest entities, the Wet toezicht accountantsorganisaties (Wta, Audit Firms Supervision Act), the Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten (ViO, Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence regulations in the Netherlands. Furthermore, we have complied with the Verordening gedrags- en beroepsregels accountants (VGBA, Dutch Code of Ethics).

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Audit approach
Summary

Materiality
- Group materiality of EUR 300 million
- 4.1% of profit before taxation from continuing operations

GROUP AUDIT
- 87% of total assets covered by audit procedures performed by component auditors
- 86% of profit before taxation from continuing operations covered by audit procedures performed by component auditors

KEY AUDIT MATTERS
- Estimation uncertainty with respect to the loan impairment losses
- Estimation uncertainty with respect to the provision of a legal matter
- Risk of inappropriate access or changes to information technology and systems
- Estimation of the impact of IFRS 9 accounting standard

UNQUALIFIED OPINION

Materiality
Based on our professional judgement we determined the materiality for the annual accounts as a whole at EUR 300 million (2016: EUR 240 million). The materiality is determined with reference to the profit before taxation from continuing operations. Materiality as percentage of profit before taxation from continuing operations remained stable at 4.1% (2016: 4.0%).

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 taxation from continuing operations is a relevant metric for assessment of the financial performance of the Company. Given the relatively high balance sheet total and gross income, we have not used alternative benchmarks in determining materiality. We have also taken into account misstatements and/or possible misstatements that in our opinion are material for the users of the annual accounts for qualitative reasons.

We agreed with the Audit Committee of the Supervisory Board that misstatements in excess of EUR 15 million which are identified during the audit, would be reported to them, as well as smaller misstatements that in our view must be reported on qualitative grounds.

Scope of the group audit
ING Bank is at the head of a group of components. The financial information of this group is included in the consolidated annual accounts of ING Bank. 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 mainly 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 36 components, in total covering 13 countries. This resulted in a coverage performed by component auditors of 86% of profit before taxation from continuing operations and 87% of total assets. For the remaining 14% of profit before taxation from continuing operations and 13% of total assets procedures were performed at the group level including analytical procedures in order to corroborate our assessment that the risk of material misstatements in the residual population is remote.

All components in scope for group reporting are audited by KPMG member firms. We sent detailed instructions to all component auditors, covering significant areas including the relevant risks of material misstatement and set out the information required to be reported to the group audit team. We visited component locations in the Netherlands, Belgium, Germany, United Kingdom and Singapore, where we performed reviews of the audit files from local auditors. We also performed an off-site file review of the work performed by the component auditor in Turkey. For all components in scope of the group audit, we held conference calls and/or physical meetings with the auditors of the components. During these visits, meetings and calls, the planning, risk assessment, procedures performed, findings and observations reported to the group auditor were discussed in more detail and any further work deemed necessary by the group audit team was then performed.

The group audit team has set component materiality levels, which ranged from EUR 25 million to EUR 90 million, based on the mix of size and financial statement risk profile of the components within the group to reduce the aggregation risk to an acceptable level. The consolidation of the group, the disclosures in the annual accounts and certain accounting topics that are performed at group level are audited by the group audit team. The accounting matters on which audit procedures are performed by the group audit team include, but are not limited to, goodwill impairment testing, equity, group financing and certain elements of: the loan loss provisioning process, corporate income tax for the Dutch fiscal unity and claims and litigations.

By performing the procedures mentioned above at components, together with additional procedures at group level, we have been able to obtain sufficient and appropriate audit evidence about the group's financial information to provide an opinion about the consolidated annual accounts.

Total assets

87%

Covered by audit procedures performed by component auditors

13%

Covered by additional procedures at group level

Profit before taxation from continuing operations

86%

Covered by audit procedures performed by component auditors

14%

Covered by additional procedures at group level

Our key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the annual accounts. We have communicated the key audit matters to the Audit Committee of the Supervisory Board. The key audit matters are not a comprehensive reflection of all matters discussed.

These matters were addressed in the context of our audit of the annual accounts as a whole and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Last year, we reported 'Estimation uncertainty with respect to the digital transformation restructuring provisions' as a key audit matter. The estimation uncertainty related primarily to the initial recognition and measurement of the restructuring provisions as per 31 December 2016. Based on the observations following our audit of the 2017 annual accounts we do not consider the subsequent measurement of the restructuring provision to be a key audit matter. We did not consider the SME derivatives remediation program a key audit matter this year given the status of the program.

Estimation uncertainty with respect to the impairment losses on loans and advances to customers and banks

Description

ING Bank's portfolio of loans and advances to customers and loans and advances to banks amounts to EUR 574.9 billion and EUR 28.7 billion, respectively, as at 31 December 2017. These loans and advances are measured at amortised cost, less a provision for loan losses (EUR 4.6 billion). Several aspects of the accounting for loan losses require significant judgement of management, such as the identification of loans that are deteriorating, the assessment of objective evidence for impairment, the valuation of collateral received and the estimation of the recoverable amount.

Our response

Our audit approach included testing both the effectiveness of internal controls around determining loan loss provisions and substantive audit procedures.

Our procedures over internal controls focused on the governance over the process, controls around the accuracy of loan and collateral data, the determination of risk ratings and the process for identifying arrears. In our audit, we also considered the process around the data flows through the information systems, application controls and calculations, and the implementation and validation of the credit risk models used to calculate the collective loan loss provisions, the analysis of the collective provision results, and reviews performed on impaired loans that have been individually assessed.

We assessed collective impairment methodologies, focusing on the most significant portfolios from a size and credit risk perspective. With the assistance of our financial risk management specialists, data analysis specialists, and information technology specialists, we have evaluated the models, assumptions, data, and information systems used by ING Bank for the collective provisions. We have assessed the methodology and framework designed and implemented by ING Bank to assess whether the collective provision model outcomes should be adjusted to better reflect the current circumstances of the portfolio performance and economic conditions.

With the assistance of corporate finance specialists and real estate valuation specialists we have tested the methodologies, cash flows, and collateral values used in individual assessments of provisions for impaired loans, including management judgements made during the process such as various recovery scenarios and probabilities of those scenarios occurring.

Estimation uncertainty with respect to the impairment losses on loans and advances to customers and banks

Our observation

We have reported to ING Group's Audit Committee of the Supervisory Board our observations with respect to the loan loss provisioning and accordingly amended our audit approach. Overall, based on the procedures performed, we assess that the impairment losses on loans and advances to customers and loans and advances to banks are fairly stated in the annual accounts.

Estimation uncertainty with respect to the provision of a legal matter

Description

As disclosed in Note 42, ING Bank N.V. is subject of criminal investigations by Dutch authorities regarding various requirements related to the client onboarding, money laundering and corrupt practices. ING Groep N.V. has also received related information requests by the US authorities (hereafter 'the investigations').
Management concluded under IFRS that it is more likely than not that a present obligation per 31 December 2017 exists and that an outflow of resources is probable. However, management was not able to estimate reliably the possible timing, scope or amounts of any fines, penalties and/or other outcome, which could be significant.

Our response

Our audit procedures included the testing of controls over the evaluation and measurement of potential obligations arising from the legal matter. We considered whether an obligation exists, the appropriateness of provisioning and/or disclosure based on the facts and circumstances available.
In order to assess the facts and circumstances with respect to the investigations, we assessed underlying documentation of internal investigations performed and other relevant documents. We evaluated and discussed internal audit reports in relation to compliance and inspected correspondence with regulators. We also obtained and inspected external lawyers' letters, legal opinions, read minutes from relevant committees, attended audit committee meetings and supervisory board meetings where this topic was discussed. We inquired with senior management and interviewed ING Bank's legal counsel and external lawyers of ING Bank. We have involved forensic specialists to assist us in these procedures. We also assessed the adequacy of the disclosure regarding the investigations as included in Note 42.

Our observation

Overall, the nature and extent of disclosure in Note 42 of this legal matter in the annual accounts is adequate.

Risk of inappropriate access or changes to information technology and systems

Description

ING Bank is dependent on its IT infrastructure for the reliability and continuity of its operations and financial reporting. ING Bank continued to make efforts to improve IT systems and processes to increase the efficiency and effectiveness of the IT infrastructure and the reliability and continuity of the IT processing as well as to remediate deficiencies identified in the previous year.

Our response

Our audit approach relies to a large extent on automated controls and therefore procedures are designed to test access and change management controls over IT systems. Inappropriate access to an application or infrastructure could impact an automated control and therefore compromise financial data. Given the IT technical characteristics of this part of the audit, IT audit specialists are an integral part of our engagement team.
IT audit specialists assessed the reliability and continuity of the IT environment, insofar as needed within the scope of our audit of the annual accounts. We examined the framework of governance over ING Bank's IT organisations and the IT general controls, access to programs and data, program changes and IT operations, including compensating controls where those were required.
Our areas of focus related to the change management, logical access management and segregation of duties controls. Management has put efforts to remediate identified control deficiencies. We tested the design and operating effectiveness of user access management controls of the IT systems relevant for financial reporting. For those control deficiencies that were not remediated, we tested compensating controls that were not impacted by ineffective controls. For certain deficiencies during the period of remediation, we substantively assessed the access to determine whether inappropriate access occurred and whether changes made were appropriate.

Our observation

The combination of the tests of the controls and the substantive tests performed provided sufficient evidence to enable us to rely on the continued operation of the IT systems for the purposes of our audit.

Estimation of the impact of IFRS 9 accounting standard

Description

ING Bank is adopting IFRS 9 'Financial Instruments' from 1 January 2018 and included an estimate of the financial impact of the change in accounting standard in accordance with IAS 8 'Accounting Policies, Change in Accounting Estimates and Errors' as set out in Note 1. This disclosure requires judgement and management estimates regarding the impact of IFRS 9 on the classification and measurement of financial assets and liabilities and the impairment of financial assets.

Our response

Our audit approach included testing both the effectiveness of internal controls around management's process for disclosing the estimated impact of adopting IFRS 9 as well as substantive audit procedures regarding the disclosure required by IAS 8.
We considered the appropriateness of key technical decisions and judgements made in determining the estimate. Our procedures over internal controls included testing controls around management's classification and measurement processes. We also focused on internal controls around the expected credit loss methodology and tested ING Bank's process for reflecting multiple macroeconomic scenarios, including involvement of economic specialists. We considered the process around the implementation and internal validation of the models used to estimate the impact of the IFRS 9 expected credit losses, which was concentrated on the most significant models from an exposure perspective.

Estimation of the impact of IFRS 9 accounting standard
Our response We evaluated the disclosure against the criteria of IAS 8. As part of our substantive procedures we independently tested the business model and solely payment of principal and interest criteria over a sample of financial instruments. In addition, with the assistance of our financial risk management specialists, we have evaluated the significant models, assumptions and data used by ING Bank for the expected credit loss measurements. Furthermore, we have assessed the methodology and framework designed and implemented by ING Bank as to whether the provision model outcomes and stage allocations appear reasonable and reflective of ING's forecasts of future economic conditions.
Our observation ING Bank has almost completed the implementation of IFRS 9. The main procedures that are in the process of being finalised are the transfer of project activities to the business, further embedding internal controls in their processes and the completion of the remaining model validations. Overall, we conclude that the IAS 8 disclosures accurately reflect ING's implementation status and estimated impact of adopting the new standard.

Report on the other information included in the annual report

In addition to the annual accounts and our auditor's report thereon, the annual report contains other information that consists of:
- The Report of the Management Board.
- The Corporate Governance Report.
- Other information.

Based on the following procedures performed, we conclude that the other information:
- is consistent with the annual accounts and does not contain material misstatements;
- contains the information as required by Part 9 of Book 2 of the Dutch Civil Code.

We have read the other information. Based on our knowledge and understanding obtained through our audit of the annual accounts or otherwise, we have considered whether the other information contains material misstatements.

By performing these procedures, we comply with the requirements of Part 9 of Book 2 of the Dutch Civil Code and the Dutch Standard 720. The scope of the procedures performed is substantially less than the scope of those performed in our audit of the annual accounts.

The Management Board is responsible for the preparation of the other information, including the information as required by Part 9 of Book 2 of the Dutch Civil Code.

Report on other legal and regulatory requirements

Engagement

We were engaged by the Annual General Meeting of the Shareholder as auditor of ING Bank on 11 May 2015, as of the audit for the year 2016 and have operated as statutory auditor ever since that financial year.

No prohibited non-audit services

We have not provided prohibited non-audit services as referred to in Article 5(1) of the EU Regulation on specific requirements regarding statutory audits of public-interest entities.

Services rendered

For the period to which our statutory audit relates, in addition to this audit, we have provided agreed-upon procedures and assurance engagements to ING Bank N.V. or its controlled undertakings. These services were rendered for the benefit of external users, largely driven by regulatory compliance.

Description of responsibilities regarding the annual accounts

Responsibilities of the Management Board and the 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 Part 9 of Book 2 of the Dutch Civil Code. Furthermore, the Management Board is responsible for such internal control as management determines is necessary to enable the preparation of the annual accounts that are free from material misstatement, whether due to fraud or error.

As part of the preparation of the annual accounts, the Management Board is responsible for assessing the Company's ability to continue as a going concern. Based on the financial reporting frameworks 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 the annual accounts

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

Our audit has been performed with a high, but not absolute, level of assurance, which means we may not detect all material errors and fraud during our audit.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual accounts. The materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

A further description of our responsibilities for the audit of the financial statements is located at the website of the Koninklijke Nederlandse Beroepsorganisatie van Accountants (NBA, Royal Netherlands Institute of Chartered Accountants) at: http://www.nba.nl/ENG_oob_01.

This description forms part of our auditor's report.

Amstelveen, 5 March 2018

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

Articles of Association – Appropriation of results

Appropriation of results

The result is appropriated pursuant to Article 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.

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) operational risks, such as system disruptions or failures, breaches of security, cyberattacks, human error, changes in operational practices or inadequate controls including in respect of third parties with which we do business, (17) the inability to protect our intellectual property and infringement claims by third parties, (18) the inability to retain key personnel, (19) business, operational, regulatory, reputation and other risks in connection with climate change, (20) ING's ability to achieve its strategy, including projected operational synergies and cost-saving programmes and (21) 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 related to the integration of Record Bank in Belgium are still subject to regulatory approval.

This document does not constitute an offer to sell, or a solicitation of an offer to purchase, any securities in the United States or any other jurisdiction.

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