ING GROEP NV
Form 20-F
March 16, 2017
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 20-F

(Mark One)

REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended 31 December 2016

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission file number 1-14642

ING GROEP N.V.

(Exact name of registrant as specified in its charter)

The Netherlands

(Jurisdiction of incorporation or organisation)

ING Groep N.V.

Bijlmerplein 888

1102 MG Amsterdam

P.O. Box 1800, 1000 BV Amsterdam

The Netherlands

(Address of principal executive offices)

Norman Tambach

Telephone: +31 20 576 6160

E-mail: Norman.Tambach@ing.com

Bijlmerplein 888

1102 MG Amsterdam

The Netherlands

(Name; Telephone, Email and Address of Company Contact Person)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
American Depositary Shares, each representing one Ordinary Share	New York Stock Exchange
Ordinary Shares, nominal value EUR 0.01 per Ordinary Share*	New York Stock Exchange
6.20% ING Perpetual Debt Securities	New York Stock Exchange
6.125% ING Perpetual Debt Securities	New York Stock Exchange
6.375% ING Perpetual Debt Securities	New York Stock Exchange

* Listed, not for trading or quotation purposes, but only in connection with the registration of American Depositary Shares pursuant to the requirements of the Securities and Exchange Commission

Securities registered or to be registered pursuant to Section 12(g) of the Act:

None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

None

Indicate the number of outstanding shares of each of the issuer s classes of capital or common stock as of the close of the period covered by the annual report.

Ordinary Shares, nominal value EUR 0.01 per Ordinary Share	3,878,483,623

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrants have submitted electronically and posted on their corporate Web sites, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).* Yes No

* This requirement does not currently apply to the registrant.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act (Check one).

Large accelerated filer Accelerated filer Non-accelerated filer

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP International Financial Reporting Standards as issued by the International Accounting Standards Board Other

If Other has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow. Item 17 Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

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ING Group

Annual Report

on Form 20-F

2016

Filed with the United States Securities and Exchange Commission for the year ended 31 December 2016

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PRESENTATION OF INFORMATION

In this Annual Report, and unless otherwise stated or the context otherwise dictates, references to ING Groep N.V. , ING Groep and ING Group refer to ING Groep N.V. and references to ING , the Company , the Group , we an to ING Groep N.V. and its consolidated subsidiaries. ING Groep N.V. s primary banking subsidiary is ING Bank N.V. (together with its consolidated subsidiaries, ING Bank). References to Executive Board and Supervisory Board refer to the Executive Board or Supervisory Board of ING Groep N.V., respectively.

ING presents its consolidated financial statements in euros, the currency of the European Economic and Monetary Union. Unless otherwise specified or the context otherwise requires, references to $, US$ and Dollars are to the United States dollars and references to EUR are to euros.

Solely for the convenience of the reader, this Annual Report contains translations of certain euro amounts into U.S. dollars at specified rates. These translations should not be construed as representations that the translated amounts actually represent such dollar or euro amounts, as the case may be, or could be converted into U.S. dollars or euros, as the case may be, at the rates indicated or at any other rate. Therefore, unless otherwise stated, the translations of euros into U.S. dollars have been made at the rate of EUR 1.00 = U.S. $ 1.0552, the noon buying rate in New York City for cable transfers in euros as certified for customs purposes by the Federal Reserve Bank of New York (the Noon Buying Rate) on 3 March 2017.

ING prepares financial information in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS-IASB) for purposes of reporting with the U.S. Securities and Exchange Commission (SEC), including financial information contained in this Annual Report on Form 20-F. ING Group s accounting policies and its use of various options under IFRS-IASB are described under Principles of valuation and determination of results in the consolidated financial statements. In this document the term IFRS-IASB is used to refer to IFRS-IASB as applied by ING Group.

The published 2016 Annual Accounts of ING Group, however, are prepared in accordance with IFRS-EU. IFRS-EU refers to International Financial Reporting Standards (IFRS) as adopted by the European Union (EU), including the decisions ING Group made with regard to the options available under IFRS as adopted by the EU (IFRS-EU).

IFRS-EU differs from IFRS-IASB, in respect of certain paragraphs in IAS 39 Financial Instruments: Recognition and Measurement regarding hedge accounting for portfolio hedges of interest rate risk. Under IFRS-EU, ING Group applies fair value hedge accounting for portfolio hedges of interest rate risk (fair value macro hedges) in accordance with the EU carve-out version of IAS 39. Under the EU IAS 39 carve-out , hedge accounting may be applied, in respect of fair value macro hedges, to core deposits and hedge ineffectiveness is only recognised when the revised estimate of the amount of cash flows in scheduled time buckets falls below the original designated amount of that bucket, and is not recognised when the revised amount of cash flows in scheduled time buckets is more than the original designated amount. Under IFRS-IASB, hedge accounting for fair value macro hedges cannot be applied to core deposits and ineffectiveness arises whenever the revised estimate of the amount of cash flows in scheduled time buckets is either more or less than the original designated amount of that bucket. This information is prepared by reversing the hedge accounting impacts that are applied under the EU carve-out version of IAS 39. Financial information under IFRS-IASB accordingly does not take account of the possibility that, had ING Group applied IFRS-IASB as its primary accounting framework, it might have applied alternative hedge strategies where those alternative hedge strategies could have qualified for IFRS-IASB compliant hedge accounting. These decisions could have resulted in different shareholders equity and net result amounts compared to those indicated in this Annual Report on Form 20-F.

Other than for SEC reporting, ING Group intends to continue to prepare its Annual Accounts under IFRS-EU. A reconciliation between IFRS-EU and IFRS-IASB is included in Note 2.1 to the consolidated financial statements.

In addition, in 2016 ING made certain changes to the way in which it reports its segment results. See Item 5. Operating and financial review and prospects segment reporting for more information.

In addition the consolidated financial statements, which are prepared in accordance with IFRS, this Annual Report contains certain measures that are not defined by generally accepted accounting principles (GAAP) such as IFRS. Our management uses these financial measures, along with the most directly comparable GAAP financial measures, in evaluating segment performance and allocating resources. We believe that presentation of this information, along with comparable GAAP measures, is useful to investors because it allows investors to understand the primary method used by management to evaluate performance on a meaningful basis. Non-GAAP financial measures should not be considered in isolation from, or as a substitute for, financial information presented in compliance with GAAP, including the consolidated financial statements. Non-GAAP financial measures as defined by us may not be comparable with similarly titled measures used by other companies.

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Certain amounts set forth herein, such as percentages, may not sum due to rounding.

This Annual Report on Form 20-F contains inactive textual addresses to Internet websites operated by us and third parties. Reference to such websites is made for information purposes only, and information found at such websites is not incorporated by reference into this Annual Report on Form 20-F.

IFRS 9 Financial Instruments

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

IFRS 9 Program governance and status

The structure of the IFRS 9 Program has been set-up based on the three pillars of the IFRS 9 standard: Classification and Measurement, Impairment and Hedge Accounting. These central work streams consist of experts from Finance, Risk, Bank Treasury, Operations and the business. For further information please read the relevant section in Note 1 Accounting policies of Note 2.1.2 to the Consolidated financial statements.

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:

The Business Model assessment is performed to determine how a portfolio of financial instruments as a whole is managed in order to classify it as Hold to Collect, Hold to Collect & Sell or Other Business Model and;

Contractual cash flow characteristics of financial instruments held in each Business Model are analysed to check if they meet the Solely Payments of Principal and Interest (SPPI) test in order to determine if the measurement will be at Amortised Cost, Fair Value through Other Comprehensive Income (FVOCI) or Fair Value through Profit and Loss (FVPL).

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

The central team also finalised an approach for performing the SPPI test and is in the process of performing a detailed analysis of our cash flow characteristics of our financial assets to detect whether they meet SPPI criteria. The SPPI test is performed on groups of assets that have a set of similar characteristics resulting in a homogenous population.

Where testing is being performed at a local level, these local teams are trained and supported by the central team to ensure IFRS 9 is understood and implemented consistently across the Group.

The focus in 2017 will be finalising SPPI testing and formalising the governance to embed the changes brought by IFRS 9 into everyday business and financial reporting cycles to ensure ongoing compliance. ING Group will also finalise accounting policy choices around use of FVOCI presentation for equity investments and designations at FVPL. Furthermore, there will be increased emphasis on the impact of IFRS 9 on prudential ratios, especially capital ratios.

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Impact

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

Impairment

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

Three stage approach

ING Group plans to apply the IFRS 9 three stage approach to measure expected credit losses:

Stage 1: 12 month ECL performing

Financial instruments that have not had a significant increase in credit risk since initial recognition require, at initial recognition, a provision for ECL associated with the probability of default events occurring within the next 12 months (12 month ECL).

Stage 2: Lifetime ECL under-performing

In the event of a significant increase in credit risk since initial recognition, a provision is required for ECL resulting from all possible default events over the expected life of the financial instrument (Lifetime ECL).

Stage 3: Lifetime ECL non-performing

Financial instruments will move into Stage 3 once credit impaired and require a Lifetime ECL provision.

Key concepts

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

ING Group established a framework for whether an asset has a significant increase in credit risk. Each assets will be assessed at reporting date on the triggers for significant deterioration. ING Group intends to assess significant increase

in credit risk using a delta in the lifetime default probability, forbearance status, watch list status, managing department, arrears and the more than 30 days past due backstop. The stage allocation will be implemented in the central credit risk systems. In 2017 stability analyses on the triggers will be performed.

Measurement

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

To measure ECL, ING Group applies a PD x EAD x LGD approach. For stage 2 assets a lifetime view on the underlying parameters is taken. The Lifetime Expected Loss (LEL) is the discounted sum of the portions of lifetime losses related to default events within each time window of 12 months. For stage 3 the PD equals 100% and the LGD and EAD represent a lifetime view of the characteristics of facilities that are in default. The ECL is calculated in the central credit risk systems to ensure consistency.

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In 2016, enhanced data was collected from all source systems around the world and progress has been made in the central implementation of IFRS 9 concepts in the central credit risk system. Furthermore, ING Group s asset portfolios are split into a number sub-portfolios based on asset class and jurisdiction (e.g. mortgages in the Netherlands) in order to accurately measure ECL. For IFRS 9 purposes a number of portfolios are grouped. The models for the first portfolios are in the process of validation by an independent party.

Impact

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

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

Hedge Accounting

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

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

IFRS 15 Revenue from Contracts with Customers

IFRS 15 Revenue from Contracts with Customers is effective for annual periods beginning on or after 1 January 2018 and has been endorsed by the EU. IFRS 15 introduces a 5-step approach for recognising revenue as and when the agreed performance obligations are satisfied. Agreed performance obligations are individual promises made to customer that delivers benefit from the customers perspective. Revenue should either be recognised at a point-in-time or over-time depending on the service being delivered to the customer. The standard may be applied retrospectively, although transitional relief is available. Commission income is a key revenue stream in scope of IFRS 15 being assessed. No accounting change is expected for straight-forward type transaction based fees. Fees related to the effective yield of the loan which is presented in Interest income or bank guarantee fees are not in the scope of IFRS 15. ING is currently assessing the revenue stream for commission income.

IFRS 16 Leases

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

NN Group

January 2016 Loss of significant influence over NN Group

On 5 January 2016, ING sold a further 33 million ordinary shares of NN Group. As part of the transaction, NN Group repurchased 8 million ordinary shares. The gross proceeds to ING Group from the offering, including the repurchase by NN Group, amounted to EUR 1 billion. The

transaction reduced the ownership of ING in NN Group from 25.75% (as at 31 December 2015) to 16.22%. As a result of the transaction, together with ING Group no longer having any nominees on NN Group s Supervisory Board as of 14 December 2015, ING Group no longer had significant influence over NN Group and accounted for its remaining stake in NN Group as an available-for-sale investment. The sale transaction, together with the revaluation of the remaining stake, resulted in a net profit of EUR 522 million and is recognised in the statement of profit or loss in the line Net result from disposal of discontinued operations .

February 2016 Final tranche exchange of subordinated notes: Anchor investors

On 2 February 2016, ING settled the exchange of the third and final tranche of EUR 337.5 million mandatory exchangeable subordinated notes which were issued in 2014 as part of the Anchor investment in NN Group. EUR 210 million of the notes were exchanged into 6.9 million NN Group ordinary shares with the three Anchor investors. EUR 128 million of notes were settled in cash with RRJ Capital. This transaction reduced ING s remaining stake in NN Group from 16.22% to 14.09%. The transaction did not have a material impact on the shareholder s equity or the statement of profit or loss of ING Group.

April 2016 Divestment of remaining shareholding in NN Group

On 14 April 2016, ING Group sold its remaining shares in NN Group. The transaction involved the sale of 45.7 million ordinary shares of NN Group at gross proceeds of EUR 1,406 million and resulted in a net loss of EUR 66 million which is recognised in the statement of profit or loss, in the line Net result from disposal of discontinued operations .

Subsequent events

There are no subsequent events to report.

CAUTIONARY STATEMENT WITH RESPECT TO FORWARD-LOOKING STATEMENTS

Certain of the statements contained herein are not historical facts, including, without limitation, certain statements made in the sections hereof entitled Information on the Company , Dividends , Operating and Financial Review and Prospects , Selected Statistical Information on Banking Operations and Quantitative and Qualitative Disclosure of Market Risk are statements 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,

changes in general economic conditions, in particular economic conditions in ING s core markets,

changes in performance of financial markets, including developing markets,

potential consequences of European Union countries leaving the European Union or a break-up of the euro,

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,

changes affecting interest rate levels,

changes affecting currency exchange rates,

changes in investor and customer behaviour,

changes in general competitive factors,

changes in laws and regulations and the interpretation and application thereof,

geopolitical risks and policies and actions of governmental and regulatory authorities,

changes in standards and interpretations under International Financial Reporting Standards (IFRS) and the application thereof,

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,

changes in ownership that could affect the future availability to us of net operating loss, net capital and built-in loss carry forwards,

changes in credit ratings,

the outcome of current and future legal and regulatory proceedings,

ING s ability to achieve its strategy, including projected operational synergies and cost-saving programmes and

the other risks and uncertainties detailed in Item 3. Key Information Risk Factors in this Annual Report on Form 20-F and our filings with the SEC which are available on the SEC s website at http://www.sec.gov[sec.gov].

Many of those factors are beyond ING s control.

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Any forward looking statements made by or on behalf of ING speak only as of the date they are made, and ING assumes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information or for any other reason.

Projects may be subject to regulatory approvals. Insofar as they could have an impact in Belgium, all projects described are proposed intentions of the bank. No formal decisions will be taken until the information and consultation phases with the Work Council have been properly finalised.

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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PART I

Item 1. Identity of Directors, Senior Management And Advisors

Not Applicable.

Item 2. Offer Statistics and Expected Timetable

Not Applicable.

Item 3. Key Information

The selected consolidated financial information data is derived from the IFRS-IASB consolidated financial statements of ING Group.

The following information should be read in conjunction with, and is qualified by reference to the Group s consolidated financial statements and other financial information included elsewhere herein.

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IFRS-IASB Consolidated Income Statement Data

for the years ended 31 December In millions except amounts per share and ratios	2016 US$	2016 EUR	2015 EUR	2014 EUR	2013 EUR	2012 EUR
Continuing operations						
Interest income	46,621	44,182	46,321	48,169	51,394	60,003
Interest expense	32,649	30,941	33,760	35,865	39,693	48,119
Net interest income	13,972	13,241	12,561	12,304	11,701	11,884
Net commission income	2,567	2,433	2,318	2,293	2,204	2,047
Other income	2,351	2,228	3,128	617	3,191	1,223
Total income	**18,890**	**17,902**	**18,007**	**15,214**	**17,096**	**15,154**
Addition to loan loss provision	1,028	974	1,347	1,594	2,289	2,125
Operating expenses	11,200	10,614	9,326	10,259	8,834	9,644
Total expenses	**12,228**	**11,588**	**10,673**	**11,853**	**11,123**	**11,769**
Result before tax from continuing operations	6,663	6,314	7,334	3,361	5,973	3,385
Taxation	1,799	1,705	1,924	859	1,498	856
Net result from continuing operations	**4,863**	**4,609**	**5,410**	**2,502**	**4,475**	**2,529**
Net result from discontinued operations	**465**	**441**	**-76**	**-1,375**	**680**	**1,359**
Net result attributable to Non-controlling interests	79	75	408	164	265	161
Net result ING Group IFRS-IASB attributable to Equityholders of the parent	**5,250**	**4,975**	**4,926**	**963**	**4,890**	**3,727**
Addition to shareholders equity	2,548	2,415	2,411	493	4,890	3,727
Dividend	2,701	2,560	2,515	470		
Basic earnings per share	1.35	1.28	1.27	0.25	1.14	0.81
Diluted earnings per share	1.35	1.28	1.27	0.25	1.14	0.81
Dividend per share	0.70	0.66	0.65	0.12		
Number of Ordinary Shares outstanding (in millions)	3,877.9	3,877.9	3,868.7	3,854.6	3,836.9	3,801.4

Euro amounts have been translated into U.S. dollars at the exchange rate of $ 1.0552 to EUR 1.00, the Noon Buying Rate in New York City on 3 March 2017 for cable transfers in euros as certified for customs purposes by the Federal Reserve Bank of New York.

The results of NN Group and Voya have been transferred to Result from discontinued operations . For details on Discontinued operations, see Note 28 of Note 2.1 to the consolidated financial statements.

Dividend reported is the amount declared over the year.

Basic earnings per share amounts have been calculated based on the weighted average number of ordinary shares of ING Groep N.V. (Ordinary Shares)outstanding during the relevant period and Shareholders equity per share amounts have been calculated based on the number of Ordinary Shares outstanding at the end of the respective periods. For purposes of this calculation, Ordinary Shares held by Group companies are deducted from the total number of Ordinary Shares in issue. The effect of dilutive securities is also adjusted.

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IFRS-IASB Consolidated Balance Sheet Data

as at 31 December In billions except amounts per share and ratios	2016 US$	2016 EUR	2015 EUR	2014 EUR	2013 EUR	2012 EUR
Total assets	888.7	842.2	1,002.3	1,174.8	1,076.6	1,158.1
Financial assets at fair value through profit or loss	128.8	122.1	138.0	144.1	165.2	233.7
Loans and advances to customers	591.1	560.2	696.9	698.2	527.0	556.9
Customer deposits						
Savings accounts	333.1	315.7	305.9	295.5	289.8	277.8
Other deposits and funds	218.7	207.2	358.3	374.1	184.5	177.2
Customer deposits	551.8	522.9	664.2	669.7	474.3	455.0
Deposits from banks	33.8	32.0	33.8	30.0	27.2	38.7
Insurance and investment contracts:					111.8	230.0
Shareholders equity	49.9	47.3	45.0	47.6	42.3	46.5
Non-voting equity securities					1.5	2.3
Total Equity	50.5	47.9	45.6	55.6	49.7	50.4
Shareholders equity per ordinary share	12.86	12.19	11.62	12.36	11.02	12.22
Share capital in number of shares (in millions)	3,878.5	3,878.5	3,870.2	3,858.9	3,840.9	3,831.6

Euro amounts have been translated into U.S. dollars at the exchange rate of $ 1.0552 to EUR 1.00, the Noon Buying Rate in New York City on 3 March 2017 for cable transfers in euros as certified for customs purposes by the Federal Reserve Bank of New York.

Loans and advances to customers and Customer deposits, as at 31 December 2015 and 2014, are adjusted as a result of a change in accounting policies. Reference is made to Note 1 Accounting policies a) Changes in accounting policies in 2016 of Note 2.1 to the consolidated financial statements. Amounts for the years 2013 and 2012 have not been adjusted.

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EXCHANGE RATES

Fluctuations in the exchange rate between the euro and the U.S. dollar will affect the U.S. dollar amounts received by owners of shares or ADSs on conversion of dividends, if any, paid in euros on the shares and will affect the U.S. dollar price of the ADSs on the New York Stock Exchange.

The following table sets forth, for the periods and dates indicated, certain information concerning the exchange rate for U.S. dollars into euros based on the Noon Buying Rate.

U.S. dollars per euro

Calendar Period	Period End[1]	Average Rate[2]	High	Low
2012	1,3186	1,2909	1,3463	1,2062
2013	1,3771	1,3303	1,3816	1,2774
2014	1,2101	1,3210	1,3927	1,2101
2015	1,0859	1,1032	1,2015	1,0524
2016	1,0552	1,1029	1,1516	1,0375

1 The noon buying rates at such dates differ from the rates used in the preparation of ING s consolidated financial statements as of such date. See Note 1 of Note 2.1 to the consolidated financial statements.

2 The average of the noon buying rates on the last business day of each full calendar month during the period.

The table below shows the high and low exchange rate of the U.S. dollar per euro for the last six months.

	High	Low
September 2016	1.1358	1.0868
October 2016	1.1437	1.1104
November 2016	1.1026	1.0963
December 2016	1.1025	1.0562
January 2017	1.0964	1.0573
February 2017	1.0802	1.0551

The Noon Buying Rate for euros on 30 December 2016 was EUR 1.00 = U.S. $ 1.0552 and the Noon Buying Rate for euros on 3 March 2017 was EUR 1.00 = U.S. $ 1.0552.

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Risk Factors

Any of the risks described below could have a material adverse effect on the business activities, financial condition, results of operations and prospects of ING. Additional risks of which the Company is not presently aware could also affect the business operations of ING and have a material adverse effect on ING s business activities, financial condition, results of operations and prospects. In addition, the business of a multinational, broad-based financial services firm such as ING is inherently exposed to risks that only become apparent with the benefit of hindsight. The market price of ING shares or other securities could decline due to any of those risks including the risks described below, and investors could lose all or part of their investments. The sequence in which the risk factors are presented below is not indicative of their likelihood of occurrence or the potential magnitude of their financial consequences.

Risks related to financial conditions, market environment and general economic trends

Because we are a financial services company conducting business on a global basis, our revenues and earnings are affected by the volatility and strength of the economic, business, liquidity, funding and capital markets environments specific to the geographic regions in which we conduct business. The ongoing turbulence and volatility of such factors have adversely affected, and may continue to adversely affect, the profitability , solvency and liquidity of our business.

Factors such as interest rates, securities prices, credit spreads, liquidity spreads, exchange rates, consumer spending, changes in client behaviour, business investment, real estate values and private equity valuations, government spending, inflation or deflation, the volatility and strength of the capital markets, political events and trends, and terrorism all impact the business and economic environment and, ultimately, our solvency, liquidity and the amount and profitability of business we conduct in a specific geographic region. We are particularly exposed to financial, economic, market and political conditions in the Benelux countries, from which we derive a significant portion of our revenues. In an economic downturn characterised by higher unemployment, lower family income, lower corporate earnings, higher corporate and private debt defaults, lower business investments and lower consumer spending, the demand for banking products is usually adversely affected and ING s reserves and provisions typically would increase, resulting in overall lower earnings. Securities prices, real estate values and private equity valuations may also be adversely impacted, and any such losses would be realised through profit and loss and shareholders equity. We also offer a number of financial products that expose us to risks associated with fluctuations in interest rates, securities prices, corporate and private default rates, the value of real estate assets, exchange rates and credit spreads.

See also Interest rate volatility and other interest rate changes may adversely affect our profitability , Continued risk of resurgence of turbulence and ongoing volatility in the financial markets and the economy generally have adversely affected, and may continue to adversely affect, our business, financial condition and results of operations , and Market conditions observed over the past few years may increase the risk of loans being impaired. We are exposed to declining property values on the collateral supporting residential and commercial real estate lending below.

In case one or more of the factors mentioned above adversely affects the profitability of our business, this might also result, among other things, in the following:

- reserve and provisions inadequacies, which could ultimately be realised through profit and loss and shareholders equity;

- the write-down of tax assets impacting net results and/or equity;
- impairment expenses related to goodwill and other intangible assets, impacting net results;
- movements in risk weighted assets for the determination of required capital;
- changes in credit valuation adjustments and debt valuation adjustments; and/or
- additional costs related to maintenance of higher liquidity buffers and/or collateral placements.

Shareholders equity and our net result may be significantly impacted by turmoil and volatility in the worldwide financial markets. Negative developments in financial markets and/or economies and changes in the regulatory environment in which we operate have in the past had and may in the future have a material adverse impact on shareholders equity and net result, including as a result of the potential consequences listed above. See Continued risk of resurgence of turbulence and ongoing volatility in the financial markets and the economy generally have adversely affected, and may continue to adversely affect, our business, financial condition and results of operations and We operate in highly regulated industries. Changes in laws and/ or regulations governing financial services or financial institutions or the application of such laws and/or regulations governing our business may reduce our profitability below.

Continued risk of resurgence of turbulence and ongoing volatility in the financial markets and the economy generally have adversely affected, and may continue to adversely affect, our business, financial condition and results of operations.

General

Our business and results of operations are materially affected by conditions in the global capital markets and the economy generally. In 2008 and through early 2009, the financial services industry and the securities markets generally were materially and adversely affected by significant declines in the values of nearly all asset classes and by a serious lack of liquidity. Concerns over the slow economic recovery, the European sovereign debt crisis, the outcome of the negotiations between the UK and the EU following the UK referendum on EU membership (Brexit), the potential exit of other countries from the Eurozone, increasing political instability in Europe, unemployment, the availability and cost of credit, credit spreads, quantitative easing within the Eurozone through bond repurchases, the ECB s targeted longer-term refinancing operation (TLTRO), potential changes in U.S. laws, regulations and policies governing financial regulation, foreign trade and foreign investment following the inauguration of a new U.S. administration in January 2017, the level of U.S. national debt and the U.S. housing market, inflation/deflation levels, energy costs and heightened geopolitical issues all have contributed to increased volatility and diminished expectations for the economy and the markets in recent years.

These conditions have generally resulted in greater volatility, widening of credit spreads and overall shortage of liquidity and tightening of financial markets throughout the world. These concerns have since expanded to include a broad range of fixed income securities, including those rated investment grade and especially the sovereign debt of some EEA countries and the U.S., the international credit and interbank money markets generally, and a wide range of financial institutions and markets, asset classes, such as public and private equity, and real estate sectors. As a result of these and other factors, sovereign governments across the globe, including in regions where the Group operates, have also experienced budgetary and other financial difficulties, which have resulted in changes in economic policy including the implementation of austerity measures, downgrades in credit rating by credit agencies, planned or implemented bail-out measures and, on occasion, civil unrest (for further details regarding sovereign debt concerns, see U.S. Sovereign Credit Rating and European sovereign debt crisis and the United Kingdom s withdrawal from the European Union below). As a result, the market for fixed income instruments has experienced decreased liquidity, increased price volatility, credit downgrade events, and increased probability of default. In addition, the confluence of these and other factors has resulted in volatile foreign exchange markets. Securities that are less liquid are more difficult to value and may be hard to dispose of. International equity markets have also continued to experience heightened volatility and turmoil, with issuers, including ourselves, that have exposure to the real estate, mortgage, private equity and credit markets particularly affected. These events and market upheavals, including high levels of volatility, have had and may continue to have an adverse effect on our revenues and results of operations, in part because we have a large investment portfolio and extensive real estate activities around the world.

In addition, the confidence of customers in financial institutions is being tested. Consumer confidence in financial institutions may, for example, decrease due to our or our competitors failure to communicate to customers the terms of, and the benefits to customers of, complex or high-fee financial products. Reduced confidence could have an adverse effect on our revenues and results of operations, including withdrawal of deposits. Because a significant percentage of our customer deposit base is originated via Internet banking, a loss of customer confidence may result in a rapid withdrawal of deposits over the Internet.

As a result of the ongoing and unprecedented volatility in the global financial markets since 2007, we incurred in past years substantial negative revaluations and impairments on our investment portfolio, which have impacted our shareholders equity and earnings.

The aforementioned impacts have arisen primarily as a result of valuation and impairment issues arising in connection with our investments in real estate (both in and outside the U.S.) and private equity, exposures to European sovereign debt and to U.S. mortgage-related structured investment products, including sub-prime and Alt-A residential and commercial mortgage-backed securities, collateralised debt obligations and collateralised loan obligations, private equity and other investments. In many cases, the markets for investments and instruments have been and remain highly illiquid, and issues relating to counterparty credit ratings and other factors have exacerbated pricing and valuation uncertainties. Valuation of such investments and instruments is a complex process involving the consideration of market transactions, pricing models, management judgment and other factors, and is also impacted by external factors, such as underlying mortgage default rates, interest rates, rating agency actions and property valuations. Although we continue to monitor our exposures, there can be no assurance that we will not experience further negative impacts to our shareholders equity, solvency position, liquidity, financial condition or profit and loss accounts in future periods.

European sovereign debt crisis and the United Kingdom s withdrawal from the European Union

Market concerns over the direct and indirect exposure of European banks and insurers to the sovereign debt of several EU Member States since 2010 have resulted in a widening of credit spreads and increased costs of funding for some European financial institutions. The sovereign

debt crisis has also highlighted issues relating to the strength of the banking sector in Europe and the Euro. In addition, risks and ongoing concerns about the crisis in the Italian banking sector and its potential spill-over effect into other Member States, deterioration of the political situation in Turkey, as well as the possible default by one or more Member States could have a detrimental impact on the global economic recovery, sovereign and non-sovereign debt in these countries and the financial condition of European and other financial institutions, including us. For example, concerns regarding Greece s financial condition and potential exit from the Eurozone were raised again in early 2017. Additionally, the possibility of capital market volatility spreading through a highly integrated and interdependent banking system remains elevated. In the event of any default or similar event with respect to a sovereign issuer, some financial institutions may suffer significant losses, following which they would require additional capital, and such capital may not be available. We are exposed to the risk of downgrades of European sovereign ratings or corporate ratings, because they may affect our financial costs and, as a result, our profitability. Market disruptions in Europe related to sovereign debt and the banking sector continue to be a threat to global capital markets and remains a challenge to global financial stability. In the event of any default or similar event with respect to a sovereign issuer, some financial institutions may suffer significant losses, following which they would require additional capital, which may not be available. Market and economic disruptions stemming from the crisis in Europe also have affected, and may continue to affect, consumer confidence levels and spending, bankruptcy rates, levels of incurrence of, and default on, consumer debt and home prices, among other factors. There can be no assurance that market disruptions in Europe, including the increased cost of funding for certain government and financial institutions, will not spread, nor can there be any assurance that future assistance packages will be available or, even if provided, will be sufficient to stabilise the affected countries and markets in Europe or elsewhere. To the extent uncertainty regarding the economic recovery continues to negatively impact consumer confidence and consumer credit factors, our business and results of operations could be significantly and adversely impacted. Additionally, extreme prolonged market events, such as the recent global credit crisis, could cause us to incur significant losses and may lead to USD funding shortages for EU Banks.

In addition, although the UK is not a member state of the Eurozone, the decision of the UK to leave the EU may further destabilize the Eurozone. The outcome of the negotiations between the UK and the EU, which are expected to formally begin in March 2017 and to last for at least two years, remains highly uncertain as does its economic and operational impact on the Group and its counterparties. Concerns regarding other Member States potential exit from the EU or the Eurozone also have emerged following the Brexit referendum and may continue to emerge in the context of the French and German general elections in 2017. The possible exit from the EU and/or the Eurozone of one or more European states and/or the replacement of the Euro by one or more successor currencies could create significant uncertainties regarding the enforceability and valuation of Euro-denominated contracts to which we (or our counterparties) are a party and thereby materially and adversely affect our and/or our counterparties liquidity, financial condition and operations. Such uncertainties may include the risk that (i) an obligation that was expected to be paid in Euros is redenominated into a new currency (which may not be easily converted into other currencies without incurring significant cost), (ii) currencies in some Member States may depreciate relative to others, (iii) former EU and/or Eurozone Member States may impose capital controls that would make it complicated or illegal to move capital out of such countries, and/or (iv) some courts (in particular, courts in countries that have left the EU and/or the Eurozone) may not recognise and/or enforce claims denominated in Euros (and/or in any replacement currency). These factors, combined with volatile oil prices, reduced business and consumer confidence and/or continued high unemployment, have negatively affected the economy of main geographic regions where we conduct our business. Our results of operations, liquidity position, capital position and investment portfolio are exposed to these risks and may be adversely affected as a result.

U.S. Sovereign Credit Rating

In 2011, Standard & Poor s Ratings Services (S&P) lowered its long-term sovereign credit rating on the U.S. from AAA to AA+. Although other ratings agencies have not similarly lowered the long-term sovereign credit rating of the U.S., they have put that credit rating on watch. Amid the lingering uncertainty over the long-term outlook for the fiscal position and the future economic performance of the U.S. within the global economy and potential future budgetary restrictions in the U.S., there continues to be a perceived risk of a future sovereign credit ratings downgrade of the U.S. government, including the rating of U.S. Treasury securities. On 15 October 2013, Fitch Ratings placed the U.S. s AAA credit rating under rating watch negative in response to the financial crisis, a step that would precede an actual downgrade, which was however upgraded again to stable in March 2014. It is foreseeable that the ratings and perceived creditworthiness of instruments issued, insured or guaranteed by institutions, agencies or instrumentalities directly linked to the U.S. government could also be correspondingly affected by any such downgrade. Instruments of this nature are key assets on the balance sheets of financial institutions and are widely used as collateral by financial institutions to meet their day-to-day cash flows in the short-term debt market. The impact of any further downgrades to the sovereign credit rating of the U.S. government or a default by the U.S. government to satisfy its debt obligations likely would create broader financial turmoil and uncertainty, which would weigh heavily on the global financial system and could consequently result in a significant adverse impact to the Group.

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Adverse capital and credit market conditions as well as changes in regulations may impact our ability to access liquidity and capital, as well as the cost of liquidity, credit and capital.

Adverse capital market conditions have in the past affected, and may in the future affect, our cost of borrowed funds and our ability to borrow on a secured and unsecured basis, thereby impacting our ability to support and/or grow our businesses. Furthermore, although interest rates are at or near historically low levels, since the recent financial crisis, we have experienced increased funding costs due in part to the withdrawal of perceived government support of such institutions in the event of future financial crises. In addition, liquidity in the financial markets has also been negatively impacted as market participants and market practices and structures adjust to new regulations.

We need liquidity to pay our operating expenses, interest on our debt and dividends on our capital stock, maintain our securities lending activities and replace certain maturing liabilities. Without sufficient liquidity, we will be forced to curtail our operations and our business will suffer. The principal sources of our funding include a variety of short- and long-term instruments, including deposit fund, repurchase agreements, commercial paper, medium- and long-term debt, subordinated debt securities, capital securities and stockholders equity.

In the event that our current resources do not satisfy our needs, we may need to seek additional financing. The availability of additional financing will depend on a variety of factors, such as market conditions, the general availability of credit, the volume of trading activities, the overall availability of credit to the financial services industry, our credit ratings and credit capacity, as well as the possibility that customers or lenders could develop a negative perception of our long- or short-term financial prospects. Similarly, our access to funds may be limited if regulatory authorities or rating agencies take negative actions against us. If our internal sources of liquidity prove to be insufficient, there is a risk that we may not be able to successfully obtain additional financing on favourable terms, or at all. Any actions we might take to access financing may, in turn, cause rating agencies to re-evaluate our ratings.

Disruptions, uncertainty or volatility in the capital and credit markets may also limit our access to capital. Such market conditions may in the future limit our ability to raise additional capital to support business growth, or to counterbalance the consequences of losses or increased regulatory capital and rating agency capital requirements. This could force us to (i) delay raising capital, (ii) reduce, cancel or postpone payment of dividends on our shares, (iii) reduce, cancel or postpone interest payments on our other securities, (iv) issue capital of different types or under different terms than we would otherwise, or (v) incur a higher cost of capital than in a more stable market environment. This would have the potential to decrease both our profitability and our financial flexibility. Our results of operations, financial condition, cash flows, regulatory capital and rating agency capital position could be materially adversely affected by disruptions in the financial markets.

In the course of 2008 and 2009, governments around the world, including the Dutch government, implemented unprecedented measures to provide assistance to financial institutions, in certain cases requiring (indirect) influence on or changes to governance and remuneration practices. In certain cases, governments nationalised companies or parts thereof. The measures adopted in the Netherlands included emergency funding and capital reinforcement, and a Dutch Credit Guarantee Scheme, both of which have expired. Our completed Restructuring Plan and the divestments in connection with that plan altered the size and structure of the Group and involved significant costs, which required changes in our operations, funding and liquidity. Any potential future transactions with the Dutch State or any other government or any actions by such government regarding ING could adversely impact the position or rights of shareholders, bondholders, customers or creditors and our results, operations, solvency, liquidity and governance.

We are subject to the jurisdiction of a variety of banking regulatory bodies, some of which have proposed regulatory changes in recent years that, if implemented, would hinder our ability to manage our liquidity in a centralised manner. As a holding company, ING Groep N.V. is dependent for liquidity on payments from its subsidiaries, which are

subject to restrictions, as described in As a holding company, ING Groep N.V. is dependent for liquidity on payments from its subsidiaries, many of which are subject to regulatory and other restrictions.. Furthermore, regulatory liquidity requirements in certain jurisdictions in which we operate are generally becoming more stringent, including those forming part of the Basel III requirements discussed further below under We operate in highly regulated industries. Changes in laws and/or regulations governing financial services or financial institutions or the application of such laws and/or regulations governing our business may reduce our profitability , undermining our efforts to maintain this centralised management of our liquidity. These developments may cause trapped pools of liquidity and capital, resulting in inefficiencies in the cost of managing our liquidity and solvency, and hinder our efforts to integrate our balance sheet.

Interest rate volatility and other interest rate changes may adversely affect our profitability.

Changes in prevailing interest rates may negatively affect our business, including the level of net interest revenue we earn, and the levels of deposits and the demand for loans. A sustained increase in the inflation rate in our principal markets may also negatively affect our business, financial condition and results of operations. For example, a sustained increase in the inflation rate may result in an increase in nominal market interest rates. A failure to accurately anticipate higher inflation and factor it into our product pricing assumptions may result in mispricing of our

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products, which could materially and adversely impact our results of operations. On the other hand, recent concerns regarding negative interest rates and the low level of interest rates generally may negatively impact our net interest income, which may have an adverse impact on our profitability.

Declining interest rates or a prolonged period of low interest rates, as is currently the case, may result in:

- lower earnings over time on investments, as reinvestments will earn lower rates;
- increased prepayment or redemption of mortgages and fixed maturity securities in our investment portfolios, as well as increased prepayments of corporate loans. This as borrowers seek to borrow at lower interest rates potentially combined with lower credit spreads. Consequently, we may be required to reinvest the proceeds into assets at lower interest rates;
- lower profitability as the result of a decrease in the spread between client rates earned on assets and client rates paid on savings, current account and other liabilities;
- higher costs for certain derivative instruments that may be used to hedge certain of our product risks;
- lower profitability since we may not be able to fully track the decline in interest rates in our savings rates;
- lower profitability since we may not always be entitled to impose surcharges to customers to compensate for the decline in interest rates;
- lower profitability since we may have to pay a higher premium for the defined contribution scheme in the Netherlands for which the premium paid is dependent on interest rate developments and DNB s methodology for determining the ultimate forward rate;
- lower interest rates may cause asset margins to decrease thereby lowering our results of operations. This may for example be the consequence of increased competition for investments as result of the low rates, thereby driving margins down; and/or
- (depending on the position) a significant collateral posting requirement associated with our interest rate hedge programs, which could materially and adversely affect liquidity and our profitability.

All these effects may be amplified in a (prolonged) negative rate environment. In such environment there may also be the risk that a rate is to be paid on assets, while there is no (partial) compensation on the liabilities. This will reduce our results of operations then.

Rapidly increasing interest rates may result in:

a decrease in the demand for loans;

higher interest rates to be paid on debt securities that we have issued or may issue on the financial markets from time to time to finance our operations and on savings, which would increase our interest expenses and reduce our results of operations;

higher interest rates can lead to lower investments prices reduce the revaluation reserves, thereby lowering IFRS equity and the capital ratios. Also the lower securities value leads to a loss of liquidity generating capacity which needs to be compensated by attracting new liquidity generating capacity which reduces our results of operations;

prepayment losses if prepayment rates are lower than expected or if interest rates increase too rapidly to adjust the accompanying hedges; and/or

(depending on the position) a significant collateral posting requirement associated with our interest rate hedge Program;

Inflation and deflation may negatively affect our business.

A sustained increase in the inflation rate in our principal markets would have multiple impacts on us and may negatively affect our business, solvency position and results of operations. For example, a sustained increase in the inflation rate may result in an increase in market interest rates, which may:

decrease the estimated fair value of certain fixed income securities that we hold in our investment portfolios, resulting in:

reduced levels of unrealised capital gains available to us, which could negatively impact our solvency position and net income, and/or

a decrease in collateral values,

result in increased withdrawal of certain savings products, particularly those with fixed rates below market rates,

require us, as an issuer of securities, to pay higher interest rates on debt securities that we issue in the financial markets from time to time to finance our operations, which would increase our interest expenses and reduce our results of operations.

A significant and sustained increase in inflation has historically also been associated with decreased prices for equity securities and sluggish performance of equity markets generally. A sustained decline in equity markets may:

result in impairment charges to equity securities that we hold in our investment portfolios and reduced levels of unrealised capital gains available to us which would reduce our net income, and

lower the value of our equity investments impacting our capital position.

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In addition, a failure to accurately anticipate higher inflation and factor it into our product pricing may result in a systemic mispricing of our products, which would negatively impact our results of operations.

On the other hand, deflation experienced in our principal markets may also adversely affect our financial performance. In recent years, the risk of low inflation and even deflation (i.e., a continued period with negative rates of inflation) in the Eurozone has materialized. Deflation may erode collateral values and diminish the quality of loans and cause a decrease in borrowing levels, which would negatively affect our business and results of operations.

We operate in highly regulated industries. Changes in laws and/or regulations governing financial services or financial institutions or the application of such laws and/or regulations governing our business may reduce our profitability.

We are subject to detailed banking laws and government regulation in the jurisdictions in which we conduct business. Regulatory agencies and supervisors have broad administrative power over many aspects of our business, which may include liquidity, capital adequacy, permitted investments, ethical issues, money laundering, anti-terrorism measures, privacy, recordkeeping, product and sale suitability, marketing and sales practices, remuneration policies, personal conduct and our own internal governance practices. Also, regulators and other supervisory authorities in the European Union (EU), the United States (U.S.) and elsewhere continue to scrutinise payment processing and other transactions and activities of the financial services industry through laws and regulations governing such matters as money laundering, anti-terrorism financing, tax evasion, prohibited transactions with countries subject to sanctions, and bribery or other anti-corruption measures.

Our revenues and profitability and those of our competitors have been and will continue to be impacted by requirements relating to capital, additional loss-absorbing capacity, leverage, minimum liquidity and long-term funding levels, requirements related to resolution and recovery planning, derivatives clearing and margin rulesand levels of regulatory oversight, as well as limitations on which and, if permitted, how certain business activities may be carried out by financial institutions.

Following the start of the financial crisis, regulators around the world have increased their focus on the regulation of the financial services industry. Most of the principal markets where we conduct our business have adopted, or are currently in the implementation phase of, major legislative and/or regulatory initiatives in response to the financial crisis. Governmental and regulatory authorities in the Netherlands, Germany, Belgium, the United Kingdom, the EU, the U.S. and elsewhere have implemented, or are in the process of implementing measures to increase regulatory control in their respective financial markets and financial services sectors, including, among others, in the areas of prudential rules, liquidity and capital requirements, executive compensation, crisis and contingency management, bank taxes and financial reporting. Additionally, governmental and regulatory authorities in the Netherlands, in the EU and the U.S. as well as in a multitude of jurisdictions where we conduct our business continue to consider new mechanisms to limit the occurrence and/or severity of future economic crises (including proposals to restrict the size of financial institutions operating in their jurisdictions and/or the scope of operations of such institutions). Furthermore, we are subject to different tax regulations in each of the jurisdictions where we conduct business. Changes in tax laws (including case law) could increase our taxes and our effective tax rates and could materially impact our tax receivables and liabilities as well as deferred tax assets and deferred tax liabilities, which could have a material adverse effect on our business, results of operations and financial condition. One such change relates to the current debate in the U.S. over corporate tax reform for multinational corporations and corporate tax rates. Changes in tax laws could also make certain ING products less attractive, which could have adverse consequences for our businesses and results.

In addition, the International Accounting Standards Board (IASB) issued in July 2014 a new accounting standard for financial instruments also known as IFRS 9 Financial Instruments . IFRS 9, which was endorsed by the EU in November 2016, will replace IAS 39, the accounting standard heavily criticised in the wake of the financial crisis, for annual periods beginning on or after 1 January 2018, with early adoption permitted. Such changes could also have a material impact on our reported results and financial condition, as well as on how ING manages its business, internal controls and disclosure.

Compliance with applicable laws and regulations is resources-intensive, and changes in laws and regulations may materially increase costs. We expect the scope and extent of regulation in the jurisdictions in which we conduct our business, as well as regulatory oversight and supervision, to generally continue to increase. However, we cannot predict whether or when future legislative or regulatory actions may be taken, or what impact, if any, actions taken to date or in the future could have on our business, results of operations and financial condition. Regulation is becoming increasingly more extensive and complex and the industries in which we operate are increasingly coming under the

scrutiny of regulators, and affected companies, including ING, are required to meet the demands, which often necessitate additional resources. These regulations can limit our activities, among others, through stricter net capital, customer protection and market conduct requirements and restrictions on the businesses in which we can operate or invest.

Despite our efforts to maintain effective compliance procedures and to comply with applicable laws and regulations, there are a number of risks in areas where applicable regulations may be unclear, subject to multiple interpretations or under development, or where regulations may conflict with one another, or where regulators revise their previous guidance or courts overturn previous rulings, which could result in our failure to meet applicable standards. Regulators and other authorities have the power to bring administrative or judicial proceedings against us, which could result, among other things, in suspension or revocation of our licenses, cease and desist orders, fines, civil penalties, criminal penalties or other disciplinary action, which could materially harm our results of operations and financial condition. If we fail to address, or appear to fail to address, any of these matters appropriately, our reputation could be harmed and we could be subject to additional legal risk, which could, in turn, increase the size and number of claims and damages brought against us or subject us to enforcement actions, fines and penalties.

See also Adverse publicity, claims and allegations, litigation and regulatory investigations and sanctions may have a material adverse effect on our business, revenues, results of operations, financial condition and/or prospects . For additional information, see the Review processes for setting benchmark rates and Financial Economic Crime paragraphs in the Main developments in 2016 part within the Compliance Risk in the Risk Management section in the annual report of ING Group. With respect to specific proceedings, see Note 45 Legal proceedings to the consolidated financial statements.

Basel III, CRD IV and CRD V

In December 2010, the Basel Committee on Banking Supervision (BCBS) announced higher global minimum capital standards for banks and introduced a new global liquidity standard and a new leverage ratio. The BCBS s package of reforms, collectively referred to as the Basel III rules, will, among other requirements, increase the amount of common equity required to be held by subject banking institutions, prescribe the amount of liquid assets and the long-term funding a subject banking institution must hold at any given moment and limit leverage. Banks will be required to hold a capital conservation buffer to withstand future periods of stress such that the total common equity Tier 1 ratio, when fully phased in on 1 January 2019, will rise to 7%. Basel III also introduced a countercyclical buffer as an extension of the capital conservation buffer, which would allow national regulators to require banks to hold more capital during periods of high credit growth (to strengthen capital reserves and moderate the debt markets). Further, Basel III has strengthened the definition of capital that will have the effect of disqualifying many hybrid securities, including those issued by the Group, from inclusion in regulatory capital, as well as the higher capital requirements for trading, derivative and securitisation activities as part of a number of reforms to the Basel II framework. In addition, the BCBS and the Financial Stability Board (FSB) published measures in October 2011 that would have the effect of requiring higher loss absorbency capacity, liquidity surcharges, exposure limits and special resolution regimes for, and instituting more intensive and effective supervision of, systemically important financial institutions (SIFIs) and so-called Global SIFIs (G-SIFIs), in addition to the Basel III requirements otherwise applicable to most financial institutions. In particular in November 2015 the FSB published the final Total Loss-Absorbing Capacity (TLAC) standard for G-SIFIs, which aims for G-SIFIs to have sufficient loss-absorbing and recapitalisation capacity available in resolution. The implementation of these measures began in 2012, and full implementation is targeted for 2019, with the TLAC requirements to apply from 2019. ING Bank has been designated by the BCBS and the FSB as one of the global systemically important banks (G-SIBs), forming part of the G-SIFIs, since 2011, and by the Dutch Central Bank (De Nederlandsche Bank N.V., DNB) and the Dutch Ministry of Finance as a domestic SIFI since November 2011. The Basel III proposals and their potential impact are monitored via

semi-annual monitoring exercises in which ING Bank participates. As a result of such monitoring exercises and ongoing discussions within the regulatory environment, revisions have been made to the original Basel III proposals as was the case with the revised Liquidity Coverage Ratio in January 2013 and the revised Net Stable Funding Ratio and Leverage Ratio in January 2014. In January 2017, the BCBS announced that it expected to complete finalisation of all revisions to the Basel III framework, including the calibration of an aggregate capital floors framework and a leverage ratio minimum requirement, in the near future . There is a high degree of uncertainty as to whether any further amendments to the 2010 framework and standards will be made by the BCBS in the coming years, and how any such amendments would be implemented subsequently in the EU and in The Netherlands.

For European banks, the Basel III requirements were implemented through the Capital Requirements Regulation and Capital Requirements Directive IV (CRD IV Regulation and CRD IV Directive , respectively and together the CRR), which were adopted by the EC in June 2013 following approval by the European Parliament in April 2013. The CRD IV Regulation entered into force on 28 June 2013 and the CRD IV Directive on 17 July 2013, and all banks and investment firms in the EU (as opposed to the scope of the Basel III requirements, which apply to internationally active banks) were required to apply the new rules from 1 January 2014 in phases, with full implementation by 1 January 2019. The full impact of these rules, and any additional requirements for SIFIs or G-SIFIs, if and as applicable to the Group, will depend on how the CRD IV Directive is transposed into national laws in each Member State, including the extent to which national regulators and supervisors set more stringent limits and additional capital requirements or surcharges. In the Netherlands, the CRD IV Directive has been implemented

through amendments to the Financial Supervision Act. In the next phase for regulatory requirements for banks risk and capital management, the regulators are focusing on the required capital calculations across banks. Since the start of the financial crisis there has been much debate on the risk-weighted capitalisation of banks, and specifically on whether internal models are appropriate for such purposes. These developments have suggested that stricter rules may be applied by a later framework. The BCBS released several consultative papers, containing proposals to change the methodologies for the calculation of capital requirements and is expected to issue further standards in this respect. Within these proposals BCBS suggests methods to calculate RWA using more standardised or simpler methods in order to achieve greater comparability, transparency and consistency. In November 2016, the EC proposed substantial amendments (commonly referred to as CRD V) to the CRR (including the CRD IV Directive), the BRRD and the Singe Resolution Mechanism Regulation to, among other things, implement these revisions in the EU legislation. Legislation is expected to be finalised in 2018. These proposals will likely impact the capital requirements for currently reported exposures (e.g. credit risk via revised standardised RWA floor) but may also lead to new capital requirements. The proposals cover multiple areas, including the Pillar 2 framework, the leverage ratio, mandatory restrictions on distributions, permission for reducing own funds and eligible liabilities, macroprudential tools, a new category of non-preferred senior debt, the minimum requirement for own funds and eligible liabilities (MREL) and the integration of the TLAC standard into EU legislation. The proposals are to be considered by the European Parliament and the Council of the European Union and therefore remain subject to change. The final package of new legislation may not include all elements of the proposals and new or amended elements may be introduced through the course of the legislative process. Until the proposals are in final form, it is uncertain how the proposals will affect the Group or holders of its securities. The current proposals, as well as on the economic and financial environment at the time of implementation and beyond, can have a material impact on ING s operations and financial condition and they may require the Group to seek additional capital.

Single Supervisory Mechanism

In November 2014, the European Central Bank (ECB) assumed responsibility for a significant part of the prudential supervision of banks in the Eurozone, including ING Bank, following a year-long preparatory phase which included an in-depth comprehensive assessment of the resilience and balance sheets of the biggest banks in the Eurozone. ING Bank was among the seven Dutch institutions covered by the assessment (out of 130 institutions overall). While the ECB has assumed the supervisory tasks conferred on it by the Single Supervisory Mechanism (SSM) Regulation, the DNB will still continue to play a big role in the supervision of ING Group and ING Bank.

In its capacity as principal bank supervisor in the European Union, the ECB has extensive supervisory and investigatory powers, including the ability to issue requests for information, to conduct regulatory investigations and on-site inspections, and to impose monetary and other sanctions. For example, under the SSM, the regulators with jurisdiction over the Group, including the ECB, may conduct stress tests and have discretion to impose capital surcharges on financial institutions for risks that are not otherwise recognised in risk-weighted assets or other surcharges depending on the individual situation of the bank and take or require other measures, such as restrictions on or changes to the Group s business. Competent regulators may also, if the Group fails to comply with regulatory requirements, in particular with minimum capital requirements (including buffer requirements) or with liquidity requirements, or if there are shortcomings in its governance and risk management processes, prohibit the Group from making dividend payments to shareholders or distributions to holders of its regulatory capital instruments. Generally, a failure to comply with the new quantitative and qualitative regulatory requirements could have a material adverse effect on the Group s business, financial condition and results of operations.

In 2016 the ECB has also started the Targeted Review of Internal Models (TRIM), an exercise which will take several years and is aimed at bringing assurance that capital held reflects the underlying risks. There is also heightened supervisory attention for the credit quality of loans to corporates and/or households. These exercises could impact the

RWA we recognise for certain assets.

Dodd-Frank Act

On 21 July 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank or Dodd-Frank Act) was signed into law in the U.S. The Dodd-Frank Act effects comprehensive changes to the regulation of financial services in the U.S. and has implications for non-U.S. financial institutions with a U.S. presence or that transact with U.S. counterparties, such as ING. Dodd-Frank directs existing and newly created government agencies and bodies to perform studies and promulgate a multitude of regulations implementing the law, most of which are in place. Because some of the regulations have only recently taken effect or are yet to be finalized, we cannot predict with certainty how such regulations will affect the financial markets generally and impact the Group s business, credit rating, results of operations, cash flows or financial condition or liquidity. Key aspects of Dodd- Frank that we have identified to date as possibly having an impact on the Group include the aspects set out below:

Title VII of Dodd-Frank creates a new framework for regulation of the over-the-counter derivatives markets and certain market participants which could affect various activities of the Group and its subsidiaries. ING Capital Markets LLC, a wholly-owned indirect subsidiary of ING Bank

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N.V., has registered with the U.S. Commodity Futures Trading Commission (CFTC) as a swap dealer. The CFTC and other U.S. prudential regulators have adopted margin requirements on uncleared swaps, which will begin to come into effect for ING Capital Markets LLC in 2017. The SEC is expected to adopt regulations establishing margin and capital requirements for security-based swaps. Along with the still indeterminate effective date for SEC regulations on, among others, reporting, registration, and internal and external business conduct with respect to security-based swaps, these are likely to materially impact ING. Additionally, the CFTC is expected to adopt capital requirements for swap dealers, although the specific requirements, and any available exemptions, have not been finalized. If these requirements are applicable to ING, and no exemptions are available, it is possible that these requirements will be difficult for ING to comply with and may, as a result, materially and adversely impact ING s ability to operate as a swap dealer in the U.S. Other CFTC regulatory requirements, already implemented, include registration of swap dealers, business conduct rules imposed on swap dealers and requirements that some categories of swaps be centrally executed on regulated trading facilities and cleared through regulated clearing houses. In addition, new position limits requirements for market participants that may be contained in final regulations to be adopted by the CFTC could limit ING s position sizes in swaps referencing specified commodities and similarly limit the ability of counterparties to utilize certain of our products by narrowing the scope of hedging activity that is permitted for commercial end users and the trading activity of speculators. All of the foregoing areas of regulation of the derivative markets and market participants will likely result in increased cost of hedging and other trading activities, both for ING and its customers, which could expose our business to greater risk and could reduce the size and profitability of our customer business. In addition, the imposition of these regulatory restrictions and requirements, could result in reduced market liquidity, which could in turn increase market volatility and the risks and costs of hedging and other trading activities.

Pursuant to requirements of the Dodd-Frank Act, the SEC and CFTC are required to consider whether stable value contracts should be regulated as swap derivative contracts. In the event that stable value contracts become subject to such regulation, certain aspects of our business could be adversely impacted, including issuance of stable value contracts and management of assets pursuant to stable value mandates.

Dodd-Frank established the Consumer Financial Protection Bureau (CFPB) as an independent agency within the Federal Reserve to regulate consumer financial products and services offered primarily for personal, family or household purposes. The CFPB has significant authority to implement and enforce federal consumer financial laws, including the new protections established under Dodd- Frank, as well as the authority to identify and prohibit unfair, deceptive and abusive acts and practices. In addition, the CFPB has broad supervisory, examination and enforcement authority over certain consumer products, such as mortgage lending. Insurance products and services are not within the CFPB s general jurisdiction, and broker-dealers and investment advisers are not subject to the CFPB s jurisdiction when acting in their registered capacity.

On 10 December 2013, various federal agencies approved a final rule implementing Section 619 of Dodd-Frank, commonly referred to as the Volcker Rule and which places limitations and restrictions on the ability of U.S. FDIC insured depository institutions and non-U.S. banks with branches or agencies in the U.S. that become subject to the U.S. Bank Holding Company Act, as well as their affiliates, to engage in certain proprietary trading or sponsor and invest in private equity and hedge funds. As a general matter, such organisations have until July 2017 to comply with the prohibition on certain fund activities and until July 2015 to comply with the proprietary trading prohibitions. In the event that we or one of our affiliates becomes subject to the Volcker Rule, our investment activities could be so restricted. It is expected that we will experience significant additional compliance and operational costs and may be prohibited from engaging in certain activities we currently conduct if the Volcker Rule becomes applicable to us and our affiliates.

For instance, ING Group s wholly owned subsidiary, ING Bank, may at some point in time consider whether to establish a branch office in the U.S. If ING Bank were to establish a U.S. branch, we would be subject to supervision

and regulation by the Federal Reserve under various laws and various restrictions on our activities under those laws, including the Bank Holding Company Act of 1956, as amended, and the International Banking Act of 1978, and, as a consequence, such supervision and regulation, including such restrictions on activities could materially impact our operations. These would include, among others, the Volcker Rule and heightened supervisory requirements and prudential standards. Dodd-Frank also includes various securities law reforms that may affect the Group s business practices and the liabilities and/or exposures associated therewith, including a provision intended to authorise the SEC to impose on broker-dealers fiduciary duties to their customers, as applied to investment advisers under existing law, which new standard could potentially expose certain of ING s U.S. broker-dealers to increased risk of SEC enforcement actions and liability. In 2011, the SEC staff released a study on this issue, and members of the SEC s Investor Advisory Committee voted in November 2013 to recommend the proposal implementing a uniform fiduciary standard for most brokers and registered investment advisers to the SEC.

Although the full impact of Dodd-Frank and its implementing regulations cannot be determined at this time, many of their requirements have had and may continue to have profound and/or adverse consequences for the financial services industry, including for us. Dodd-Frank, in its

current form, could make it more expensive for us to conduct business, require us to make changes to our business model or satisfy increased capital requirements, subject us to greater regulatory scrutiny or to potential increases in whistleblower claims in light of the increased awards available to whistleblowers under Dodd-Frank and have a material effect on our results of operations or financial condition.

In February 2017, the U.S. Secretary of Treasury was directed by executive order to consult with other financial regulatory agencies to evaluate the current financial regulatory framework against core principles set out by the new U.S. administration. Such review may result in the revision, amendment or repeal, in all or in part, of Dodd-Frank and related rules and regulations. There can be no assurance that these or any other future reforms will not significantly impact our business, financial condition and results of operations.

Foreign Account Tax Compliance Act and other US withholding tax regulations

Under provisions of U.S. tax law commonly referred to as FATCA, non-U.S. financial institutions are required to provide certain information on their U.S. account holders and/or certain U.S. investors to the U.S. Internal Revenue Service (IRS). A 30% withholding tax is imposed on withholdable payments made to non-compliant non-U.S. financial institutions. In addition to FATCA, non-U.S. financial institutions are required to comply with other U.S. withholding and reporting requirements on certain payments. The Group intends to take all necessary steps to comply with FATCA and other U.S. 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 U.S. to facilitate the type of information reporting required under FATCA. While the existence of IGAs will not eliminate the risk of the withholding described above, these agreements are expected to reduce that risk for financial institutions and investors in countries that have entered into IGAs. IGAs will often require financial institutions in those countries to report information on their U.S. account holders to the taxing authorities of those countries, who will then pass the information to the IRS.

If the Group is unable to comply with requirements imposed under IGAs or otherwise comply with FATCA (including as a result of local laws in non-IGA countries prohibiting information-sharing with the IRS, as a result of contracts or local laws prohibiting withholding on certain payments to account holders or other investors, or as a result of the failure of account holders or other investors to provide requested information), certain payments to the Group may be subject to withholding under FATCA. Payments made with respect to certain products offered by members of the Group may also be or become subject to withholding under FATCA. The possibility of such withholding and the need for account holders and investors to provide certain information may adversely affect the sales of certain of the Group s products. In addition (i) compliance with the terms of IGAs and with FATCA, with any regulations or other guidance promulgated thereunder or any legislation promulgated under an IGA, and (ii) offering products subject to U.S. withholding, may substantially increase the Group s compliance costs. Because legislation and regulations implementing FATCA and the IGAs remain under development, the future impact of this law on the Group is uncertain. Failure to comply with FATCA and other U.S. withholding tax regulations could harm our reputation and could subject the Group to enforcement actions, fines and penalties, which could have a material adverse effect on our business, reputation, revenues, results of operations, financial condition and prospects. For additional information with respect to specific proceedings, see Note 45 Legal proceedings to the consolidated financial statements.

Common Reporting Standard

Similarly, the Organisation for Economic Cooperation and Development (OECD) has developed a Common Reporting Standard (CRS) and model competent authority agreement to enable the multilateral and automatic exchange of financial account information. The CRS will require financial institutions to identify and report the tax residency and account details of non-resident customers to the relevant authorities in jurisdictions adhering to CRS. As of 2 November 2016, 87 jurisdictions, including the Netherlands, have signed a multilateral competent authority agreement to automatically exchange information pursuant to the CRS. The majority of countries where ING has a presence has committed to CRS. The EU has made CRS mandatory for all its member states. The first information exchange by the Netherlands (as for most of the signatories) is expected to start in September 2017.

Bank Recovery and Resolution Regimes

In June 2012, the Intervention Act (Wet bijzondere maatregelen financiële ondernemingen) came into force in the Netherlands, with retroactive effect from 20 January 2012. The Intervention Act mainly amended the Dutch Financial Supervision Act and the Dutch Insolvency Act allowing Dutch authorities to take certain actions with respect to a failing bank or insurer that cannot be wound up under ordinary insolvency rules due to concerns regarding the stability of the overall financial system. It comprised two categories of measures. The first category of measures related to banks or insurers facing serious financial difficulties and included measures related to the timely and efficient liquidation of the failing institution. This set of measures gave the DNB the power to transfer customer deposits, assets and/or liabilities other than deposits and issued

shares of an entity to third parties or to a bridge bank if the DNB deemed that, in respect of the relevant institution, there were signs of adverse developments with respect to its funds, solvency, liquidity or technical provisions and it could be reasonably foreseen that such developments would not be sufficiently or timely reversed. The DNB was also granted the power to influence the internal decision-making of failing institutions through the appointment of an undisclosed administrator. The second category of measures can be triggered if the stability of the financial system is in serious and immediate danger as a result of the failure of a Dutch financial institution and includes measures intended to safeguard the stability of the financial system as a whole. This set of measures granted authority to the Dutch Minister of Finance to take immediate measures or proceed to expropriation of assets or liabilities , or shares in the capital, of failing financial institutions. Within the context of the resolution tools provided in the Intervention Act, holders of debt securities of a bank subject to resolution could also be affected by issuer substitution or replacement, transfer of debt, expropriation, modification of terms and/or suspension or termination of listings.

In addition, on 26 November 2015 the Act on implementing the European framework for the recovery and resolution of banks and Investment firms (Implementatiewet Europees kader voor herstel en afwikkeling van banken en beleggingsondernemingen) came into force, implementing the Bank Recovery and Resolution Directive (BRRD) and partly amending the Intervention Act. Certain measures introduced by the Intervention Act were replaced, with respect to banking institutions, with measures based on the BRRD and the SRM Regulation, as described below. The BRRD came into effect on 2 July 2014. It includes, among other things, the obligation for institutions to draw up a recovery plan and for resolution authorities in the Member States to draw up a resolution plan, the resolution authorities power to take early intervention measures and the establishment of a European system of financing arrangements. The BRRD confers extensive resolution powers on the resolution authorities, including the power to require the sale of (part of a) business, to establish a bridge institution, to separate assets and to take bail-in measures. The stated aim of the BRRD is to provide supervisory authorities and resolution authorities with common tools and powers to address banking crises pre-emptively in order to safeguard financial stability and minimise taxpayers exposure to losses. In November 2016, the EC proposed amendments to the BRRD regarding the ranking of unsecured debt instruments in national insolvency proceedings (to include a new category of non-preferred senior debt) and to enhance the stabilisation tools with the introduction of a moratorium tool.

The powers granted to resolution authorities under the BRRD include, among others, the introduction of a statutory write-down and conversion power and a bail-in power, which gives the relevant resolution authority the power to, inter alia, (i) cancel existing shares and/or dilute existing shareholders by converting relevant capital instruments or eligible liabilities into shares of the surviving entity, (ii) cancel all or a portion of the principal amount of, or interest on, certain unsecured liabilities (which could include certain securities that have been or will be issued by ING) of a failing financial institution or group and/or (iii) convert certain debt claims (which could include certain securities that have been or will be issued by ING) into another security, including ordinary shares of the surviving group entity, if any. None of these actions would be expected to constitute an event of default under those securities entitling holders to seek repayment.

In addition to a write-down and conversion power and a bail-in power, the powers granted to the resolution authority under the BRRD include the two categories of measures introduced by the Intervention Act, as described above. In addition, the BRRD stipulates, among the broader powers to be granted to the relevant resolution authority, that it will confer powers to the relevant resolution authority to amend or alter the maturity date or interest payment date of debt instruments, including by suspending payment for a temporary period, or to amend the interest amount payable under such instruments. None of these actions would be expected to constitute an event of default under those debt instruments or other eligible liabilities entitling holders to seek repayment.

Many of the rules implementing the BRRD are contained in detailed technical and implementing rules, the exact text of which is subject to agreement and adoption by the relevant EU legislative institutions. Therefore, for some rules,

there remains uncertainty regarding the ultimate nature and scope of these resolution powers and, when implemented, how they would affect us and the securities that have been issued or will be issued by us. Accordingly, it is not possible to assess the full impact of the BRRD on ING and on holders of any securities issued or to be issued by ING, and there can be no assurance that, once it is fully implemented, the manner in which it is applied or the taking of any actions by the relevant resolution authority contemplated in the BRRD would not adversely affect the rights of holders of the securities issued or to be issued by ING, the price or value of an investment in such securities and/or ING s ability to satisfy its obligations under such securities.

Finally, as part of the move towards a full banking union, on 19 August 2014, the Single Resolution Mechanism (SRM) came into effect, with the aim to have a Single Resolution Board (SRB) to be responsible for key decisions on how a bank subject to SSM supervision is to be resolved if a bank has irreversible financial difficulties and cannot be wound up under normal insolvency proceedings without destabilizing the financial system. The SRB is a key element of the SRM and is the European resolution authority for the Banking Union and is fully operational, with a complete set of resolution powers, as of 1 January 2016. The SRB works in close cooperation with the national resolution authorities such as the Dutch national resolution authority. The SRB is also in charge of the Single Resolution Fund, a pool of money financed by the banking sector which will be set up to ensure that medium-term funding support is available while a credit institution is being restructured.

Historically, ING Bank has contributed to the Dutch National Resolution Fund (the NRF). Beginning in 2016, contributions to the NRF will be phased out and will decrease steadily until they decrease to nil in 2023; during the same period, contributions to the SRF will commence and steadily increase, replacing ING Bank s contributions to the NRF. As the contributions for the NRF and the SRF are calculated on a different basis and by different authorities (DNB and SRB, respectively) the contributions to the SRF may deviate from the contributions to the NRF.

There are certain differences between the provisions of the Intervention Act, the BRRD and the SRM Regulation, which may further bring future changes to the law. We are unable to predict what specific effects the Intervention Act and the implementation of the BRRD and the entry into force of the SRM Regulation may have on the financial system generally, our counterparties, holders of securities issued by or to be issued by us, or on us, our operations or our financial position.

ING has a recovery plan in place to enhance the bank s readiness and decisiveness to tackle financial crises on its own. Effective since 2012, the plan is updated annually to make sure it stays fit for purpose. The completeness, quality and credibility of the recovery plan is assessed annually by ING s regulators. Since 2012, ING has worked together with the different resolution authorities to determine a resolution strategy and to identify potential impediments to resolution. This resulted in a resolvability assessment that is shared every year with the FSB and the preparation of a transitional resolution plan by the SRB. In November 2016, ING concluded that ING Groep N.V. should be the designated resolution entity. At the end of January 2017, the SRB has informed ING that it supports the designation of ING Groep N.V. as the point of entry.

Financial Stability Board

In addition to the adoption of the foregoing measures, regulators and lawmakers around the world are actively reviewing the causes of the financial crisis and exploring steps to avoid similar problems in the future. In many respects, this work is being led by the FSB, consisting of representatives of national financial authorities of the G20 nations. The G20 and the FSB have issued a series of papers and recommendations intended to produce significant changes in how financial companies, particularly companies that are members of large and complex financial groups, should be regulated. These proposals address such issues as financial group supervision, capital and solvency standards, systemic economic risk, corporate governance, including executive compensation and risk culture, and a host of related issues associated with responses to the financial crisis.

In November 2015, the FSB published final standards on the adequacy of loss absorbing capacity held by G-SIBs. These comprise: (i) a set of principles on loss-absorbing and recapitalisation capacity of G-SIBs in resolution and (ii) a high level termsheet setting out an internationally agreed standard on the characteristics and adequacy of TLAC. The key requirement mandates G-SIBs to hold long-term debt that can be written down or converted into equity in the event that a G-SIB is put into liquidation, thereby providing a specific means of absorbing losses and recapitalising the G-SIB. The numbers are significant with the minimum standard requiring a G-SIB to hold TLAC of at least 16% of risk weighted assets and at least 6% of the leverage ratio denominator from 1 January 2019, and at least 18% and 6.75% respectively from 1 January 2022 on. In November 2016, the EC proposed amendments to the CRR and BRRD to implement the FSB s minimum TLAC requirement for G-SIB that are intended to align the TLAC requirement with the minimum requirement for own funds and eligible liabilities (MREL). In October 2016, the BCBS issued a final standard regarding the regulatory capital treatments of TLAC holdings of other G-SBIBs, confirming that G-SIBs must deduct from their own TLAC exposures TLAC instruments and liabilities issued by other G-SIBS.

Additional Governmental Measures

Governments in The Netherlands and abroad have also intervened over the past few years on an unprecedented scale, responding to stresses experienced in the global financial markets. Some of the measures adopted subject us and other institutions for which they were designed to additional restrictions, oversight or costs. Restrictions related to the Restructuring Plan are further described in Note 50 The European Commission Restructuring Plan to the consolidated financial statements.

In February 2013, the EC adopted a proposal setting out the details of a financial transaction tax (FTT) under the enhanced cooperation procedure, to be levied on transactions in financial instruments by financial institutions if at least one of the parties to the transaction is established in the financial transaction tax zone (FTT-zone) or if the instrument which is the subject of the transaction is issued within the territory of a Member State in the FFT-Zone. 10 Member States have indicated they wish to participate in the FTT (Austria, Belgium, France, Germany, Greece, Italy, Portugal, Slovakia, Slovenia and Spain) following Estonia s withdrawal in 2015. The initial proposal contemplated that the FTT would enter into effect on 1 January 2014, which would have then required us to pay a tax on transactions in financial instruments with parties (including Group affiliates) located in such FTT-zone. However, the FTT remains subject to negotiation between the participating Member States and currently it is uncertain whether and in what form and by which Member States the FTT will be adopted. The implementation date of any FTT will thus depend on the future approval by participating Member States in the Council, consultation of other EU institutions, and the subsequent transposition into local law. Depending on its final form, the introduction of an FTT in the Netherlands or outside the Netherlands could have a substantial adverse effect on ING s business and results.

As of 1 October 2012, banks that are active in the Netherlands are subject to a bank tax pursuant to a tax regulation that also includes measures to moderate bonuses awarded to executives at such banks. Increased bank taxes in countries where the Group is active result in increased taxes on ING s banking operations, which could negatively impact our operations, financial condition and liquidity. For information regarding historical regulatory costs incurred by ING, please refer inter alia to Note 27 Other operating expenses to the consolidated financial statements.

Additional Tier 1 Securities

In April 2015, ING issued USD 2.25 billion of Additional Tier 1 securities (AT1 Securities) and in November 2016, ING issued USD 1 billion AT1 Securities. ING may issue additional AT1 Securities, or other instruments with similar terms (also known as contingent convertible bonds or CoCos), in the future. The Dutch parliament adopted Article 29a of the Dutch Corporate Income Tax Act of 1969 (Wet op de vennootschapsbelasting 1969) in 2015 to provide debt treatment of securities similar to the AT1 Securities for the purpose of Dutch corporate income tax (25% rate) and (indirectly) dividend withholding tax purposes (15% non-grossed up rate). The interest payment obligation for the year 2015 in respect of the AT1 Securities is EUR 90 million and for the year 2016 it is EUR 135 million. For 2015 and 2016, that amount was treated by ING as a deductible interest expense for Dutch corporate income tax purposes and as exempt for Dutch dividend withholding tax purposes. However, there is a risk that the EC will take the view, and that court would uphold such view if contested, that the tax deductibility of interest payments on the AT1 Securities is in contravention of the EC s temporary state aid rules for assessing public support to financial institutions during the crisis (the Revised State Aid Guidelines). The Revised State Aid Guidelines provide for strengthened burden-sharing requirements, which require banks with capital needs to obtain shareholders and subordinated debt holders contributions before resorting to certain state aid measures. If a determination were made that deduction of interest payments on AT1 Securities and other similar securities, including those ING may issue in the future, is inconsistent with the Revised State Aid Guidelines, amounts ING would have to pay to the Dutch State with respect to interest payments that have previously been treated as an expense for Dutch corporate income tax purposes and that have been paid free of withholding taxes could be substantial, in particular if ING is unable to redeem the securities (e.g. for the year 2015, the total amount of payment in this respect could be EUR 38 million excluding interest and for the year 2016 it would be EUR 58 million excluding interest). The terms of the AT1 Securities provide that ING can redeem the AT1 Securities only upon the occurrence of specific events (not including a determination that the tax treatment of the AT1 Securities is inconsistent with European rules against state aid) or after 5 years or 10 years (depending on the series) after their date of issuance.

Because we operate in highly competitive markets, including our home market, we may not be able to increase or maintain our market share, which may have an adverse effect on our results of operations.

There is substantial competition in the Netherlands and the other countries in which we do business for the types of wholesale banking, retail banking, investment banking and other products and services we provide. Customer loyalty and retention can be influenced by a number of factors, including brand recognition, reputation, relative service levels, the prices and attributes of products and services, scope of distribution, credit ratings and actions taken by existing or new competitors. A decline in our competitive position as to one or more of these factors could adversely impact our ability to maintain or further increase our market share, which would adversely affect our results of operations. Such competition is most pronounced in our more mature markets of the Netherlands, Belgium, the rest of Western Europe and Australia. In recent years, however, competition in emerging markets, such as Latin America, Asia and Central and Eastern Europe, has also increased as large financial services companies from more developed countries have sought to establish themselves in markets which are perceived to offer higher growth potential, and as local institutions have become more sophisticated and competitive and proceeded to form alliances, mergers or strategic relationships with our competitors. The Netherlands is our largest market. Our main competitors in the banking sector in the Netherlands are ABN AMRO Bank and Rabobank. Competition could also increase due to new entrants in the

markets that may have new operating models that are not burdened by potentially costly legacy operations and that are subject to reduced regulation. New entrants may rely on new technologies, advanced data and analytic tools, lower cost to serve, reduced regulatory burden and/or faster processes in order to challenge traditional banks. Developments in technology has also accelerated the use of new business models. For example, new business models have been observed in retail payments, consumer and commercial lending (such as peer-to-peer lending), foreign exchange and low-cost investment advisory services. In particular, the emergence of disintermediation in the financial sector resulting from new banking, lending and payment solutions offered by rapidly evolving incumbents, challengers and new entrants, in particular with respect to payment services and products, and the introduction of disruptive technology may impede our ability to grow or retain our market share and impact our revenues and profitability.

Increasing competition in the markets in which we operate may significantly impact our results if we are unable to match the products and services offered by our competitors. Future economic turmoil may accelerate additional consolidation activity. Over time, certain sectors of the financial services industry have become more concentrated, as institutions involved in a broad range of financial services have been acquired by or merged into other firms or have declared bankruptcy. These developments could result in our competitors gaining greater access to capital and liquidity, expanding their ranges of products and services, or gaining geographic diversity. We may experience pricing pressures as a result of these factors in the event that some of our competitors seek to increase market share by reducing prices.

The default of a major market participant could disrupt the markets.

Within the financial services industry, the severe distress or default of any one institution (including sovereigns and central counterparties (CCPs)) could lead to defaults by, or the severe distress of, other market participants. Such distress of, or default by, an influential financial institution could disrupt markets or clearance and settlement systems and lead to a chain of defaults by other financial institutions because the commercial and financial soundness of many financial institutions may be closely related as a result of credit, trading, clearing or other relationships. Even the perceived lack of creditworthiness of a sovereign or financial institution (or a default by any such entity) may lead to market-wide liquidity problems and losses or defaults by us or by other institutions. This risk is sometimes referred to as systemic risk and may adversely affect financial intermediaries, such as clearing agencies, clearing houses, banks, securities firms and exchanges with whom we interact on a daily basis and financial instruments of sovereigns in which we invest. Systemic risk could have a material adverse effect on our ability to raise new funding and on our business, financial condition, results of operations, liquidity, solvency position and/or prospects. In addition, such distress or failure could impact future product sales as a potential result of reduced confidence in the financial services industry.

The inability of counterparties to meet their financial obligations could have a material adverse effect on our results of operations.

Third parties that owe us money, securities or other assets may not pay or perform under their obligations. These parties include the issuers and guarantors (including sovereigns) of securities we hold, borrowers under loans originated, reinsurers, customers, trading counterparties, securities lending and repurchase counterparties, counterparties under swaps, credit default and other derivative contracts, clearing agents, exchanges, clearing houses and other financial intermediaries. Defaults by one or more of these parties on their obligations to us due to bankruptcy, lack of liquidity, downturns in the economy or real estate values, continuing low oil or other commodity prices, operational failure or other factors, or even rumours about potential defaults by one or more of these parties or regarding a severe distress of the financial services industry generally, could have a material adverse effect on our results of operations, financial condition and liquidity. Given the high level of interdependence between financial institutions, we are and will continue to be subject to the risk of deterioration of the commercial and financial soundness, or perceived soundness, of sovereigns and other financial services institutions. This is particularly relevant to our franchise as an important and large counterparty in equity, fixed income and foreign exchange markets, including related derivatives.

We routinely execute a high volume of transactions, such as unsecured debt instruments, derivative transactions and equity investments with counterparties and customers in the financial services industry, including brokers and dealers, commercial and investment banks, mutual and hedge funds, insurance companies, institutional clients, futures clearing merchants, swap dealers, and other institutions, resulting in large periodic settlement amounts, which may result in our having significant credit exposure to one or more of such counterparties or customers. As a result, we could face concentration risk with respect to liabilities or amounts we expect to collect from specific counterparties and

customers. We are exposed to increased counterparty risk as a result of recent financial institution failures and weakness and will continue to be exposed to the risk of loss if counterparty financial institutions fail or are otherwise unable to meet their obligations. A default by, or even concerns about the creditworthiness of, one or more of these counterparties or customers or other financial services institutions could therefore have an adverse effect on our results of operations or liquidity.

With respect to secured transactions, our credit risk may be exacerbated when the collateral held by us cannot be or is liquidated at prices not sufficient to recover the full amount of the loan or derivative exposure due to us. We also have exposure to a number of financial institutions in the form of unsecured debt instruments, derivative transactions and equity investments. For example, we hold certain hybrid regulatory capital instruments issued by financial institutions which permit the issuer to cancel coupon payments on the occurrence of certain events or at their option. The EC has indicated that, in certain circumstances, it may require these financial institutions to cancel payment. If this were to happen, we expect that such instruments may experience ratings downgrades and/or a drop in value and we may have to treat them as impaired, which could result in significant losses. There is no assurance that losses on, or impairments to the carrying value of, these assets would not materially and adversely affect our business, results of operations or financial condition.

In addition, we are subject to the risk that our rights against third parties may not be enforceable in all circumstances. The deterioration or perceived deterioration in the credit quality of third parties whose securities or obligations we hold could result in losses and/ or adversely affect our ability to rehypothecate or otherwise use those securities or obligations for liquidity purposes. A significant downgrade in the credit ratings

of our counterparties could also have a negative impact on our income and risk weighting, leading to increased capital requirements. While in many cases we are permitted to require additional collateral from counterparties that experience financial difficulty, disputes may arise as to the amount of collateral we are entitled to receive and the value of pledged assets. Also in this case, our credit risk may also be exacerbated when the collateral we hold cannot be liquidated at prices sufficient to recover the full amount of the loan or derivative exposure due to us, which is most likely to occur during periods of illiquidity and depressed asset valuations, such as those experienced during the financial crisis of 2008. The termination of contracts and the foreclosure on collateral may subject us to claims. Bankruptcies, downgrades and disputes with counterparties as to the valuation of collateral tend to increase in times of market stress and illiquidity. Any of these developments or losses could materially and adversely affect our business, financial condition, results of operations, liquidity and/or prospects.

Market conditions, including those observed over the past few years, may increase the risk of loans being impaired.

We are exposed to the risk that our borrowers (including sovereigns) may not repay their loans according to their contractual terms and that the collateral securing the payment of these loans may be insufficient. We may continue to see adverse changes in the credit quality of our borrowers and counterparties, for example, as a result of their inability to refinance their indebtedness, with increasing delinquencies, defaults and insolvencies across a range of sectors. This may lead to impairment charges on loans and other assets, higher costs and additions to loan loss provisions. A significant increase in the size of our provision for loan losses could have a material adverse effect on our financial position and results of operations.

Economic and other factors could lead to contraction in the residential mortgage and commercial lending market and to decreases in residential and commercial property prices, which could generate substantial increases in impairment losses. Additionally, continuing low oil prices could have an influence on the repayment capacity of borrowers.

We may incur losses due to failures of banks falling under the scope of state compensation schemes.

In the Netherlands and other jurisdictions, deposit guarantee schemes and similar funds (Compensation Schemes) have been implemented from which compensation may become payable to customers of financial services firms in the event the financial service firm is unable to pay, or unlikely to pay, claims against it. In many jurisdictions in which we operate, these Compensation Schemes are funded, directly or indirectly, by financial services firms which operate and/or are licensed in the relevant jurisdiction. ING Bank is a participant in the Dutch Deposit Guarantee Scheme, which guarantees an amount of EUR 100,000 per person per bank (regardless of the number of accounts held). Until 2015, the costs involved with making compensation payments under the Dutch Deposit Guarantee Scheme had been allocated among the participating banks by the DNB, based on an allocation key related to their market shares with respect to the deposits protected by the Dutch Deposit Guarantee Scheme. Given our size, we may incur significant compensation payments to be made under the Dutch Deposit Guarantee Scheme, which we may be unable to recover from the bankrupt estate. Such costs and the associated costs to be borne by us may have a material adverse effect on our results of operations and financial condition. On 4 July 2015, the new EU Directive on deposit guarantee schemes had to be implemented by EU member states. As a consequence, the Dutch Deposit Guarantee Scheme has changed from an ex-post scheme, where we would have contributed after the failure of a firm, to an ex-ante scheme where we pay quarterly risk-weighted contributions into a fund for the Dutch Deposit Guarantee Scheme. The fund is to grow to a target size of 0.8% of all deposits guaranteed under the Dutch Deposit Guarantee Scheme, to be reached in July 2024. The Dutch decree implementing the Deposit Guarantee Scheme Directive entered into force on 26 November 2015.

The first ex-ante DGS contribution has been charged in respect of the first quarter of 2016. The build-up of the ex-ante fund will take place in 34 quarters. See also We operate in highly regulated industries. Changes in laws and/or

regulations governing financial services or financial institutions or the application of such laws and/or regulations governing our business may reduce our profitability Bank Recovery and Resolution Regimes .

Currently, the EU is discussing the introduction of a pan-European deposit guarantee scheme, (partly) replacing or complementing national compensation schemes in two or three phases. Proposals contain elements of (re)insurance, mutual lending and mutualisation of funds. The new model is intended to be overall cost-neutral . A more definitive proposal is expected in 2017 or 2018.

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Risks related to the Group s business, operations and regulatory environment

As a holding company, ING Groep N.V. is dependent for liquidity on payments from its subsidiaries, many of which are subject to regulatory and other restrictions.

ING Groep N.V. is a holding company and, therefore, depends on dividends, distributions and other payments from its subsidiaries to fund dividend payments and to fund all payments on its obligations, including debt obligations. Many of our subsidiaries, including our bank subsidiaries, are subject to laws that restrict dividend payments or authorize regulatory bodies to block or reduce the flow of funds from those subsidiaries to ING Groep N.V.

In addition, our bank subsidiaries are subject to restrictions on their ability to lend or transact with affiliates and to minimum regulatory capital and other requirements, as well as restrictions on their ability to use client funds deposited with them to fund their businesses. Additional restrictions on related-party transactions, increased capital and liquidity requirements and additional limitations on the use of funds in client accounts, as well as lower earnings, can reduce the amount of funds available to meet the obligations of ING Groep N.V., and even require ING Groep N.V. to provide additional funding to such subsidiaries. Restrictions or regulatory action of that kind could impede access to funds that ING Groep N.V. needs to make payments on its obligations, including debt obligations, or dividend payments. In addition ING Groep N.V. s right to participate in a distribution of assets upon a subsidiary s liquidation or reorganization is subject to the prior claims of the subsidiary s creditors.

There is a trend towards increased regulation and supervision of our subsidiaries by the governments and regulators in the countries in which those subsidiaries are located or do business. Concerns about protecting clients and creditors of financial institutions that are controlled by persons or entities located outside of the country in which such entities are located or do business have caused or may cause a number of governments and regulators to take additional steps to ring fence or maintain internal total loss-absorbing capacity at such entities in order to protect clients and creditors of such entities in the event of financial difficulties involving such entities. The result has been and may continue to be additional limitations on our ability to efficiently move capital and liquidity among our affiliated entities, thereby increasing the overall level of capital and liquidity required by the firm on a consolidated basis.

Furthermore, ING Groep N.V. has in the past and may in the future guarantee the payment obligations of certain of its subsidiaries, including ING Bank N.V., subject to certain exceptions. Any such guarantee may require ING Groep N.V. to provide substantial funds or assets to its subsidiaries or their creditors or counterparties at a time when ING Groep N.V. or its subsidiaries are in need of liquidity to fund their own obligations.

The requirements for ING Groep N.V. to develop and submit recovery and resolution plans to regulators, and the incorporation of feedback received from regulators, may require us to increase capital or liquidity levels or issue additional long-term debt at ING Groep N.V. or particular subsidiaries or otherwise incur additional or duplicative operational or other costs at multiple entities, and may reduce our ability to provide ING Groep N.V. guarantees of the obligations of our subsidiaries or raise debt at ING Groep N.V. Resolution planning may also impair our ability to structure our intercompany and external activities in a manner that we may otherwise deem most operationally efficient. Furthermore, arrangements to facilitate our resolution planning may cause us to be subject to additional costs such as resolution planning related taxes and funds. Any such limitations or requirements would be in addition to the legal and regulatory restrictions described above on our ability to engage in capital actions or make intercompany dividends or payments. For further information, please refer to Item 4. Information on the Company Regulation and Supervision.

Ratings are important to our business for a number of reasons. A downgrade or a potential downgrade in our credit ratings could have an adverse impact on our operations and net results.

Credit ratings represent the opinions of rating agencies regarding an entity s ability to repay its indebtedness. Our credit ratings are important to our ability to raise capital and funding through the issuance of debt and to the cost of such financing. In the event of a downgrade, the cost of issuing debt will increase, having an adverse effect on its net results. Certain institutional investors may also be obliged to withdraw their deposits from ING following a downgrade, which could have an adverse effect on our liquidity. We have credit ratings from S&P, Moody s Investor Service and Fitch Ratings. Each of the rating agencies reviews its ratings and rating methodologies on a recurring basis and may decide on a downgrade at any time.

Furthermore, ING Bank s assets are risk-weighted. Downgrades of these assets could result in a higher risk-weighting, which may result in higher capital requirements. This may impact net earnings and the return on capital, and may have an adverse impact on our competitive position.

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As rating agencies continue to evaluate the financial services industry, it is possible that rating agencies will heighten the level of scrutiny that they apply to financial institutions, increase the frequency and scope of their credit reviews, request additional information from the companies that they rate and potentially adjust upward the capital and other requirements employed in the rating agency models for maintenance of certain ratings levels. It is possible that the outcome of any such review of us would have additional adverse ratings consequences, which could have a material adverse effect on our results of operations, financial condition and liquidity. We may need to take actions in response to changing standards or capital requirements set by any of the rating agencies, which could cause our business and operations to suffer. We cannot predict what additional actions rating agencies may take, or what actions we may take in response to the actions of rating agencies.

Because we use assumptions to model client behaviour for the purpose of our market risk calculations, the difference between the realisation and the assumptions may have an adverse impact on the risk figures and future results.

We use assumptions in order to model client behaviour for the risk calculations in our banking books. Assumptions are used to determine the interest rate risk profile of savings and current accounts and to estimate the embedded option risk in the mortgage and investment portfolios. The realisation or use of different assumptions to determine client behaviour could have a material adverse effect on the calculated risk figures and, ultimately, future results.

We may be unable to manage our risks successfully through derivatives.

We employ various economic hedging strategies with the objective of mitigating the market risks that are inherent in our business and operations. These risks include currency fluctuations, changes in the fair value of our investments, the impact of interest rates, equity markets and credit spread changes, the occurrence of credit defaults and changes in client behaviour. We seek to control these risks by, among other things, entering into a number of derivative instruments, such as swaps, options, futures and forward contracts, including, from time to time, macro hedges for parts of our business, either directly as a counterparty or as a credit support provider to affiliate counterparties. Developing an effective strategy for dealing with these risks is complex, and no strategy can completely insulate us from risks associated with those fluctuations. Our hedging strategies also rely on assumptions and projections regarding our assets, liabilities, general market factors and the creditworthiness of our counterparties that may prove to be incorrect or prove to be inadequate. Accordingly, our hedging activities may not have the desired beneficial impact on our results of operations or financial condition. Poorly designed strategies or improperly executed transactions could actually increase our risks and losses. Hedging strategies involve transaction costs and other costs, and if we terminate a hedging arrangement, we may also be required to pay additional costs, such as transaction fees or breakage costs. There have been periods in the past, and it is likely that there will be periods in the future, during which we have incurred or may incur losses on transactions, possibly significant, after taking into account our hedging strategies. Further, the nature and timing of our hedging transactions could actually increase our risk and losses. Hedging instruments we use to manage product and other risks might not perform as intended or expected, which could result in higher (un)realised losses, such as credit value adjustment risks or unexpected P&L effects, and unanticipated cash needs to collateralise or settle such transactions. Adverse market conditions can limit the availability and increase the costs of hedging instruments, and such costs may not be recovered in the pricing of the underlying products being hedged. In addition, hedging counterparties may fail to perform their obligations, resulting in unhedged exposures and losses on positions that are not collateralised. As such, our hedging strategies and the derivatives that we use or may use may not adequately mitigate or offset the risks they intend to cover, and our hedging transactions may result in losses.

Our hedging strategy additionally relies on the assumption that hedging counterparties remain able and willing to provide the hedges required by our strategy. Increased regulation, market shocks, worsening market conditions

(whether due to the ongoing Euro crisis or otherwise), and/or other factors that affect or are perceived to affect the financial condition, liquidity and creditworthiness of ING may reduce the ability and/or willingness of such counterparties to engage in hedging contracts with us and/or other parties, affecting our overall ability to hedge our risks and adversely affecting our business, operations, financial condition and liquidity.

Our risk management policies and guidelines may prove inadequate for the risks we face.

We have developed risk management policies and procedures and will continue to review and develop these in the future. Nonetheless, our policies and procedures to identify, monitor and manage risks may not be fully effective, particularly during extremely turbulent times. The methods we use to manage, estimate and measure risk are partly based on historic market behaviour. The methods may, therefore, prove to be inadequate for predicting future risk exposure, which may be significantly greater than suggested by historical experience. For instance, these methods may not predict the losses seen in the stressed conditions in recent periods, and may also not adequately allow prediction of circumstances arising due to government interventions and stimulus packages, which increase the difficulty of evaluating risks. Other methods for risk management are based on evaluation of information regarding markets, customers, catastrophic occurrence or other information that is publicly known or otherwise available to us. Such information may not always be accurate, complete, updated or properly evaluated.

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Management of operational, compliance, legal and regulatory risks requires, among other things, policies and procedures to record and verify large numbers of transactions and events. These policies and procedures may not be fully effective.

Operational risks, such as systems disruptions or failures, breaches of security, cyber attacks, human error, changes in operational practices or inadequate controls including in respect of third parties with which we do business may adversely impact our business, results of operation and reputation.

We face the risk that the design and operating effectiveness of our controls and procedures may prove to be inadequate. Operational risks are inherent to our business. Our businesses depend on the ability to process a large number of transactions efficiently and accurately. In addition, we routinely transmit, receive and store personal, confidential and proprietary information by email and other electronic means. Although we endeavour to safeguard our systems and processes, losses can result from inadequately trained or skilled personnel, IT failures (including due to a computer virus or a failure to anticipate or prevent cyber attacks or other attempts to gain unauthorised access to digital systems for purposes of misappropriating assets or sensitive information, corrupting data, or impairing operational performance, or security breaches by third parties), inadequate or failed internal control processes and systems, regulatory breaches, human errors, employee misconduct, including fraud, or from natural disasters or other external events that interrupt normal business operations. We depend on the secure processing, storage and transmission of confidential and other information in our computer systems and networks. The equipment and software used in our computer systems and networks may not always be capable of processing, storing or transmitting information as expected. Despite our business continuity plans and procedures, certain of our computer systems and networks may have insufficient recovery capabilities in the event of a malfunction or loss of data. As part of a continuous life cycle management process we are replacing some important elements of our IT landscape as contemplated by our Think Forward strategy. Any failure or delay in implementation or integration of the new IT/operational systems on the anticipated time schedule or a failure of these systems to operate as anticipated could affect our ability to implement our Think Forward strategy in the manner and time frame currently contemplated. Like other financial institutions and global companies, we are regularly the target of attempted cyber attacks, including denial-of-service attacks and attempts to gain unauthorised access, and the techniques used for such attacks are increasingly sophisticated. We have faced, and expect this trend to continue, an increasing number of attempted cyber attacks as we have expanded our mobile- and other internet-based products and services, as well as our usage of mobile and cloud technologies. In addition, due to our interconnectivity with third-party vendors, exchanges, clearing houses, financial institutions and other third parties, we could be adversely impacted if any of them is subject to a successful cyber attack or other information security event. Whilst we have policies and processes to protect our systems and networks, and strive to continuously monitor and develop them to protect our technology infrastructure and data from misappropriation, they may be vulnerable to unauthorised access, computer viruses or other malicious code, cyber attacks and other external attacks or internal breaches that could have a security impact and jeopardise our confidential information or that of our clients or our counterparties. These events can potentially result in financial loss and harm to our reputation, hinder our operational effectiveness, result in regulatory censure, and could have a material adverse effect on our business, reputation, revenues, results of operations, financial condition and prospects.

Widespread outbreaks of communicable diseases may impact the health of our employees, increasing absenteeism, or may cause a significant increase in the utilisation of health benefits offered to our employees, either or both of which could adversely impact our business. In addition, other events including unforeseeable and/or catastrophic events can lead to an abrupt interruption of activities, and our operations may be subject to losses resulting from such disruptions. Losses can result from destruction or impairment of property, financial assets, trading positions, and the loss of key personnel. If our business continuity plans are not able to be implemented, are not effective or do not sufficiently take such events into account, losses may increase further.

We are subject to a variety of regulatory risks as a result of our operations in certain countries.

In certain countries in which we operate, judiciary and dispute resolution systems may be less developed. As a result, in case of a breach of contract, we may have difficulties in making and enforcing claims against contractual counterparties and, if claims are made against us, we might encounter difficulties in mounting a defence against such allegations. If we become party to legal proceedings in a market with an insufficiently developed judicial system, it could have an adverse effect on our operations and net results.

In addition, as a result of our operations in certain countries, we are subject to risks of possible nationalisation, expropriation, price controls, exchange controls and other restrictive government actions, as well as the outbreak of hostilities and or war, in these markets. Furthermore, the current economic environment in certain countries in which we operate may increase the likelihood for regulatory initiatives to enhance consumer protection or to protect homeowners from foreclosures. Any such regulatory initiative could have an adverse impact on our ability to protect our economic interest, for instance in the event of defaults on residential mortgages.

ING Group may be unable to retain key personnel.

As a financial services enterprise with a decentralised management structure, ING Group relies to a considerable extent on the quality of local management in the various countries in which it operates. The success of ING Group s operations is dependent, among other things, on its ability to attract and retain highly qualified personnel. Competition for key personnel in most countries in which ING Group operates is intense. ING Group s ability to attract and retain key personnel, in particular in areas such as technology and operational management, client relationship management, finance, risk and product development, is dependent on a number of factors, including prevailing market conditions and compensation packages offered by companies competing for the same talent.

As part of their responses to the financial crisis of 2008, the EC and national governments throughout Europe have introduced and are expected to continue introducing various legislative initiatives that aim to ensure that financial institutions remuneration policies and practices are consistent with and promote sound and effective risk management, and impose restrictions on the remuneration of personnel, with a focus on risk alignment of performance-related remuneration. Such initiatives include, among others, measures set out in Directive 2013/36/EU (CRD IV), the Guidelines on Remuneration Policies and Practices published by (the predecessor of) the European Banking Authority, the Regulation of the DNB on Sound Remuneration Policies (Regeling beheerst beloningsbeleid Wft 2014), the Dutch law with respect to the limitation of liability of the DNB and AFM and the prohibition of the payment of variable remuneration to board members and day-to-day policy makers of financial institutions that receive state aid (Wet aansprakelijkheidsbeperking DNB en AFM en bonusverbod staatsgesteunde ondernemingen) and the Dutch Law on Remuneration Policies of Financial Undertakings (Wet beloningsbeleid financiële ondernemingen, Wbfo). Currently, implementation of the CRD IV rules varies significantly across the various Member States. The proportionality principle that allows for a minimum threshold for deferrals and pay-out in financial instruments to identified staff is applied differently in the various European countries. For instance, in the Netherlands a threshold of 10.000 is applied; in Germany 50.000; in Belgium 75.000 and in the UK £500.000. This creates a situation where there is no level playing field. In addition, the Wbfo has introduced a variable remuneration cap of 20% of base salary for employees working in the financial sector in the Netherlands. Employees can be exempted and receive variable remuneration up to the Wbfo individual cap of 100%, provided that the average pay-out for the whole group does not exceed 20% of the collective base salaries. For this group, as well as for persons working outside the Netherlands, exceptions are possible, in line with CRD IV, but only under strict conditions. In addition, the Wbfo limits exit compensation, retention compensation and guaranteed variable remuneration. The introduction of the Wbfo has created an unlevel playing field in the Netherlands for ING due to the fact that branch offices in the Netherlands of financial institutions that fall under CRD IV (i.e. that have their corporate seat in another EER country) are not limited to the 20% cap but can apply to the higher CRD IV caps (e.g. 100%, or up to 200% with shareholder approval).

Since the financial crisis, ING has adapted its remuneration policies to the new national and international standards. Since the full repayment of the state aid by ING in 2014, the total remuneration package for the Executive Board members has been slightly increased, however, it remains significantly below the median of our EURO Stoxx 50 benchmark, which is made up of similar European financial and non-financial institutions.

The (increasing) restrictions on remuneration will continue to have an impact on existing ING Group remuneration policies and individual remuneration packages for personnel. This may restrict our ability to offer competitive compensation compared with companies (financial and/or non-financial) that are not subject to such restrictions and it could adversely affect ING Group s ability to retain or attract key personnel.

We may incur further liabilities in respect of our defined benefit retirement plans if the value of plan assets is not sufficient to cover potential obligations, including as a result of differences between results and underlying

actuarial assumptions and models.

ING Group companies operate various defined benefit retirement plans covering a number of our employees. The liability recognised in our consolidated balance sheet in respect of our defined benefit plans is the present value of the defined benefit obligations at the balance sheet date, less the fair value of each plan s assets, together with adjustments for unrecognised actuarial gains and losses and unrecognised past service costs. We determine our defined benefit plan obligations based on internal and external actuarial models and calculations using the projected unit credit method. Inherent in these actuarial models are assumptions, including discount rates, rates of increase in future salary and benefit levels, mortality rates, trend rates in health care costs, consumer price index, and the expected return on plan assets. These assumptions are based on available market data and the historical performance of plan assets, and are updated annually. Nevertheless, the actuarial assumptions may differ significantly from actual results due to changes in market conditions, economic and mortality trends and other assumptions. Any changes in these assumptions could have a significant impact on our present and future liabilities to and costs associated with our defined benefit retirement plans.

Adverse publicity, claims and allegations, litigation and regulatory investigations and sanctions may have a material adverse effect on our business, revenues, results of operations, financial condition and/or prospects.

We are involved in governmental, regulatory, arbitration and legal proceedings and investigations involving claims by and against us which arise in the ordinary course of our businesses, including in connection with our activities as financial services provider, employer, investor and taxpayer. Financial reporting irregularities involving other large and well-known companies, possible findings of government authorities in various jurisdictions which are investigating several rate-setting processes, notifications made by whistleblowers, increasing regulatory and law enforcement scrutiny of know your customer anti-money laundering, tax evasion, prohibited transactions with countries or persons subject to sanctions, and bribery or other anti-corruption measures and anti-terrorist-financing procedures and their effectiveness, regulatory investigations of the banking industry, and litigation that arises from the failure or perceived failure by us to comply with legal, regulatory, tax and compliance requirements could result in adverse publicity and reputational harm, lead to increased regulatory supervision, affect our ability to attract and retain customers and maintain access to the capital markets, result in cease and desist orders, claims, enforcement actions, fines and civil and criminal penalties, other disciplinary action or have other material adverse effects on us in ways that are not predictable. Some claims and allegations may be brought by or on behalf of a class and claimants may seek large or indeterminate amounts of damages, including compensatory, liquidated, treble and punitive damages. See ING is exposed to the risk of claims from customers who feel misled or treated unfairly because of advice or information received . Our reserves for litigation liabilities may prove to be inadequate. Claims and allegations, should they become public, need not be well founded, true or successful to have a negative impact on our reputation. In addition, press reports and other public statements that assert some form of wrongdoing could result in inquiries or investigations by regulators, legislators and law enforcement officials, and responding to these inquiries and investigations, regardless of their ultimate outcome, is time consuming and expensive. Adverse publicity, claims and allegations, litigation and regulatory investigations and sanctions may have a material adverse effect on our business, revenues, results of operations, financial condition and/or prospects in any given period. With respect to specific proceedings, see Note 45 Legal proceedings to the consolidated financial statements.

We may not be able to protect our intellectual property and may be subject to infringement claims by third parties, which may have a material adverse effect on our business and results of operations.

In the conduct of our business, we rely on a combination of contractual rights with third parties and copyright, trademark, trade name, patent and trade secret laws to establish and protect our intellectual property. Although we endeavour to protect our rights, third parties may infringe or misappropriate our intellectual property. We may have to litigate to enforce and protect our copyrights, trademarks, trade names, patents, trade secrets and know-how or to determine their scope, validity or enforceability. In that event, we may be required to incur significant costs, and our efforts may not prove successful. The inability to secure or protect our intellectual property assets could have a material adverse effect on our business and our ability to compete.

We may also be subject to claims made by third parties for (1) patent, trademark or copyright infringement, (2) breach of copyright, trademark or licence usage rights, or (3) misappropriation of trade secrets. Any such claims and any resulting litigation could result in significant expense and liability for damages. If we were found to have infringed or misappropriated a third-party patent or other intellectual property right, we could in some circumstances be enjoined from providing certain products or services to our customers or from utilizing and benefiting from certain methods, processes, copyrights, trademarks, trade secrets or licences. Alternatively, we could be required to enter into costly licensing arrangements with third parties or to implement a costly workaround. Any of these scenarios could have a material adverse effect on our business and results of operations.

ING is exposed to the risk of claims from customers who feel misled or treated unfairly because of advice or information received.

Our banking products and advice services for third-party products are exposed to claims from customers who might allege that they have received misleading advice or other information from advisers (both internal and external) as to which products were most appropriate for them, or that the terms and conditions of the products, the nature of the products or the circumstances under which the products were sold, were misrepresented to them. When new financial products are brought to the market, ING engages in a multidisciplinary product approval process in connection with the development of such products, including production of appropriate marketing and communication materials. Notwithstanding these processes, customers may make claims against ING if the products do not meet their expectations. Customer protection regulations, as well as changes in interpretation and perception by both the public at large and governmental authorities of acceptable market practices, influence customer expectations.

Products distributed through person-to-person sales forces have a higher exposure to such claims as the sales forces provide face-to-face financial planning and advisory services. Complaints may also arise if customers feel that they have not been treated reasonably or fairly, or that the duty of care has not been complied with. While a considerable amount of time and resources have been invested in reviewing and assessing historical sales practices and products that were sold in the past, and in the maintenance of effective risk management, legal and

compliance procedures to monitor current sales practices, there can be no assurance that all of the issues associated with current and historical sales practices have been or will be identified, nor that any issues already identified will not be more widespread than presently estimated.

The negative publicity associated with any sales practices, any compensation payable in respect of any such issues and regulatory changes resulting from such issues, has had and could have a material adverse effect on our business, reputation, revenues, results of operations, financial condition and prospects. For additional information with respect to specific proceedings, see Note 45 Legal proceedings to the consolidated financial statements.

Additional risks relating to ownership of ING shares

The share price of ING shares has been, and may continue to be, volatile.

Our share price has experienced periods of volatility in the past, and the price and trading volume of our shares may be subject to significant fluctuations in the future, due, in part, to changes in our actual or forecast operating results and the inability to fulfil the profit expectations of securities analysts, as well as to the high volatility in the securities markets generally and more particularly in shares of financial institutions.

Other factors, besides our financial results, that may impact our share price include, but are not limited to:

- market expectations of the performance and capital adequacy of financial institutions in general;
- investor perception of the success and impact of our strategies;
- investor perception of our positions and risks;
- a downgrade or review of our credit ratings;
- potential litigation or regulatory action involving ING or sectors that we have exposure to;
- announcements concerning financial problems or any investigations into the accounting practices of other financial institutions; and
- general market circumstances.

There can be no assurance that we will pay dividends on our Ordinary Shares in the future.

It is ING s policy to pay dividends in relation to the long-term underlying development of cash earnings. Dividends can only be declared by shareholders when the Executive Board considers such dividends appropriate, taking into consideration the financial conditions then prevailing and the longer-term outlook. The Executive Board proposes to pay a total dividend of EUR 2,560 million, or EUR 0.66 per ordinary share, over the financial year 2016. This is

subject to the approval of shareholders at the Annual General Meeting in May 2017. Taking into account the interim dividend of EUR 0.24 per ordinary share paid in August 2016, the final dividend will amount to EUR 0.42 per ordinary share and be paid in cash. However, there can be no assurance that we will pay dividends in the future.

Holders of ING shares may experience dilution of their holdings.

The issuance of equity securities resulting from the conversion of some or all of such instruments would dilute the ownership interests of existing holders of ING shares and such dilution could be substantial. Additionally, any conversion, or the anticipation of the possibility of a conversion, could depress the market price of ING shares.

Furthermore, we may undertake future equity offerings with or without subscription rights. In case of equity offerings with subscription rights, holders of ING shares in certain jurisdictions, however, may not be entitled to exercise such rights unless the rights and the related shares are registered or qualified for sale under the relevant legislation or regulatory framework. Holders of ING shares in these jurisdictions may suffer dilution of their shareholding should they not be permitted to, or otherwise chose not to, participate in future equity offerings with subscription rights.

Because we are incorporated under the laws of the Netherlands and many of the members of our Supervisory and Executive Board and our officers reside outside of the United States, it may be difficult to enforce judgments against ING or the members of our Supervisory and Executive Boards or our officers.

Most of our Supervisory Board members, our Executive Board members and some of the experts named in this Annual Report, as well as many of our officers are persons who are not residents of the United States, and most of our and their assets, are located outside the United States. As a result, it may not be able to serve process on those persons within the United States or to enforce in the United States judgments obtained in U.S. courts against us or those persons based on the civil liability provisions of the U.S. securities laws.

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It also may not be able to enforce judgments of U.S. courts under the U.S. federal securities laws in courts outside the United States, including the Netherlands. The United States and the Netherlands do not currently have a treaty providing for the reciprocal recognition and enforcement of judgments (other than arbitration awards) in civil and commercial matters. Therefore, we may not be able to enforce in the Netherlands a final judgment for the payment of money rendered by any U.S. federal or state court based on civil liability, even if the judgment is not based only on the U.S. federal securities laws, unless a competent court in the Netherlands gives binding effect to the judgment.

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Item 4. Information on the Company

GENERAL

ING Groep N.V. was established as a Naamloze Vennootschap (a Dutch public limited liability company) on 4 March 1991. ING Groep N.V. is incorporated under the laws of the Netherlands.

The official address of ING Group is:

ING Groep N.V.
Bijlmerplein 888
1102 MG Amsterdam
P.O. Box 1800,
1000 BV Amsterdam

The Netherlands
Telephone +31 20 563 6710

The name and address of ING Groep N.V. s agent in the United States is:

ING Financial Holdings Corporation
1325 Avenue of the Americas
New York, NY 10019
United States of America

Telephone +1 646 424 6000

OUR STRATEGY AND PROGRESS

ING s purpose is to empower people to stay a step ahead in life and in business. This is founded on our belief that the role of a financial institution is to support and promote economic, social and environmental progress at the same time as it generates healthy returns for shareholders. In this chapter we explain how our Think Forward strategy helps us fulfil that purpose, achieve financial and commercial success and create value for all our stakeholders.

Our strategy and progress

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

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

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

One of the ways ING is fulfilling its purpose to empower customers is by offering products, services and tools that make it easier for customers to manage their money and make better financial decisions. In 2016, ING in Spain

introduced My Money Coach, a free digital service that uses answers customers provide on their personal situation, risk appetite and financial knowledge to design a personalised plan to help them achieve their savings, investment and retirement goals. Last year we also expanded the range of the successful online Financially Fit planning tools in the Netherlands. Similar digital advisers are part of our offering or are being developed In Belgium, France, Poland and Spain.

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

ING believes that banking can play a significant role in creating a fairer and greener economy. This includes helping our clients to develop more sustainable business models, supporting clients who develop solutions to environmental and social challenges and also clients who are environmental outperformers in their sectors. ING s sustainable

transitions financed came to more than EUR 34 billion in 2016. One notable deal we were involved in was UK waste operator Shanks Plc s merger with the leading Dutch waste processor Van Gansewinkel Groep. ING served as advisor and underwriter for this deal that will create one of Europe s leading players in recycling and illustrates ING s commitment to the circular economy.

Accelerating Think Forward

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

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

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

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

To help us achieve this, we announced In October 2016 an investment of EUR 800 million in continued digital transformation to further improve the customer experience and accelerate growth in primary customers and lending. This effort will be overseen by a newly created chief transformation officer role at Management Board Banking level that will be filled by Roel Louwhoff, who will combine the new role with his current one as chief operating officer.

Our goal is to ultimately converge our different banking models into one globally scalable platform. As a first step, we will move to an intermediate state (2016-2021) where we will converge businesses with similar customer propositions that can benefit from a more standardised approach and economies of scale.

In the Netherlands and Belgium, we intend to improve our customer experience by moving to an integrated banking platform, leveraging the combined strengths of the omnichannel capabilities of the Netherlands with the relationship model and advice capabilities of Belgium. In our Challenger markets, we will work towards a Model Bank, with one retail strategy and harmonised retail proposition focused on increasing customer interaction, and supported by a shared services organisation. Germany s Welcome banking platform will further digitalise our business there and enable us to pilot key elements of the future integrated platform, which we plan over time to open to non-customers

and for selected third parties. In Wholesale Banking we will continue our Target Operating Model (TOM) programme, further driving simplification, business growth and innovation.

In this intermediate state we are also laying the bank- wide, shared foundation that will allow us to develop into a single, integrated platform in the future. This comprises global process management, global data management, modular architecture, bank-wide shared services and cloud-based services.

We will fund this journey and respond to headwinds on the economic growth and regulatory fronts through additional cost management and income diversification.

Elements of our strategy

Our Think Forward strategy was launched in March 2014 and guides everything we do. In this section we give you an overview of the strategy with references to where you can look in the Annual Report for examples and additional information and how our strategy links to the material topics identified by our stakeholders.

Strategic priorities

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

1. Earn the primary relationship

The better we know our customers, the better we will be able to empower them to make smart financial decisions and continue to be relevant for them. We can do this best when they do a range of banking with us and when we are the bank our customers go to for their daily transactions. We call that the primary relationship.

In Retail Banking, we define the primary relationship as a customer with a payment account with recurrent income and at least one other product with ING. In Wholesale Banking, we aim to increase primary relationships by increasing our so-called flow relationships (e.g. transaction services, working capital solutions) and the percentage of relationships where we are the client s lead finance provider.

In 2016, the number of retail primary relationships grew by more than eight percent to 9.7 million, putting us well on track to reach our ambition of 10 million primary retail customers in 2017. We have now increased our ambition to 14 million primary customers by 2020.

Material topics: financial performance, pricing of products and services, fair communication about products and services, enhancing customers financial capabilities, responsible lending and debt prevention, trust, transparency and openness.

2. Develop data analytics

The relationship between banks and their customers, as in other industries, is increasingly a digital one. Digitalisation challenges banks to maintain intimacy with a customer who they rarely meet face to face. But the digital interface also provides a wealth of data on customers preferences and needs that gives banks important insights they can use to provide the kind of experience customers now expect from businesses they interact with online. Developing analytic skills is essential to serving customers in a digital world. This is not only important for improving customer services, but also for preventing fraud, improving operational processes, reducing risks and generating services that go beyond traditional banking so we can stay relevant for customers.

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

Customer expectations, new technologies and new competitors are transforming banking. Through innovation, we can increase efficiency, improve the customer experience and gain competitive advantage. Our PACE methodology is designed to encourage fast experimentation and turn ideas quickly into new products and services for customers. We also promote an internal culture of innovation through our employee-driven Innovation Bootcamps. To speed up the pace of innovation we also partner with outside parties, including fintechs. As of the end of 2016, we were partnering and in some cases also investing in more than 65 fintechs in various areas, like instant lending, factoring and customer

loyalty.

Material topics: innovative business developments, usability and accessibility of our products and services

4. Think beyond traditional banking to develop new services and business models

Thinking beyond traditional banking is crucial given that disruption in the banking industry puts a significant portion of revenues at risk. Our payments value chain is already under threat from many bank and non- bank players. To be successful, banks need to expand the concept of what a bank is and what it means to customers. We envisage doing this by creating an open digital platform that also includes relevant offers from third parties, providing a complete financial view for customers in one place - including of their holdings at other institutions - so they are empowered to make better financial decisions, and also by finding ways to be relevant to customers earlier in their purchasing decision process. In 2016, ING developed the Yolt aggregation platform, which offers users a view of their complete financial holdings across institutions. Yolt is currently being user tested in the UK.

Material topics: innovative business developments, sustainable finance and investment policies

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Enablers

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

1. Simplify & streamline

Simplify and streamline refers to ING s aim to become a more effective, cost-efficient and agile organisation with the flexibility to respond to fast-changing customer needs and low-cost competitors. In the Netherlands we have introduced agile working based on end-to-end, multidisciplinary teams. These teams are focused on delivering customer improvements from design to product delivery at lower cost and with shorter time to market than previously required. We have also introduced targeted operating models (TOMs) to streamline our Finance, HR, Procurement and Risk functions.

Material topics: usability and accessibility of our products and services, fair communication about products and services

2. Operational excellence

Operational excellence requires continuous focus to ensure that ING s operations deliver a seamless and flawless customer experience. Our operational excellence vision concentrates on delivering the Customer Promise. To meet changing customer expectations arising from increasing digitalisation, we aim to converge to a single platform for financial services that will deliver a uniform customer experience across borders. This will be based on simplified and standardised products and systems supported by modular architecture, integrated and scalable IT systems, and shared services. While pursuing this ambition we are also investing to provide stable IT systems and platforms to ensure we are there for our customers when they need us and to provide them with the highest standards of data security.

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

3. Performance culture

A strong performance culture is key to achieving the bank s ambitions and deliver on our Customer Promise. Following the introduction in 2015 of the Orange Code a new set of values and behaviours that sets out our way of working we are taking a number of steps to strengthen performance culture. These include a Think Forward leadership programme designed to develop the leadership behaviours we need to achieve the strategy. It is currently being rolled out to top managers and will later be offered to over 6800 managers. We are working to improve performance management for all employees through the Step Up Performance Management framework. This replaces a backward looking performance assessment with a real-time review process that seeks to empower employees and make them more accountable for their own performance and development. The process has been rolled out to all employees in Spain, managers in Belgium and around 200 senior leaders globally. Step Up will be introduced to all employees from 2017 onwards. We are also committed to accelerating the development of diversity, including in areas such as gender, age, background, sexual orientation, physical ability and religious beliefs. That is why we introduced a diversity manifesto, Success through difference , in January 2016 and have a range of initiatives in place designed to improve diversity and foster an inclusive culture.

Material topics: diversity and equal opportunities, preventing discrimination, being a good employer

4. Lending capabilities

Broadening and diversifying our lending capabilities to continue to grow our client franchises is our fourth strategic enabler. To do so, we are seeking opportunities in retail, SME and consumer lending, as well as focusing on Wholesale Banking lending growth in our Challengers & Growth Markets businesses and in our specialised Industry Lending franchise. In 2016, a number of innovative products and services that support ING s Customer Promise were launched. Customers in Poland, Romania, Spain and Turkey can now get personal loans instantly online based on advanced analytics that enables ING to use data it already has rather than asking the customer to provide it.

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

Geographical presence and strategic approach

ING has a presence in over 40 countries. Though our local businesses vary in terms of their market positions all are guided by our purpose of empowerment and strategy to provide customers with a differentiating customer experience.

Market Leaders

These are our businesses in mature markets in the Benelux where we have strong positions in retail and wholesale banking. Our strategy is to grow in selected segments, continue to invest in digital leadership with a digital-first model, deliver on operational excellence programmes and create greater cost efficiency in order to fund business expansion in growth markets.

Challengers

These are businesses in markets where we offer both retail and wholesale banking services. Our retail activities are mainly direct-banking offered online with a significant cost advantage over traditional banks. Our strategy is to leverage our strong savings franchises in these markets to expand into payments accounts and increase the number of primary customer relationships. We are also using our direct banking experience to grow the lending business at low cost in areas like consumer and SME lending. And we are using our strong savings businesses to fund expansion of Wholesale Banking, particularly to support clients in Industry Lending and working capital solutions.

Growth Markets

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

Wholesale Banking

We are a network bank for our clients across Europe with global reach and strong positions in a number of global franchises, including Industry Lending, Financial Markets and Transaction Services. We are investing in our business transformation programme Target Operating Model and are targeting growth in our corporate client base, Industry Lending and Transaction Services. In Challenger countries we are expanding our lending activities to build locally optimised balance sheets and sustainable franchises.

Ambition 2020 financial targets

We have published financial targets for 2020 reflecting our ambitions. These include a common equity Tier 1 ratio for ING Group above the prevailing fully-loaded requirement, currently estimated to be 11.75%, plus a comfortable management buffer, a leverage ratio above 4 percent, a 50-52 percent underlying cost/income ratio and an underlying return on equity to be determined when outstanding regulatory issues are clarified.

As of year-end 2016, we were on track to meet all of our Ambition 2020 targets. Our CET1 ratio of 14.2% was well ahead of regulatory requirements and the leverage ratio rose to 4.8%. The Board proposes to pay a total 2016 dividend of EUR 2,560 million, or EUR 0.66 per ordinary share, subject to the approval of shareholders at the Annual General Meeting in May 2017. This comprises the previously announced interim dividend of EUR 0.24 paid in August 2016 and a final dividend of EUR 0.42 per ordinary share. We aim to pay a progressive dividend over time.

The ambition 2020 objectives reflect ING s current objectives for the 2016-2020 period as a whole, are subject to change, and are not intended as a forecast or prediction of our profits in any given financial period and are not an expression of the likelihood that we will realize these objectives. Our ability to meet our current ambition 2020 objectives depends on the accuracy of various assumptions involving factors that are in part significantly or entirely beyond our control and are subject to known and unknown risks, uncertainties and other factors. Please see Item 3.

Key information Risk Factors for more information that can impact ING Group s results of operations and financial position.

MARKET AND REGULATORY CONTEXT

The world around us is constantly changing. This chapter highlights several trends that have a major impact on both our operating environment and that of our competitors. This includes the economy and current low interest rate environment, increasing regulatory scrutiny and costs, digitalisation and changing customer behaviour, and what our stakeholders expect of us.

Global economic developments

Similar to 2015, 2016 was not a strong year for the global economy. Growth in the US regained momentum, but the recovery in the eurozone was not able to shift into higher gear and the Chinese economy continued to slow. Uncertainty about the global economic outlook and (geo)political uncertainty led to flares of financial market volatility, but the global economy held up relatively well.

Concerns about the global economy started in the first quarter, with disappointing data on the Chinese economy and a decline in oil prices. The world s main stock market indices fell 10 to 15 percent below 2015 year-end levels and corporate credit risk rose to levels not seen during the previous two-and-a-half years. Currencies of a number of important emerging economies came under downward pressure.

Worries eventually faded, and stock markets and oil prices recovered, as the US Federal Reserve signalled it would be cautious and take the state of the global economy into account when raising interest rates and the Chinese authorities implemented measures to support the economy.

Brexit

In late June, financial market volatility increased as Britain surprised markets by deciding to leave the European Union (Brexit). While the British pound depreciated to record lows against the US dollar and the Bank of England loosened monetary policy as a precaution, the immediate economic impact appears relatively limited. Still, there is long-term uncertainty, as the actual Brexit probably won t take place until 2019 at the earliest. It is still unclear what the relationship between the UK and the EU will be after Brexit.

Eurozone developments

Persistent low growth and declining inflation led the European Central Bank (ECB) to further loosen monetary policy in 2016. This triggered spectacular falls in market interest rates. Also because of Brexit fears, yields on German government bonds with a remaining maturity of 10 years became negative. While similar bonds issued by other eurozone governments still carried positive yields, they were at historic low levels as well and often negative for shorter maturities. However, in the second half of the year, expectations about a more expansionary fiscal policy in the US following the presidential election victory of Donald Trump, an interest rate increase by the Federal Reserve, and an increase in oil prices pushed up capital market interest rates again.

ECB policies also resulted in a further decline in the cost of borrowing for eurozone households and businesses and contributed to a modest increase in credit demand. Marked differences between countries remain, with credit growth generally more positive in northern European countries, while low or negative in southern ones.

Low interest rate environment

Persistent low interest rates will, over time, put banks net interest income under pressure. On mortgages for instance, ING could be confronted with higher than expected prepayment rates as the difference between rates on existing mortgages and the prevailing market rate lead customers to refinance.

On savings, net interest income may decrease as savings rates approach zero and options to further reduce client rates on savings deposits diminish. ING actively manages its interest-rate risk exposure and successfully maintained the net interest margin on its core lending in 2016. To address the challenge of interest-income erosion, containing costs remains an important goal. We are also putting more emphasis on generating fee-based income and are reassessing our product characteristics.

Progress on relevant regulatory initiatives

The Single Supervisory Mechanism (SSM), the system of banking supervision for Europe, was in effect for the second full year in 2016. In this second year, the daily interactions on supervision between the European Central Bank (ECB), national competent authorities like the Dutch Central Bank in the Netherlands and banks were streamlined further.

The ECB in particular took important steps to communicate its expectations to the banking sector and public at large. For example, the ECB provided detailed information about its annual Supervisory Review and Evaluation Process (SREP) and its findings based on its sector-wide thematic review on risk governance and appetite. Such transparency helps support the banking union in coming together, as well as the efficiency and effectiveness of the ECB s supervision.

ING remains a supporter of the SSM. With our strong European footprint, we have a clear interest in the proper functioning of European financial markets and in a harmonised approach to European banking supervision. We believe that this will contribute to a more efficient use of capital across Europe. As banks customers are more able to realise their ambitions, the European economy s growth prospects will benefit. Harmonisation will also help us accelerate our Think Forward strategy to create one digital banking platform across borders.

ING expects benefits from harmonised supervision to materialise over the coming years with converging supervisory practices, stress testing, streamlined reporting, and the cross-border flow of capital and liquidity.

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Alongside the SSM, the Single Resolution Mechanism (SRM) came into force on 1 January 2016. It aims to ensure an orderly resolution process for failing banks. With SSM and SRM, two of the three pillars of the Banking Union have been established. More on this can be found below.

The last remaining pillar, mutualisation of deposit guarantee schemes, is progressing at a much slower pace than the first two pillars. Lack of a common European deposit guarantee scheme leaves the eurozone potentially vulnerable to interdependence between banks and governments, despite the existence of the SSM and SRM.

The second EU Directive on Payment Services (PSD2) was adopted in October 2015 and will be implemented in the coming years. It will create an EU-wide single market for payment initiation services and account information services. Its main objective is to promote innovation and competition in the EU payments market. ING welcomes this development and sees the PSD2 as an opportunity to develop new and innovative ways of serving our customers. At the same time, we find it important regulators take into account the changing competitive landscape and support financial services providers who embrace innovation and new ways of doing business and should ensure they can compete on a level playing field with newcomers.

In November 2016 the EC launched the review of the existing Capital Requirements Regulation (CRR) and Directive (CRD), and Bank Recovery and Resolution Directive (BRRD) regulation. These draft EC proposals are subject to approval by the European Parliament and Council. They consist of important new regulatory requirements for banks, including the Net Stable Funding Ratio (NSFR), the leverage ratio, review of the trading book and counterparty credit risk. The proposal also includes changes to transpose the FSB TLAC term sheet into EU law and introduces a harmonised approach for creditor hierarchy in Europe.

Regulatory costs and uncertainty

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

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

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

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

and the economy at large.

Other uncertainties concern loss-absorption requirements, which haven t yet been finalised in the EU. The Financial Stability Board s total loss-absorbing capacity term sheet still has to be transposed into EU law before it is clear how to calculate the minimum requirement for own funds and eligible liabilities (MREL).

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

Competitive landscape

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

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

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

What matters most to our stakeholders

From customers to business partners, shareholders, employees, non-governmental organisations (NGOs), regulators, governments and society at large different stakeholders expect different things from us. We strive to respond to their views and concerns. To improve as an organisation, we need to continuously identify and understand the most important topics for our stakeholders and how these relate to the actions and decisions we take. This helps us balance competing expectations and address topics in an informed way.

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

In 2015 we conducted a quantitative survey with input from more than 1,500 respondents across five countries, covering six stakeholder groups. In 2016 we built on these results, adding a qualitative element to delve deeper.

A media, trend and peer analysis was performed to capture new emerging topics and to ensure the topics reported in 2015 were still relevant. Results were used as input in detailed discussions with stakeholders including customers, NGOs, academics, shareholders, employees and regulators. They were asked to rate the material topic on importance and to choose one or two recommendations for ING to focus on, including emerging topics. This qualitative approach increases our understanding of our stakeholders priorities and confirms that we are truly aligned with them.

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The diagram below shows what we perceive to be our strengths, weaknesses, opportunities and threats based on assessments by management.

Our perceived strengths, weaknesses, opportunities and threats

Strengths

Well-known, strong brand with positive recognition from customers in many countries

Leader in digital banking

Sustainability leader

Strong capital and liquidity position; solid financial and operating performance

Global network provides competitive advantage

Presence in growth markets with moderate to strong economic growth

Omnichannel distribution strategy

Weaknesses

High interest-income dependency

Some legacy IT/operational systems

Need for more agility

Efficiency could be improved

Diversity challenges

Opportunities

Maintain trust by demonstrating care, especially towards customers, and being more transparent about our strategic choices

Further improve the customer experience by accelerating innovation and improving efficiency

Cultural change. Tap more into employees talents

Grow faster than the market by offering a differentiating customer experience

Further use competitive advantage of Wholesale Banking global network

Threats

Low interest rate environment

Basel 3.5 capital requirements remain unresolved and could negatively impact our role as facilitator of the economy

Regulatory environment increasingly complex, with heightening execution risk

Lack of an international level playing field

Potential competition from new entrants to the market

Financial sector has an unfavourable public image in many countries

Cybercrime

1. This information constitutes forward-looking statements as referenced in Cautionary Statement with respect to forward looking statements and is not intended to be a complete list of such matters. For more information on what can impact ING Group s result of operations and financial position, please see Risk Factors in Item 3 from page 15.

CHANGES IN THE COMPOSITION OF THE GROUP

Acquisitions

There were no significant acquisitions in 2016, 2015 and 2014.

Divestments effective in 2016

There were no significant divestments of consolidated companies in 2016.

Other

For information on transactions related to ING Group s shareholding in NN Group, reference is made to Note 12 Assets held for sale , Note 28 Discontinued operations , Note 49 Related parties and Note 51 Other events .

Divestments effective in 2015

NN Group

A number of divestment transactions resulted in a further decrease in the ownership of ING Group in NN Group to 25.75% from 68.14% at 31 December 2014. NN Group was deconsolidated and accounted for as an Investment in associate held for sale. Reference is made to Note 28 Discontinued operations and Note 51 Other events .

Other

For details on the transactions in 2015 with regard to ING s interest in ING Vysya, reference is made to Note 7 Investments in associates and joint ventures , Note 49 Related parties .

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Divestments effective in 2014

Asia - ING s Taiwanese investment management business

In January 2014, ING agreed to sell ING Investment Management (IM) Taiwan, its Taiwanese asset management business, to Japan-based Nomura Asset Management in partnership with a group of investors. The transaction did not have a significant impact on ING Group results. The transaction closed on 18 April 2014.

Asia - Joint venture ING-BOB Life

In July 2013, the 50% interest in the Chinese insurance joint venture ING-BOB Life Insurance Company was agreed to be sold to BNP Paribas Cardif, the insurance arm of BNP Paribas. The transaction closed on 30 December 2014 and did not have a significant impact on the NN Group or ING Group results.

Voya

In 2014, ING Group reduced its stake in Voya from 56.5% at 31 December 2013 to 18.9% at 31 December 2014 through a number of transactions during the year. Voya was deconsolidated at the end of March 2014 and was accounted for as an available-for-sale investment held for sale as at 31 December 2014. Reference is made to Note 51 Other events .

NN Group

Following the IPO of NN Group in July 2014, ING Group s stake reduced to 68.14% . As from 30 September 2014, NN Group was presented as Assets and liabilities held for sale and discontinued operations. Reference is made to Note 51 Other events .

In addition to the above mentioned transactions, the interest in the joint venture ING Financial Services Private Limited was sold to Hathaway investments.

CORPORATE GOVERNANCE/CORPORATE GOVERNANCE CODES

Compliance with the Corporate Governance Code

ING Group uses the Corporate Governance Code as reference for its corporate governance structure and practices.

The application of the Corporate Governance Code by ING is described in the 2010 publication ING s implementation of the Dutch Corporate Governance Code , which is available on the website of ING Group (www.ing.com). This is to be read in conjunction with this section and is deemed to be incorporated into this section. In case there is a difference between the content of ING s publication and this section, this section will prevail.

Dutch Banking Code

The Dutch Banking Code (Banking Code), a revised version of which was adopted by the Dutch Banking Association in 2014, is applicable only to ING Bank N.V. and not to ING Group. The Banking Code can be downloaded from the website of the Dutch Banking Association (www.nvb.nl). Its application to ING Bank is described in the 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 the Annual Report of ING Bank N.V. ING Group voluntarily applies the principles of the

Banking Code regarding remuneration to the members of its Executive Board and considers these principles as a reference for its own corporate governance. ING Group s remuneration policy for the Executive Board and senior management is compliant with these principles.

CORPORATE ORGANISATION

ING Group s segments are based on the internal reporting structure by lines of business. For more information see Item 5 Operating and Financial review and Prospects . The Executive Board of ING Group and the Management Board of ING Bank set the performance targets, approve and monitor the budgets prepared by the business lines. Business lines formulate strategic, commercial and financial policy in conformity with the strategy and performance targets set by the Executive Board of ING Group and the Management Board of ING Bank.

Retail Banking

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

Who are we?

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

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

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

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

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

Challenges

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

These cost increases have coincided with a low interest rate environment which adversely impacts banks interest income generating capabilities. This environment is unlikely to change in the foreseeable future. Add to that slow economic growth, a new competitive landscape and changes in customer behaviour, and it becomes apparent that all banks will need to re-think their business models. To address these challenges, banks need to cut costs, for example through increased digitalisation and efficiency. They also need to look to relevant new offers for customers that can generate new revenue streams, such as fee income.

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

Providing a differentiating customer experience

Our customer promise

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

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

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

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

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

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

Spain introduced an initiative to offer small and medium enterprises (SMEs) loans of up to EUR 100,000. The process was developed following the bank s partnership with Kabbage, a leading US-based technology platform.

Credito Negocios makes use of full credit scoring and real-time risk monitoring and allows SMEs to get a loan within 10 minutes, based on real-time business data. The lending process is reduced to a few minutes from the days it previously took to process applications.

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

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

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

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

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

Financial empowerment

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

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

Secondly, ING wants to offer the right information and tools at the right time. In the Netherlands ING has the Financially Fit programme where it offers a broad set of products and services that support customers in making better

financial decisions. For example, the Kijk Vooruit (or Look Ahead) tool gives users more control over their finances through an overview of planned and predicted transactions. ING in Spain introduced My Money Coach, a free digital service that helps customers make smart savings, investment and retirement decisions. My Money Coach designs a personalised savings and investment plan to help customers achieve their financial goals. It is based on Coach Epargne offered by ING in France.

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

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

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

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

Earning the primary relationship

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

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

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

Knowing our customers

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

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

- Redesigning data platforms into more customer- centric environments. Organising information around the customer (not systems or processes), allows ING to identify relevant insights and put them to work for the benefit of both the bank and its customers.

- Building the bank s data and communication capabilities to interact immediately with customers. To be relevant, we need to be timely. Our customer-facing platforms offer multiple touch points to interact with customers. Testing insights by providing information to customers and getting their feedback helps us to continue improving services.

- Effective data management builds the foundation for analytics. Local chief data officers have been appointed for our Market Leaders segment, Wholesale Banking, Finance, Risk, Procurement and HR.

Thinking beyond traditional banking

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

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

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

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

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

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

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

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

Accelerating Think Forward

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

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

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

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

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

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

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

Socially responsible investment

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

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

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

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Sustainable assets under management

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

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

ING Groenbank

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

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

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

Financial inclusion

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

Conclusion

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

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

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

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

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

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

Wholesale Banking

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

Who are we?

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

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

International network

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

Delivering a differentiating customer experience

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

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

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

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

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

We aim to establish ourselves in the market as a thought leader on blockchain. We have successfully trialled fixed-income trading between 40 of the world s largest banks via the international R3 consortium. In 2016, ING won the Global Finance Innovation Award for Top Innovators in

Transaction Services in the Process Innovation category in recognition of our efforts to transform our documentation processes for payments and cash management. Transaction Services simplified the requirements for accounts and payments services, adapting these to include a single set of banking conditions across 18 countries.

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

Accelerating the financing of sustainable

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

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

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

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

We also recognise the need to tighten sustainability assessments and ensure that the financing we label as sustainable is truly significant in its contribution to the environment and society. For this purpose, the different sustainability teams within ING are currently working on refining and strengthening our client and transaction assessment criteria. Furthermore, we are working to continuously improve our assessment scope and screen our entire loan book against the STF criteria.

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Total Sustainable transitions financed

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

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

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

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

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

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

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

Accelerating Think Forward moving towards 2020

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

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

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Wholesale TOM Transformation programme

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

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

Financial Markets (FM) strategic measures

FM will continue to develop its client-driven franchise, delivering a differentiating experience by offering multiple market and trading products efficiently and effectively. At the same time, FM is adjusting to changing market circumstances, higher regulatory costs and more rigorous regulatory standards. Following the ING Investor Day in October, we announced our intention to strengthen FM s focus on areas in the business that are best aligned to its core clients and WB strategy, to converge functions into one location and to consolidate certain business lines. Some products will be discontinued, including the equity derivatives offering to financial institutions. These changes will not reduce our continued commitment to Benelux cash equities, global commodity derivatives and linear equity derivative financing franchises.

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

Putting our strategy into practice our business activities in 2016

Industry Lending

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

The Energy, Transport and Infrastructure Group (ETIG) specialises in capital-intensive industry sectors such as natural resources, transportation, utilities and power, and infrastructure. ETIG financings are typically longer tenor loans via senior secured debt with strong structural credit risk protection or collateral value. ETIG performed well in

2016 in terms of profitability, risk costs and growth. Market declines in oil and commodity prices at the end of 2015 continued into early 2016. The effects varied according to the type of commodity and the underlying business lower commodity prices are not necessarily bad news for all our clients. While some sub-sectors have come under pressure, interesting opportunities remain in the natural resource space. Similarly, in Transportation Finance, we see attractive areas of growth. In Power and Utilities, ING is supporting many of its clients in the renewables area.

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

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

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

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

General Lending and Transaction Services

General Lending

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

Transaction Services

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

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

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

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

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

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

Financial Markets

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

Through FM we also provide our clients with a gateway to global institutional markets. A multi-product global sales force offers a full range of products and services across three main business lines: FX, Rates and Credit Trading; Global Equity Products; and Global Capital Markets. We provide clients with hedging solutions to mitigate financial risk in all markets. We also provide investment solutions to meet specific investment objectives, as well as financing solutions through clients public or private debt or equity issuance, or through securities financing. In Debt Capital Markets we continue to transform the business into a consistent top-10 European player in our chosen areas of focus. These areas of focus include supporting existing clients, maintaining our position as Dutch bank of choice for issuers, and capitalising on our continued balance sheet support for Russia, Turkey, Poland and Romania.

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

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

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

Key challenges

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

Business, market and regulatory environment

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

In the current low interest rate environment deposits placed at the ECB are earning negative interest. This makes it important to sustain lending returns and develop client propositions that generate fee income. For some time, we have been charging a negative interest rate to both financial institutions and corporate clients who maintain high cash balances in their euro current accounts. We may need to consider further action and expand the scope of clients that will be charged should the low interest environment and negative rates continue.

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

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

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Country portfolios

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

Climate change

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

Conclusion

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

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

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

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

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

PRINCIPAL GROUP COMPANIES

Reference is made to Exhibit 8 List of subsidiaries of ING Groep N.V.

REGULATION AND SUPERVISION

The banking and broker-dealer businesses of ING are subject to detailed and comprehensive supervision in all of the jurisdictions in which ING conducts business. As discussed under Item 3. Key Information Risk Factors , as a large multinational financial institution we are subject to reputational and other risks in connection with regulatory and compliance matters involving these countries. Reference is made to Note 2.2.2 Capital Management .

European Regulatory framework

In November 2014 the European Central Bank (ECB) assumed responsibility for a significant part of the prudential supervision of euro area banking groups in the Eurozone, including ING Group and ING Bank. Now that the ECB assumed responsibility for the supervision of the banking groups in the Eurozone, it has become ING Group s and ING Bank s main supervisor. The ECB is amongst others responsible for tasks such as market access, compliance with capital and liquidity requirements and governance arrangements. National regulators remain responsible for supervision of tasks that have not been transferred to the ECB such as financial crime and payment supervision. See also the paragraph on Single Supervisory Mechanism .

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Dutch Regulatory Framework

The Dutch regulatory system for financial supervision consists of prudential supervision monitoring the soundness of financial institutions and the financial sector, and conduct-of-business supervision regulating institutions conduct in the markets. As far as prudential supervision has not been transferred to the ECB, it is exercised by the Dutch Central Bank (De Nederlandsche Bank or DNB), while conduct-of-business supervision is performed by the Netherlands Authority for the Financial Markets (Autoriteit Financiële Markten or AFM). DNB is in the lead with regard to macroprudential supervision. However, the ECB can set higher macroprudential obligations than proposed by DNB.

Global Regulatory Environment

There is a variety of proposals for laws and regulations that could impact ING globally, in particular those made by the Financial Stability Board and the Basel Committee on Banking Supervision at the transnational level, Dodd-Frank in the United States and an expanding series of supranational directives and national legislation in the European Union (see Item 3. Key Information Risk Factors ING operates in highly regulated industries. There could be an adverse change or increase in the financial services laws and/or regulations governing our business for details regarding some of these proposals). The aggregated impact and possible interaction of all of these proposals are hard to determine, and it may be difficult to reconcile them where they are not aligned. The financial industry has also taken initiatives by means of guidelines and self-regulatory initiatives. Examples of these initiatives are the Dutch Banking Code as established by the Dutch Bankers Association, which details a set of principles on corporate governance, risk management, audit and remuneration that Dutch banks have to apply on a comply-or-explain basis. Elements of these initiatives may subsequently be incorporated into legislation, as was the case with the Banker s oath and remuneration principles from the Dutch Banking Code. The aforementioned Banker s oath is a mandatory oath for all employees in the Netherlands of banks licensed in the Netherlands, which the Dutch government has introduced, effective per 1 April 2015. In this oath, the employees of the relevant ING entities declare that they (i) will perform their duties with integrity and care (ii) will carefully consider all the interests involved in the company, i.e. those of the customers, the shareholders, the employees and the society in which the company operates, (iii) in that consideration, will give paramount importance to the client s interests and inform the customer to the best of their ability, (iv) will comply with the laws, regulations and codes of conduct applicable to them, (v) will observe secrecy in respect of matters entrusted to them, (vi) will not abuse their knowledge, (vii) will act in an open and assessable manner and know their responsibility towards society and (viii) will endeavour to maintain and promote confidence in the financial sector. To enforce the oath, non-compliance can be sanctioned by a special disciplinary court. Moreover, if Executive or Supervisory Board members break the oath, the supervisory authority (DNB/AFM) can decide to reassess their suitability.

As mentioned above, a significant change has been made to the supervisory structure within the Eurozone and in November 2014 the Single Supervisory Mechanism (SSM) took effect, a mechanism composed of national competent authorities and the ECB with the ECB assuming direct responsibility for a significant part of the prudential supervision of ING Bank and its holding company ING Group. ING expects to benefit from the harmonization of supervision resulting from the SSM but at the same time does not expect such harmonization to be fully in place on the short to mid-term.

Another significant change in the regulatory environment is the setting up of the Single Resolution Mechanism (SRM), which comprises the Single Resolution Board (SRB) and the national resolution authorities and is fully responsible for the resolution of banks within the Eurozone as of 1 January 2016. ING has been engaging already with the Dutch national resolution authorities for a few years with the aim to draw up a resolution plan for ING. ING will continue to work with the SRB to set up a resolution plan for ING. The rules underpinning the SRM could have a significant impact on business models and capital structure of financial groups but at this stage it is not clear what the

impact on ING s banking operations will be.

As a third pillar to the Banking Union, the EU has harmonized regulations for Deposit Guarantee Schemes (DGS). Main elements are the creation of ex-ante funded DGS funds, financed by risk-weighted contributions from banks. As a next step, the EU is discussing a pan-European (or pan-banking union) DGS, (partly) replacing or complementing national compensation schemes. A more definitive proposal is expected in 2017 or 2018.

Dodd-Frank Act

The U.S. Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act), which became law on 21 July 2010, represented a significant overhaul in the regulation of U.S. financial institutions and markets. The primary impact on ING is through the establishment of a regulatory regime for the off-exchange derivatives market, pursuant to Title VII of the Dodd-Frank Act.

Among other things, the Dodd-Frank Act and regulations enacted thereunder required swap dealers to register with the Commodity Futures Trading Commission (the CFTC , the primary swaps regulator in the U.S.) as swap dealers or major swap participants and be subject to CFTC regulation and oversight. The ING subsidiary, ING Capital Markets LLC, is registered as a swap dealer. As a registered entity, it is subject

to business conduct, record-keeping and reporting requirements, as well as capital and margin requirements. In addition to the obligations imposed on registrants, such as swap dealers, reporting, clearing, and on-facility trading requirements have been imposed for much of the off-exchange derivatives market. It is possible that registration, execution, clearing and compliance requirements will increase the costs of and restrict participation in the derivative markets. These rules (as well as further regulations, some of which are not yet final) could therefore restrict trading activity, reducing trading opportunities and market liquidity, potentially increasing the cost of hedging transactions and the volatility of the relevant markets. This could adversely affect the business of ING in these markets.

The Dodd-Frank Act also impacts U.S. banks and non-U.S. banks with branches or agencies in the United States. The primary impacts are through the Volcker Rule and Section 165 of the Dodd-Frank Act.

The Volcker Rule imposes limitation on U.S. banks, the U.S. branches of non-U.S. banks, and the affiliates of either, on proprietary trading and investing in hedge funds and private equity funds.

Among other things, Section 165 of the Dodd-Frank Act imposes capital, liquidity, stress-testing, and risk management requirements on most U.S. banking and non-banking operations of non-U.S. banking organizations with U.S. branches or agencies. Those with U.S. non-banking assets of $50 billion or more also must establish an intermediate holding company as the top-level holding company for the organization s U.S. non-banking entities. This intermediate holding company is regulated in a manner similar to a U.S. bank holding company.

The Dodd-Frank Act also created a new agency, the Financial Stability Oversight Council (FSOC), an inter-agency body that is responsible for monitoring the activities of the U.S. financial system, designating systemically significant financial services firms and recommending a framework for substantially increased regulation of such firms, including systemically important non-bank financial companies that could consist of securities firms, insurance companies and other providers of financial services, including non-U.S. companies. The consequences of being designated a systemically important non-bank financial company could be significant, including having subsidiaries supervised by the Federal Reserve Board, subjection to heightened prudential standards, including minimum capital requirements, liquidity standards, short-term debt limits, credit exposure requirements, management interlock prohibitions, maintenance of resolution plans, stress testing, and other restrictions. ING has not been designated a systemically significant non-bank financial company by FSOC and such a designation is deemed unlikely.

The Dodd-Frank Act also imposes a number of other requirements, some of which may have a material impact on our operations and results, as discussed further under Item 3. Key Information Risk Factors We operate in highly regulated industries. There could be an adverse change or increase in the financial services laws and/or regulations governing our business . In February 2017, the U.S. Secretary of Treasury was directed by executive order to consult with other financial regulatory agencies to evaluate the current financial regulatory framework against core principles set out by the new U.S. administration. Such review may result in the revision, amendment or repeal, in all or in part, of Dodd-Frank and related rules and regulations and other laws, rules and regulations.

Basel III and European Union Standards as currently applied by ING Bank

DNB, our home country supervisor until the ECB took over that position in November 2014, has given ING permission to use the most sophisticated approaches for solvency reporting under the Financial Supervision Act, the Dutch legislation reflecting the Basel II and Basel III Frameworks. DNB has shared information with host regulators of relevant jurisdictions to come to a joint decision. In all jurisdictions where the bank operates through a separate legal entity, ING must meet local Basel requirements as well. ING uses the Advanced IRB Approach for credit risk, the Internal Model Approach for its trading book exposures and the Advanced Measurement Approach for operational risk. As of 2009, a Basel I floor of 80% of Basel I RWA has been applicable. A small number of portfolios are still

reported under the Standardized Approach.

In December 2010, the Basel Committee on Banking Supervision announced higher global minimum capital standards for banks, and has introduced a new global liquidity standard and a new leverage ratio to be phased in over 2014-2018. The Committee s package of reforms, collectively referred to as the Basel III rules, will, among other requirements, increase the amount of common equity required to be held by subject banking institutions, prescribe the amount of liquid assets and the long term funding a subject banking institution must hold at any given moment, and limit leverage. Banks will be required to hold a capital conservation buffer to withstand future periods of stress such that the required common equity Tier 1 ratio, when the buffer is fully phased in on 1 January 2019, will rise to 7%. Basel III also introduces a countercyclical buffer as an extension of the capital conservation buffer, which permits national regulators to require banks to hold more capital during periods of high credit growth (to strengthen capital reserves and moderate the debt markets). Further, Basel III will strengthen the definition of capital that will have the effect of gradually disqualifying many hybrid securities during the years 2013-2022, including the hybrids that were issued by the Group, from inclusion in regulatory capital[, as well as the higher capital requirements (for example, for credit value adjustments (CVAs) and illiquid collateral) as part of a number of reforms to the Basel II framework]. In addition, the Basel Committee and

Financial Stability Board (FSB) published measures that would have the effect of requiring higher loss absorbency capacity, liquidity surcharges, exposure limits and special resolution regimes for, and instituting more intensive and effective supervision of, systemically important financial institutions (SIFIs), in addition to the Basel III requirements otherwise applicable to most financial institutions. The implementation of these measures began in 2012 and full implementation is targeted for 2019. ING Bank has been designated by the Basel Committee and FSB as a so-called Global Systemically Important Banks (G-SIBs), since 2011, and by DNB and the Dutch Ministry of Finance as a domestic SIB (D-SIB) since 2011.

For European banks these Basel III requirements have been implemented through the Capital Requirement Regulation (CRR) and the Capital Requirement Directive (CRD IV). The Dutch CRD IV Implementation Act has led to significant changes in the Dutch prudential law provisions, most notably with regard to higher capital and liquidity requirements for all banks. The CRD IV regime entered into effect in August 2014 in the Netherlands, but not all requirements are to be implemented all at once. Having started in 2014, the requirements will be gradually tightened, mostly before 2019, until the Basel III migration process is completed in 2022. While the full impact of the new Basel III rules, and any additional requirements for G-SIBs if and as applicable to the Group, will depend on how they are implemented by national regulators, including the extent to which such regulators and supervisors can set more stringent limits and additional capital requirements or surcharges, as well as on the economic and financial environment at the time of implementation and beyond, we expect these rules to have a material impact on ING s operations and financial condition and may require the Group to seek additional capital. The DNB requires the largest Dutch banks, including ING Group, to build up a 3% Systemic Risk Buffer during 2016-2019 in addition to the capital conservation buffer and the countercyclical buffer described above, but this buffer then includes both the G- SIB and D SIB buffers mentioned above.

Banks are also subject to Pillar 2 requirements. Pillar 2 refers to the capital that the supervisor requires a bank to hold depending on its risk profile, risk management and capital planning. Based on an internal capital adequacy assessment process (ICAAP), the ECB has examined ING s capital adequacy and set a Pillar 2 requirement of 1.75% for ING Group.

ING Bank files consolidated quarterly and annual reports of its financial position and results with DNB in the Netherlands as well as with the ECB. ING Bank s independent auditors audit these reports on an annual basis.

United States

ING Bank has a limited direct presence in the United States through the facility of the ING Bank Representative Office in New York. Although the office s activities are strictly limited to essentially that of a marketing agent of bank products and services and a facilitator (i.e. the office may not take deposits or execute any transactions), the office is subject to the regulation of the State of New York Department of Financial Services and the Federal Reserve. ING Bank also has a subsidiary in the United States, ING Financial Holdings Corporation, which through several operating subsidiaries (one of which is registered with the U.S. Commodity Futures Trading Commission as a swap dealer and another of which is registered with the U.S. Securities and Exchange Commission as a securities broker-dealer) offers various financial products, including lending, and financial markets products. These entities do not accept deposits in the United States on their own behalf or on behalf of ING Bank N.V.

Anti-Money Laundering Initiatives and countries subject to sanctions

A major focus of governmental policy on financial institutions in recent years has been aimed at combating money laundering and terrorist financing. In addition, the bank regulatory agencies are imposing heightened standards, and law enforcement authorities have been taking a more active role. Failure of a financial institution to maintain and

implement adequate programs to combat money laundering and terrorist financing could have serious legal and reputational consequences for the institution.

Further. Section 219 of the Iran Threat Reduction and Syria Human Rights Act of 2012 (ITRA, added a new subsection (r) to Section 13 of the Securities Exchange Act of 1934, as amended, which requires us to disclose whether ING Group or any of its affiliates has engaged during the calendar year in certain Iran-related activities, including any transaction or dealing with the Government of Iran that is not conducted pursuant to a specific authorisation of the U.S. government.

EU and US sanctions against Iran were partially lifted in January 2016 under the Joint Comprehensive Plan of Action (JCPOA) that was agreed in July 2015 by China, France, Germany, Russia, the United Kingdom, the United States, the European Union, and Iran. As noted above, ING Bank has maintained its policy not to enter into new relationships with clients from Iran and processes remain in place to discontinue existing relationships involving Iran.

ING Bank maintains a limited legacy portfolio of guarantees, accounts, and loans that involve various entities with a (perceived) Iranian nexus. These positions remain on the books, but accounts related thereto are frozen where prescribed by applicable laws and procedures and in all

cases subject of an increased level of scrutiny. Any interest or other payments ING Bank is legally required to make in connection with said positions are only made into such accounts. Funds can only be withdrawn by relevant Iranian parties from frozen accounts after due regulatory consent from the relevant competent authorities. ING Bank has strict controls in place to monitor every transaction related to these accounts, specifically to ensure that no unauthorised account activity takes place in relation to accounts that are frozen . ING Bank may receive loan repayments, duly authorised by the relevant competent authorities where prescribed by applicable laws. For the relevant period, ING Group had receivable activities of approximately USD 5.3 million, which were principally related to legacy loans, and ING Group estimates that it had net profit of approximately USD 63,641. ING Bank intends to terminate each of the legacy positions as the nature thereof and applicable law permits.

Also in 2016, the Ukraine-related sanctions imposed by both the US and the EU remained in force. Those sanctions restrict, amongst others, the dealing in specific (financial) products with certain named parties. Management of ING Bank entities use their existing control framework to ensure compliance with these sanctions.

The ING Bank Financial Economic Crime Policy (FEC Policy) and Minimum Standards directly reflect relevant national and international laws, regulations and industry standards. The ING Bank FEC Policy is mandatory and applies to all ING banking entities, majority owned ING business, businesses under management control, staff departments, product lines and to all client engagements and transactions.

Management of ING Bank entities maintain local procedures aiming to enable them to comply with local laws, regulations and the ING Bank FEC Policy and Minimum Standards. Where local laws and regulations are more stringent, the local laws and regulations are applied. Likewise the FEC Policy and Minimum Standards prevail when the standards therein are stricter than stipulated in local laws and regulations and if not specifically forbidden (data privacy or bank secrecy).

The ING Bank FEC Policy and Minimum Standards provide a statement of what is required by all ING Bank entities in order to guard against any involvement in criminal activity, and to participate in international efforts to combat money laundering and the funding of terrorist and criminal activities. The requirements in the ING Bank FEC Policy cover minimum standards and controls related to: money laundering, terrorist financing, export trade controls, proliferation financing, sanctions (economic, financial and trade) and countries designated by ING Bank as Ultra High Risk Countries (UHRC). The effectiveness of those controls is reviewed periodically.

As a result of frequent evaluation of all businesses from economic, strategic and risk perspective ING Bank continues to believe that doing business involving certain specified countries should be discontinued. In that respect, ING has a policy not to enter into new relationships with clients from these countries and processes remain in place to discontinue existing relationships involving these countries. At present these countries are North Korea, Sudan, Syria, Iran and Cuba. Each of these countries is subject to a variety of EU, US and/or other sanctions regimes. Iran, Sudan, and Syria are identified by the US as state sponsors of terrorism and are subject to U.S. economic sanctions and export controls.

ING Bank has a FEC control framework in place to mitigate the risks related to Financial Economic Crime.

For further information regarding compliance with relevant laws, regulations, standards and expectations by ING Bank and its business in certain specified countries, see Global Regulatory Environment above.

Australia

ING s banking activities are undertaken in Australia by ING Bank (Australia) Limited (trading as ING Direct) and ING Bank NV Sydney Branch. Banking activities, specifically licensing of an Authorised Deposit Taking Institution (ADI) in Australia are subject to regulation by the Australian Prudential Regulation Authority (APRA) and the Australian Securities and Investments Commission (ASIC). In addition ING entities are required to comply with the requirements under the Anti-Money Laundering and Counter Terrorism Financing Act that is subject to regulatory compliance oversight by the Australian Transaction Reports and Analysis Centre (AUSTRAC).

APRA is responsible for the prudential regulation of banks and ADI s, life and general insurance companies, superannuation funds and Retirement Savings Account Providers. ASIC regulates corporate entities, markets, financial services and consumer credit activities. ASIC s aim is to protect markets and consumers from manipulation, deception and unfair practices and also promote confident participation in the financial system.

As an Australian incorporated subsidiary, ING Bank (Australia) Limited is required to comply with corporate requirements and in the event of listing of issued debt securities to comply with Australian Securities Exchange listing and disclosure requirements. ING Bank (Australia)

Limited must demonstrate compliance with financial services laws as a condition to maintaining its Australian Financial Services Licence (AFSL) and Australian Credit Licence (ACL). ING Bank N.V., Sydney Branch is not an Australian incorporated legal entity. ING Bank N.V., Sydney Branch holds its own banking ADI license and AFSL which is limited to the provision of financial services to wholesale clients.

COMPETITION

ING is a global financial institution with a strong European base, offering banking services. We draw on our experience and expertise, our commitment to excellent service and our global scale to meet the needs of a broad customer base, comprising individuals, families, small businesses, large corporations, institutions and governments.

There is substantial competition in the Netherlands and the other countries in which we do business for the types of commercial banking, retail banking, investment banking and other products and services we provide. Customer loyalty and retention can be influenced by a number of factors, including brand recognition, reputation, relative service levels, the prices and attributes of products and services, scope of distribution, credit ratings and actions taken by competitors. A decline in our competitive position as to one or more of these factors could adversely impact our ability to maintain or further increase our market share, which would adversely affect our results of operations. Such competition is most pronounced in our more mature markets of the Netherlands, Belgium, the rest of Western Europe and Australia. In recent years, however, competition in emerging markets, such as Latin America, Asia and Central and Eastern Europe, has also increased as large financial services companies from more developed countries have sought to establish themselves in markets which are perceived to offer higher growth potential, and as local institutions have become more sophisticated and competitive and proceeded to form alliances, mergers or strategic relationships with our competitors.

Competition could also increase due to new entrants in the markets that may have new operating models that are not burdened by potentially costly legacy operations and that are subject to reduced regulation. New entrants may use new technologies (*e.g.* fintechs), advanced data and analytic tools, lower cost to serve, reduced regulatory burden (*e.g.* debt funds, shadow banks) and/or faster processes to challenge traditional banks. Technology is removing a number of the barriers to entry that once insulated our business. Developments in technology, such as technologies allowing for the emergence of disintermediation, have also accelerated the use of new business models. For example, new business models have been observed in retail payments, consumer and commercial lending (such as peer-to-peer lending), foreign exchange and low-cost investment advisory services. We face competition from many different directions, with relatively new players providing more segmented offers to our customers and clients. Technology giants, payment specialists, retailers, telecommunication companies, crowd-funding initiatives and aggregators are all encroaching on traditional banking services. Our clients, in turn, are willing to consider these offers.

Consumers are rapidly turning to digital services for an increasing number of needs. What they are experiencing with digital leaders is shaping their expectations. In ING s case, digital channels now account for 98 percent of contact with retail customers and mobile interactions increased by more than 50 percent in 2016. This makes it ever more important for that digital contact to be clear and easy for them, with for example digital on-boarding and end-to-end mobile sales processes.

The success of our strategy will ultimately depend on how well it enables us to adapt to change and continue to deliver a superior experience to our customers.

Our long track record and strong brand place us well to seize these opportunities and become a better company for all of our stakeholders. We are a leader in digital banking, and we have scale combined with local market expertise. We are investing in building profitable, mutually beneficial relationships with our customers based on the quality of our

service and the differentiating experience we offer them.We place a high priority on innovation within ING to stay on top of the pace of change around us and meet changing customer needs. We promote an internal culture of innovation and also partner with external parties with specialised knowledge to accelerate the pace of innovation. We are experimenting with the agile way of working to increase the pace of innovation. We also strive to create intellectual capital through the expertise we are developing in areas like environmental and social risk management, sustainable finance and data analytics. We aim to share knowledge via different networks and for example our ING Economics Department publications.

Accelerating Think Forward

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

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

To help us achieve this, we announced In October 2016 an investment of EUR 800 million in continued digital transformation to further improve the customer experience and accelerate growth in primary customers and lending. Our goal is to ultimately converge our different banking models into one globally scalable platform. As a first step, we will move to an intermediate state (2016-2021) where we will converge businesses with similar customer propositions that can benefit from a more standardised approach and economies of scale.

ING Retail Banking provides products and services to individuals, small and medium-sized enterprises (SMEs) and mid-corporates. We serve more than 35,8 million customers in a variety of markets. Market Leaders are businesses in the Netherlands, Belgium and Luxembourg where we have leading market positions in Retail Banking and Wholesale Banking. Challengers markets are Australia, Austria, Czech Republic, France, Germany, Italy and Spain where we aim to build a full bank relationship, digitally distributed at low cost. Growth Markets are those expanding economies that offer above average growth potential: Poland, Romania and Turkey. In addition, ING has stakes in the Bank of Beijing (China), TMB (Thailand) and Kotak Mahindra Bank (India).

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

Regulatory costs have continued to increase and weigh heavily on the bank s expenses. In 2013, regulatory costs made up four-percent of total expenses. In 2016 they accounted for nine percent. These cost increases have coincided with a low interest rate environment which adversely impacts bank s interest income-generating capabilities. This environment is unlikely to change in the foreseeable future. Add to that slow economic growth, a new competitive landscape and changes in customer behaviour, and it becomes apparent that all banks will need to re-think their business models. To address these challenges, banks need to cut costs, for example through increased digitalisation and efficiency. They also need to look to relevant new offers for customers that can generate new revenue streams, such as fee income.

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

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

In addition to the basic banking services of lending, payments and cash management and treasury, WB provides tailored banking solutions in areas including corporate finance, commercial finance (factoring), equity markets and debt capital markets to help our clients achieve their business goals. Through our global franchises in Industry

Lending we serve clients across sectors where we have proven expertise. We support clients in realising their sustainability ambitions.

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

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

Our remuneration policy forms an integral part of our strategy, performance culture and risk management framework. Its objective is to enable ING to retain and recruit expert leaders, senior staff and other highly qualified employees to ensure we meet our responsibilities towards stakeholders, now and in the future. When looking at remuneration, our starting point is our position as a global financial institution in a rapidly changing marketplace.

Progress on relevant regulatory initiatives

The Single Supervisory Mechanism (SSM), the new system of banking supervision for Europe, was in effect for a second full year in 2016. In this second year, the daily interactions on supervision between the European Central Bank (ECB), national competent authorities like the Dutch Central Bank in the Netherlands, and banks were streamlined further.

The ECB in particular took important steps to communicate its expectations to the banking sector and public at large. For example, the ECB provided detailed information about its annual Supervisory Review and Evaluation Process (SREP) and its findings based on its sector-wide thematic review on risk governance and appetite. Such transparency helps support the banking union in coming together, as well as the efficiency and effectiveness of the ECB s supervision.

ING remains a supporter of the SSM. With our strong European footprint, we have a clear interest in the proper functioning of European financial markets and in a harmonised approach to European banking supervision. We believe that this will contribute to a more efficient use of capital across Europe. As banks customers are more able to realise their ambitions, the European economy s growth prospects will benefit. Harmonisation will also help us accelerate our Think Forward strategy to create one digital banking platform across borders.

The second EU Directive on Payment Services (PSD2) was adopted in October 2015 and is being implemented in the coming years. It will create an EU-wide single market for payment initiation services and account information services. Its main objective is to promote innovation and competition in the EU payments market. ING welcomes this development and sees the PSD2 as an opportunity to develop new and innovative ways of serving our customers.

ING s regulatory costs increased 36.3% in 2016. One main reason were costs for the new Dutch deposit guarantee scheme (EUR 129 million in 2016 compared with zero in 2015). Pursuant to a new European rule, banks are required to contribute to these deposit guarantee schemes on a regular basis, not only after a bank failure.

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

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

A prominent source of regulatory uncertainty in 2016 were the Basel Committee on Banking Supervision (BCBS) s proposals regarding risk-weighted assets. The proposals are intended to make risk-weight calculation simpler and more comparable across banks, limiting the use of banks own internal models. ING believes that current plans would allocate too high a risk weight to various lending activities, in particular mortgages and specialised lending. This is not in line with historical loss rates and distorts sound economic incentives.

Other uncertainties concern loss-absorption requirements, which have not yet been finalised in the EU.

There is rising concern that these regulatory and supervisory developments are hampering innovation and the new ways of doing business that financial service providers are currently embracing.

For more information, please refer to Item 5. Operating and Financial Review and Prospects and Notes 33 Segments and 34 Information on geographical areas of Note 2.1 to the consolidated financial statements.

RATINGS

We rely upon the short-term and long-term debt capital markets for funding, and the cost and availability of debt financing can be influenced by our credit ratings. Credit ratings may also be important to customers and counterparties when we are competing in certain markets.

ING Groep N.V. s long-term senior debt is rated A- (with stable outlook) by S&P Global Ratings (Standard & Poor s), a division of S&P Global Inc. ING Groep N.V. s long-term senior debt is rated Baa1 (with stable outlook) by Moody s Investors Service (Moody s). ING Groep N.V. s long term senior debt is rated A+ (with stable outlook) by Fitch Ratings (Fitch).

ING Bank N.V. s long-term senior debt held an A (with stable outlook) rating by Standard & Poor s. Moody s rated ING Bank N.V. s long-term senior debt at A1 (with stable outlook). Finally, ING Bank N.V. s long-term senior debt was rated A+ (with stable outlook) by Fitch Ratings, Ltd.

ING Bank N.V. s short-term senior debt held a rating of A-1 by Standard & Poor s and Prime-1 (P-1) by Moody s. Fitch rated ING Bank N.V. s short-term senior debt F1 .

All ratings are provided as of 31 December 2016, and are still current at the date of filing.

DESCRIPTION OF PROPERTY

ING predominantly leases the land and buildings used in the normal course of its business. In addition, ING has part of its investment portfolio invested in land and buildings. Management believes that ING s facilities are adequate for its present needs in all material respects.

Item 4A. Unresolved Staff comments

None.

Item 5. Operating and financial review and prospects

The following review and prospects should be read in conjunction with the consolidated financial statements and the related Notes thereto included elsewhere herein. The consolidated financial statements have been prepared in accordance with IFRS-IASB. Unless otherwise indicated, financial information for ING Group included herein is presented on a consolidated basis under IFRS-IASB.

FACTORS AFFECTING RESULTS OF OPERATIONS

ING Group s results of operations are affected by demographics (particularly with respect to life insurance) and by a variety of market conditions, including economic cycles, banking industry cycles and fluctuations in stock markets, interest and foreign exchange rates, political developments and client behavior changes. See Item 3. Key information Risk Factors for more factors that can impact ING Group s results of operations.

Financial environment

See Item 4. Market and regulatory context for more information on the financial environment.

Fluctuations in equity markets

Our banking operations are exposed to fluctuations in equity markets. ING Bank maintains an internationally diversified and mainly client-related trading portfolio. Accordingly, market downturns are likely to lead to declines in securities trading and brokerage activities which we execute for customers and therefore to a decline in related commissions and trading results. In addition to this, ING Bank also maintains equity investments in its own non-trading books. Fluctuations in equity markets may affect the value of these investments.

Fluctuations in interest rates

Our banking operations are exposed to fluctuations in interest rates. Mismatches in the interest repricing and maturity profile of assets and liabilities in our balance sheet can affect the future interest earnings and economic value of the bank s underlying banking operations. In addition, changing interest rates may impact the (assumed) behavior of our customers, impacting the interest rate exposure, interest hedge positions and future interest earnings, solvency and economic value of the bank s underlying banking operations. In the current low (and for

some terms even negative) interest rate environment in the Eurozone, the stability of future interest earnings and margin also depends on the ability to actively manage pricing of customer assets and liabilities. Especially, the pricing of customer savings portfolios in relation to repricing customer assets and other investments in our balance sheet is a key factor in the management of the bank s interest earnings.

Fluctuations in exchange rates

ING Group is exposed to fluctuations in exchange rates. Our management of exchange rate sensitivity affects the results of our operations through the trading activities for our own account and because we prepare and publish our consolidated financial statements in euros. Because a substantial portion of our income, expenses and foreign investments is denominated in currencies other than euros, fluctuations in the exchange rates used to translate foreign currencies, particularly the U.S. Dollar, Pound Sterling, Turkish Lira, Chinese Renminbi, Australian Dollar, Japanese Yen, Polish Zloty, Korean Won, the Indian Rupee, Brazilian Real and Russian Ruble into euros will impact our reported results of operations, cash flows and reserves from year to year. This exposure is mitigated by the fact that realized results in non-euro currencies are translated into euro by monthly hedging. See Note 38 of Note 2.1 to the consolidated financial statements for a description of our hedging activities with respect to foreign currencies. Fluctuations in exchange rates will also impact the value (denominated in euro) of our investments in our non-euro reporting subsidiaries. The impact of these fluctuations in, exchange rates is mitigated to some extent by the fact that income and related expenses, as well as assets and liabilities, of each of our non-euro reporting subsidiaries are generally denominated in the same currencies. This translation risk is managed by taking into account the effect of translation results on the common Tier-1 ratio.

For the years 2016, 2015 and 2014, the year-end exchange rates (which are the rates ING uses in the preparation of the consolidated financial statements for balance sheet items not denominated in euros), and the average quarterly exchange rates (which are the rates ING uses in the preparation of the consolidated financial statements for income statement items and cash flows not denominated in euros) were as follows for the currencies specified below:

Average	**4Q 2016**	**3Q 2016**	**2Q 2016**	**1Q 2016**
U.S. Dollar	1.083	1.114	1.127	1.102
Australian Dollar	1.449	1.480	1.501	1.509
Brazilian Real	3.542	3.630	3.915	4.298
Chinese Renminbi	7.380	7.421	7.375	7.184
Pound Sterling	0.868	0.845	0.790	0.768
Indian Rupee	73.007	74.716	75.369	74.036
Korean Won	1,250.197	1,249.993	1,303.320	1,308.371
Turkish Lira	3.530	3.303	3.228	3.213
Polish Zloty	4.375	4.369	4.373	4.329
Russian Rouble	68.135	72.309	73.620	80.409

Average	**4Q 2015**	**3Q 2015**	**2Q 2015**	**1Q 2015**
U.S. Dollar	1.093	1.114	1.102	1.137
Australian Dollar	1.526	1.534	1.429	1.448
Brazilian Real	4.295	3.938	3.434	3.243
Chinese Renminbi	6.984	7.005	6.833	7.080

Pound Sterling	0.724	0.720	0.721	0.746
Indian Rupee	72.070	72.416	69.898	70.898
Korean Won	1,271.902	1,296.208	1,213.660	1,250.293
Turkish Lira	3.217	3.178	2.929	2.805
Polish Zloty	4.262	4.199	4.109	4.185
Russian Rouble	73.576	69.379	60.022	70.981

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Average	4Q 2014	3Q 2014	2Q 2014	1Q 2014
U.S. Dollar	1.244	1.320	1.373	1.373
Australian Dollar	1.453	1.437	1.477	1.533
Brazilian Real	3.137	3.009	3.062	3.220
Chinese Renminbi	7.652	8.140	8.556	8.402
Pound Sterling	0.784	0.792	0.817	0.828
Indian Rupee	77.206	80.034	82.190	84.499
Korean Won	1,346.868	1,355.481	1,417.828	1,465.069
Turkish Lira	2.810	2.869	2.912	3.013
Polish Zloty	4.216	4.179	4.169	4.186
Russian Rouble	59.406	48.088	47.978	47.893

Year-end	2016	2015	2014
U.S. Dollar	1.055	1.089	1.215
Australian Dollar	1.460	1.490	1.482
Brazilian Real	3.434	4.313	3.229
Chinese Renminbi	7.333	7.069	7.533
Pound Sterling	0.857	0.734	0.779
Indian Rupee	71.696	72.085	76.843
Korean Won	1,274.184	1,276.681	1,335.467
Turkish Lira	3.723	3.182	2.829
Polish Zloty	4.417	4.265	4.288
Russian Rouble	64.485	79.963	72.267

Sovereign Debt Exposures

For information regarding certain sovereign debt exposures, see Note 5   Investments   of Note 2.1.2 and Note 2.2.1   Risk Management   to the consolidated financial statements.

Critical Accounting Policies

See Note 1 Accounting policies of Note 2.1 to the consolidated financial statements.

CONSOLIDATED RESULTS OF OPERATIONS

ING Group s management evaluates the results of ING Group s banking segments using a non-IFRS financial performance measure called underlying result. To give an overview of the underlying result measure, we also present consolidated underlying result before tax and underlying net result. Underlying figures are derived from figures determined in accordance with IFRS-IASB by excluding the impact of divestments, special items, legacy insurance and result from discontinued operations. Special items include items of income or expense that are significant and arise from events or transactions that are clearly distinct from ordinary operating activities.

While items excluded from underlying result are significant components in understanding and assessing the Group s consolidated financial performance, ING Group believes that the presentation of underlying net result is relevant and useful for investors because it allows investors to understand the primary method used by management to evaluate the Group s operating performance and make decisions about allocating resources. In addition, ING Group believes that the presentation of underlying net result helps investors compare its segment performance on a meaningful basis by

highlighting result before tax attributable to ongoing operations and the underlying profitability of the segment businesses. For example, ING believes that trends in the underlying profitability of its segments can be more clearly identified by disregarding the effects of significant restructuring provisions and realized gains/losses on divestures as the timing of such events is largely subject to the Company s discretion and influenced by market opportunities and ING Group does not believe that they are indicative of future results. ING Group believes that the most directly comparable GAAP financial measure to underlying net result is net result. However, underlying net result should not be regarded as a substitute for net result as determined in accordance with IFRS-IASB. Because underlying net result is not determined in accordance with IFRS-IASB, underlying net result as presented by ING may not be comparable to other similarly titled measures of performance of other companies. In addition, ING Group s definition of underlying net result may change over time.

The section Segment Reporting Banking Operations on the next pages presents the segment results on the basis of the performance measure underlying result.

For further information on underlying result for the Banking activities, as well as the reconciliation of our segment underlying result before tax to our net result, see note 33 of Note 2.1 to the consolidated financial statements.

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GROUP OVERVIEW

The following table sets forth the consolidated results of ING Group in accordance with IFRS-IASB for the years ended 31 December 2016, 2015 and 2014:

IFRS-IASB Consolidated Income Statement

Amounts in millions of euros	**2016**	**2015**	**2014**
Continuing operations			
Interest income	44,182	46,321	48,163
Interest expense	30,941	33,760	35,859
Net interest income	13,241	12,561	12,304
Net commission income	2,433	2,318	2,293
Investment and Other income	2,228	3,127	617
Total income	**17,902**	**18,007**	**15,214**
Operating expenses	10,614	9,326	10,259
Addition to loan loss provisions	974	1,347	1,594
Total expenses	**11,588**	**10,673**	**11,853**
Result before tax	**6,314**	**7,334**	**3,361**
Taxation	1,705	1,924	859
Net result from continuing operations	4,608	5,410	2,502
Net result from discontinued operations	441	-76	-1,375
Non-controlling interests from continuing and discontinued operations	75	408	164
Net result IFRS-IASB	**4,975**	**4,926**	**963**

Reconciliation from IFRS-IASB to ING Group s underlying results

Amounts in millions of euros	**2016**	**2015**	**2014**
Net result IFRS-IASB	**4,975**	**4,926**	**963**
-/- Divestments [1]	0	367	202
-/- Special items [2]	-799	-58	-1,021
-/- Legacy Insurance	33	-63	52
-/- Result from discontinued operations [3]	441	-415	-1,460
Underlying net result	**5,300**	**5,095**	**3,190**

1. Divestments Bank: net gain on merger between ING Vysya Bank and Kotak Mahindra Bank (EUR 367 million, 2015), result on the deconsolidation of ING Vysya Bank (EUR 202 million, 2014).
2. Special items Bank: ING Group s digital transformation programmes (EUR -787 million, 2016), Retail Netherlands strategy (EUR -13 million, 2016, EUR -58 million, 2015, EUR -63 million, 2014), impact of the changes for making the Dutch Defined Benefit pension fund financially independent (EUR -653 million, 2014), bank tax related to the SNS Reaal nationalization (EUR -304 million, 2014).
3. Attributable to the equityholder of the parent, reference is made to Note 28 Discontinued operations of Note 2.1 to the consolidated financial statements for more information on discontinued business.

Year ended 31 December 2016 compared to year ended 31 December 2015

ING Group posted strong results in 2016, driven by higher net interest income and lower risk costs. This was realized despite a sharp increase in operating expenses due to EUR 1,157 million of pre-tax charges recorded as special items, primarily related to the digital transformation programmes as announced on ING s Investor Day on 3 October 2016. ING Group s net profit increased to EUR 4,975 million from a net result of EUR 4,926 million in 2015. ING Group s 2016 net result includes special items after tax in a total amount of EUR -799 million (including EUR

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-787 million related to ING Group s digital transformation programmes and EUR -13 million related to Retail Netherlands strategy), Legacy Insurance in an amount of EUR 33 million related to a higher valuation of warrants on NN Group and Voya shares compared with the end of 2015 and result from discontinued operations in an amount of EUR 441 million related to discontinued operations of NN Group.

Underlying net result for 2016 was EUR 5,300 million, an increase of 4.0% from EUR 5,095 million in 2015. Underlying net result is derived from total net result by excluding the impact of divestments, special items, legacy insurance and result from discontinued operations.

Year ended 31 December 2015 compared to year ended 31 December 2014

ING Group posted a strong set of full-year 2015 results, driven by higher net interest income and lower risk costs. This was realized despite a sharp increase in regulatory costs during 2015. ING Group s net profit increased to EUR 4,926 million from a net result of EUR 963 million in 2014. ING Group s 2015 net result included a EUR 367 million net result on divestments related to the merger between ING Vysya Bank and Kotak Mahindra Bank, EUR -415 million net result from discontinued operations of NN Group and Voya, an amount of EUR -63 million from Legacy Insurance (related to a lower valuation of warrants on NN Group and Voya shares compared with the end of 2014 and the intercompany elimination between ING Bank and NN Group) and EUR -58 million of special items after tax (related to Retail Netherlands strategy).

Underlying net result for 2015 was EUR 5,095 million, an increase of 59.7% from EUR 3,191 million. Underlying net result is derived from total net result by excluding the impact of divestments, discontinued operations, legacy insurance and special items.

SEGMENT REPORTING

Underlying result as presented below is a non-IFRS financial measure and is not a measure of financial performance under IFRS-IASB. Because underlying result is not determined in accordance with IFRS-IASB, 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-IASB Consolidated profit or loss account below. The information presented in this section is in line with the information presented to the Executive Board and Management Board Banking.

For further information on underlying result for the Banking activities, as well as the reconciliation of our segment underlying result before tax to our net result, see Note 33 of Note 2.1 to the consolidated financial statements.

ING Group s segments are based on the internal reporting structures. The following table specifies the segments by line of business and the main sources of income of each of the segments:

Retail Netherlands (Market Leaders)

Income from retail and private banking activities in the Netherlands, including the SME and mid-corporate segments. The main products offered are current and savings accounts, business lending, mortgages and other consumer lending in the Netherlands.

Retail Belgium (Market Leaders)

Income from retail and private banking activities in Belgium, including the SME and mid-corporate segments. The main products offered are similar to those in the Netherlands.

Retail Germany (Challengers and Growth Markets)

Income from retail and private banking activities in Germany. The main products offered are current and savings accounts, mortgages and other customer lending.

Retail Other (Challengers and Growth Markets)

Income from retail banking activities in the rest of the world, including the SME and mid-corporate segments in specific countries. The main products offered are similar to those in the Netherlands.

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

The accounting policies of the segments are the same as those described in Note 1 Accounting policies of Note 2.1 to the consolidated financial statements. Transfer prices for inter-segment transactions are set at arm s length. 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.

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

As of 1 January 2015, the segment Retail Rest of the World was renamed to Retail Other. In addition to this, the attribution of Underlying result to segments changed as follows as of such date:

- Interest benefit on economic capital was replaced by Interest benefit on total capital resulting in a reallocation between Retail Banking, Wholesale Banking and Corporate Line Banking in the line Net interest income Banking operations

- ING Turkey, previously fully reported within Retail Banking, became segmented to both Retail Banking and Wholesale Banking

- Bank Treasury (excluding isolated legacy costs recorded within Corporate Line) became allocated to both Retail Banking and Wholesale Banking. Previously, Bank Treasury was allocated to Retail and/or Wholesale Banking on a country-by-country basis.

The presentation of previously reported underlying profit and loss figures has been restated to reflect the above changes.

ING Group evaluates the results of its banking segments using a non-IFRS financial performance measure called underlying result. Underlying result is derived from result determined in accordance with IFRS-IASB by excluding the impact of special items, divestments, Legacy Insurance and results from discontinued operations.

Special items include items of income or expense that are significant and arise from events or transactions that are clearly distinct from the ordinary operating activities. Disclosures on comparative periods also reflect the impact of current period s divestments. Legacy Insurance consists of the intercompany eliminations between ING Bank and NN Group until deconsolidation of NN Group at the end of May 2015 and the results from Insurance Other. Insurance Other reflects former insurance related activities that are not part of the discontinued operations.

Corporate Line Banking

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

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BANKING OPERATIONS

The following table sets forth the contribution of ING s banking business lines and the corporate line banking to the underlying net result for each of the years 2016, 2015 and 2014.

1 January to 31 December 2016 Amounts in millions of euros	Retail Banking Netherlands	Retail Banking Belgium	Retail Banking Germany	Retail Other	Wholesale Banking	Corporate Line Banking	Total Banking
Underlying income:							
- Net interest income	3,653	1,936	1,689	2,107	3,750	106	13,241
- Net commission income	546	385	183	320	1,003	-3	2,433
- Total investment and other income	237	253	51	432	1,266	-44	2,195
Total underlying income	**4,436**	**2,573**	**1,923**	**2,859**	**6,019**	**59**	**17,869**
Underlying expenditure:							
- Underlying operating expenses	2,560	1,438	886	1,723	2,572	278	9,456
- Additions to loan loss provision	171	175	-18	278	368	0	974
Total underlying expenses	**2,731**	**1,613**	**868**	**2,001**	**2,940**	**278**	**10,430**
Underlying result before taxation	**1,705**	**961**	**1,055**	**858**	**3,079**	**-219**	**7,439**
Taxation	422	306	315	178	840	2	2,064
Non-controlling interests	0	1	2	60	11	0	75
Underlying net result	**1,282**	**653**	**738**	**620**	**2,227**	**-221**	**5,300**
Divestments							
Special items	-192	-418		-12	-149	-27	-799
Net result IFRS-IASB	**1,090**	**235**	**738**	**608**	**2,078**	**-248**	**4,501**

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1 January to 31 December 2015 Amounts in millions of euros	Retail Banking Netherlands	Retail Banking Belgium	Retail Banking Germany	Retail Other	Wholesale Banking	Corporate Line Banking	Total Banking
Underlying income:							
- Net interest income	3,683	1,953	1,634	1,935	3,538	-153	12,590
- Net commission income	515	397	172	278	962	-4	2,320
- Total investment and other income	205	195	104	195	2,231	-127	2,803
Total underlying income	**4,403**	**2,546**	**1,910**	**2,408**	**6,731**	**-285**	**17,713**
Underlying expenditure:							
- Underlying operating expenses	2,475	1,532	842	1,594	2,559	245	9,246
- Additions to loan loss provision	433	169	57	210	478	0	1,347
Total underlying expenses	**2,908**	**1,701**	**899**	**1,804**	**3,036**	**245**	**10,593**
Underlying result before taxation	**1,495**	**845**	**1,012**	**604**	**3,694**	**-530**	**7,120**
Taxation	391	255	328	142	962	-125	1,953
Non-controlling interests	0	6	2	48	16	0	72
Underlying net result	**1,104**	**583**	**681**	**414**	**2,717**	**-404**	**5,095**
Divestments	0	0	0	367	0	0	367
Special items	-58	0	0	0	0	0	-58
Net result IFRS-IASB	**1,046**	**583**	**681**	**781**	**2,717**	**-404**	**5,404**

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1 January to 31 December 2014 Amounts in millions of euros	Retail Banking Netherlands	Retail Banking Belgium	Retail Banking Germany	Retail Other	Wholesale Banking	Corporate Line Banking	Total Banking
Underlying income:							
- Net interest income	3,778	1,998	1,500	1,832	3,508	-240	12,376
- Net commission income	464	376	143	331	979	-2	2,290
- Total investment and other income	87	243	-27	197	37	-253	285
Total underlying income	**4,330**	**2,617**	**1,615**	**2,359**	**4,525**	**-496**	**14,951**
Underlying expenditure:							
- Underlying operating expenses	2,678	1,524	773	1,496	2,392	116	8,979
- Additions to loan loss provision	714	142	72	165	500	0	1,594
Total underlying expenses	**3,392**	**1,667**	**845**	**1,661**	**2,893**	**116**	**10,573**
Underlying result before taxation	**938**	**951**	**771**	**698**	**1,632**	**-611**	**4,378**
Taxation	243	256	230	140	357	-117	1,108
Non-controlling interests	0	1	1	51	26		79
Underlying net result	**694**	**693**	**540**	**508**	**1,250**	**-494**	**3,191**
Divestments	0	0	0	202	0	0	202
Special items	-63	0	0	0	0	-957	-1,021
Net result IFRS-IASB	**631**	**693**	**540**	**710**	**1,250**	**-1,451**	**2,373**

Year ended 31 December 2016 compared to year ended 31 December 2015

Net result from banking operations (including the impact of divestments and special items) fell to EUR 4,501 million from EUR 5,404 million in 2015. Special items contributed EUR -799 million to the net result in 2016 compared with a EUR 309 million positive contribution from divestments and special items in 2015. Special items in 2016 included EUR -787 million after tax related to the planned digital transformation programmes announced on ING s Investor Day on 3 October 2016 and EUR -13 million after tax related to the earlier announced restructuring programmes in Retail Netherlands. Divestments in 2015 consisted of a EUR 367 million net gain resulting from the merger between ING Vysya Bank and Kotak Mahindra Bank and special items after tax in 2015 were EUR -58 million related to restructuring programmes in Retail Netherlands.

ING s underlying banking operations posted a strong performance in 2016 resulting in an underlying result before tax (excluding the impact of divestments and special items) of EUR 7,439 million compared with EUR 7,120 million in 2015. This increase in result was negatively impacted by a EUR 750 million decline in fair value changes on derivatives related to asset-liability-management activities for the mortgage and savings portfolios in the Benelux, Germany and Czech Republic. These fair value changes are mainly caused by changes in market interest rates. As explained on page F-18, no hedge accounting is applied to these derivatives under IFRS-IASB. Excluding these fair value changes, the underlying result before tax rose 17.9% to EUR 7,028 million in 2016 from EUR 5,959 million in 2015, driven by higher net interest income reflecting the continuously positive business momentum and lower risk costs. This was achieved despite a EUR 225 million increase in regulatory costs during 2016.

Total underlying income rose 0.9% to EUR 17,869 million in 2016, from EUR 17,713 million in 2015. Net interest income increased 5.2% to EUR 13,241 million, driven by an increase of the net interest margin to 1.52% from 1.46% in 2015 combined with a slightly higher average balance sheet total. The increase of the average balance sheet was limited as strong growth in net core lending and customer deposits was largely offset by declines in among others financial assets at fair value through profit or loss and debt securities in issue. The interest result on customer lending activities increased driven by higher volumes at stable margins. The interest result on customer deposits was flat, as the impact of volume growth was offset by margin pressure on both savings and current accounts due to lower reinvestment yields and despite a further lowering of client savings rates in several countries. The growth of net interest income was furthermore supported by improved net interest income in the Corporate Line, with part of the increase being structural due to a gradual redemption of the isolated legacy funding costs. Net commission income rose 4.9% to EUR 2,433 million from EUR 2,320 million in 2015, particularly in the Challengers & Growth Markets. Total investment and other income fell to EUR 2,195 million from EUR 2,803 million in 2015. This decline was mainly explained by the aforementioned EUR 750 million drop in positive fair value changes on derivatives related to asset-liability-management activities for the mortgage and savings portfolios and by a EUR 301 million negative swing in CVA/DVA adjustments in Wholesale Banking and the Corporate

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Line (which were EUR -77 million in 2016, compared with EUR 224 million in 2015). Excluding both items, total investment and other income increased by EUR 445 million, mainly due to a EUR 200 million gain on Visa shares and positive hedge ineffectiveness results, whereas 2015 included non-recurring charges related to the mortgage portfolios in Italy and Belgium due to higher-than-expected repayments and renegotiations.

Underlying operating expenses increased 2.3% to EUR 9,456 million, compared with EUR 9,246 million in 2015. In 2016, underlying operating expenses included EUR 845 million of regulatory expenses (including contributions to the new Dutch deposit guarantee scheme and a new bank tax in Poland) compared with EUR 620 million in 2015. Excluding regulatory costs, underlying operating expenses were marginally lower than a year ago. Increases due to IT investments and selective business growth in the Retail Challengers & Growth Markets and Wholesale Banking s Industry Lending, as well as additional provisioning for Dutch SME clients with interest rate derivatives that were sold in the Netherlands were fully offset by the benefits from the running cost-saving programmes and some incidental items, including a one-off expense adjustment in Belgium and an adjustment in the capitalization and amortization of software.

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

Year ended 31 December 2015 compared to year ended 31 December 2014

Net result from banking operations (including the impact of divestments and special items) rose to EUR 5,404 million in 2015 from EUR 2,373 million in 2014. Results on divestments and special items contributed EUR 309 million to the net result in 2015 versus EUR -818 million in 2014. Divestments and special items in 2015 included a EUR 367 million net gain resulting from the merger between ING Vysya Bank and Kotak Mahindra Bank and EUR-58 million of special items after tax related to restructuring programmes in Retail Netherlands that were announced before 2013. Divestments in 2014 related to a EUR 202 million net gain on the deconsolidation of ING Vysya Bank following its reclassification as an investment in an associate under equity accounting at the end of the first quarter of 2014. Special items after tax in 2014 consisted of a EUR 653 million net charge to make the Dutch closed defined benefit pension fund financially independent, EUR 304 million of bank levies related to the nationalisation of SNS in the Netherlands and a EUR 63 million charge related to restructuring programmes in Retail Netherlands.

ING s underlying banking operations posted a strong performance in 2015 resulting in an underlying result before tax (excluding the impact of divestments and special items) of EUR 7,120 million compared with EUR 4,378 million in 2014. This increase in result was boosted by a EUR 1,507 million positive swing in fair value changes on derivatives related to asset-liability-management activities for the mortgage and savings portfolios in the Benelux, Germany and Czech Republic. These fair value changes are mainly caused by changes in market interest rates. As explained on page F-18, no hedge accounting is applied to these derivatives under IFRS-IASB. Excluding these fair value changes, the underlying result before tax rose 26.1% to EUR 5,959 million in 2015 from EUR 4,724 million in 2014, mainly reflecting higher interest results and lower risk costs. This strong performance was realised despite a sharp increase in regulatory costs of EUR 212 million during 2015.

Total underlying income rose 18.5% to EUR 17,713 million, from 14,951 million in 2014. Net interest income increased 1.7% to EUR 12,590 million driven by a higher average balance sheet, whereas the interest margin declined to 1.46% from 1.51% in 2014. The interest margin on lending and savings products improved slightly, supported by repricing in the loan book and further reduction of client savings rates in several countries. This was more than offset by lower margins on current accounts due to the low interest environment and lower interest results at Financial

Markets. Customer lending and deposits volumes increased except for residential mortgages due to the continued transfer of WestlandUtrecht Bank (WUB) assets to NN Group, the run-off in the WUB portfolio and the sale of white-labelled mortgage portfolios in Australia. Net commission income rose 1.3% to EUR 2,320 million from EUR 2,290 million in 2014. Total investment and other income jumped to EUR 2,803 million, from EUR 285 million in 2014. This increase was mainly explained by the aforementioned EUR 1,507 million positive swing in fair value changes on derivatives related to asset-liability-management activities for the mortgage and savings portfolios, a positive swing in credit and debt valuation adjustments (CVA/DVA) in Wholesale Banking and the Corporate Line (which were EUR 224 million in 2015, compared with EUR -273 million in 2014) and higher other revenues at Financial Markets.

Underlying operating expenses increased 3.0% to EUR 9,246 million, compared with EUR 8,979 million in 2014. In 2015, underlying operating expenses included EUR 620 million of regulatory expenses (including contributions to the new national resolution funds and a one-off charge in Poland related to the bankruptcy of SK Bank) compared with EUR 408 million of regulatory expenses in 2014. The fourth quarter of 2015 also included a number of smaller restructuring provisions in Retail Benelux and Wholesale Banking which in aggregate amounted to EUR 120 million, whereas 2014 included EUR 399 million of redundancy provisions. Excluding both items, underlying operating expenses increased by EUR 334 million, or 4.1%. This increase was partly visible in the Corporate Line, where expenses were EUR 129 million higher year-on-year, mainly due to large releases from DGS-related provisions and high value-added tax refunds in 2014. The remaining increase was mainly

caused by investments to support business growth in Retail Challengers & Growth Markets and Wholesale Banking, IT investments in the Netherlands and a provision for potential compensation related to certain floating interest rate loans and interest rate derivatives that were sold in the Netherlands, partly offset by the benefits from the ongoing cost-saving programmes.

The net addition to the provision for loan losses declined 15.5% to EUR 1,347 million, from EUR 1,594 million in 2014. Risk costs were 44 basis points of average risk-weighted assets, which is within the range of the expected loss of 40-45 basis points through the cycle.

The Banking business lines are analyzed using underlying result before tax in a format that is similar to the IFRS-IASB profit and loss account.

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RETAIL NETHERLANDS

Amounts in millions of euros	**2016**	**2015**	**2014**
Underlying income:			
Net interest income	3,653	3,683	3,778
Net commission income	546	515	464
Investment income and other income	237	205	87
Total underlying income	**4,436**	**4,403**	**4,330**
Underlying expenditure:			
Underlying operating expenses	2,560	2,475	2,678
Additions to the provision for loan losses	171	433	714
Total underlying expenses	**2,731**	**2,908**	**3,392**
Underlying result before tax	**1,705**	**1,495**	**938**
Taxation			