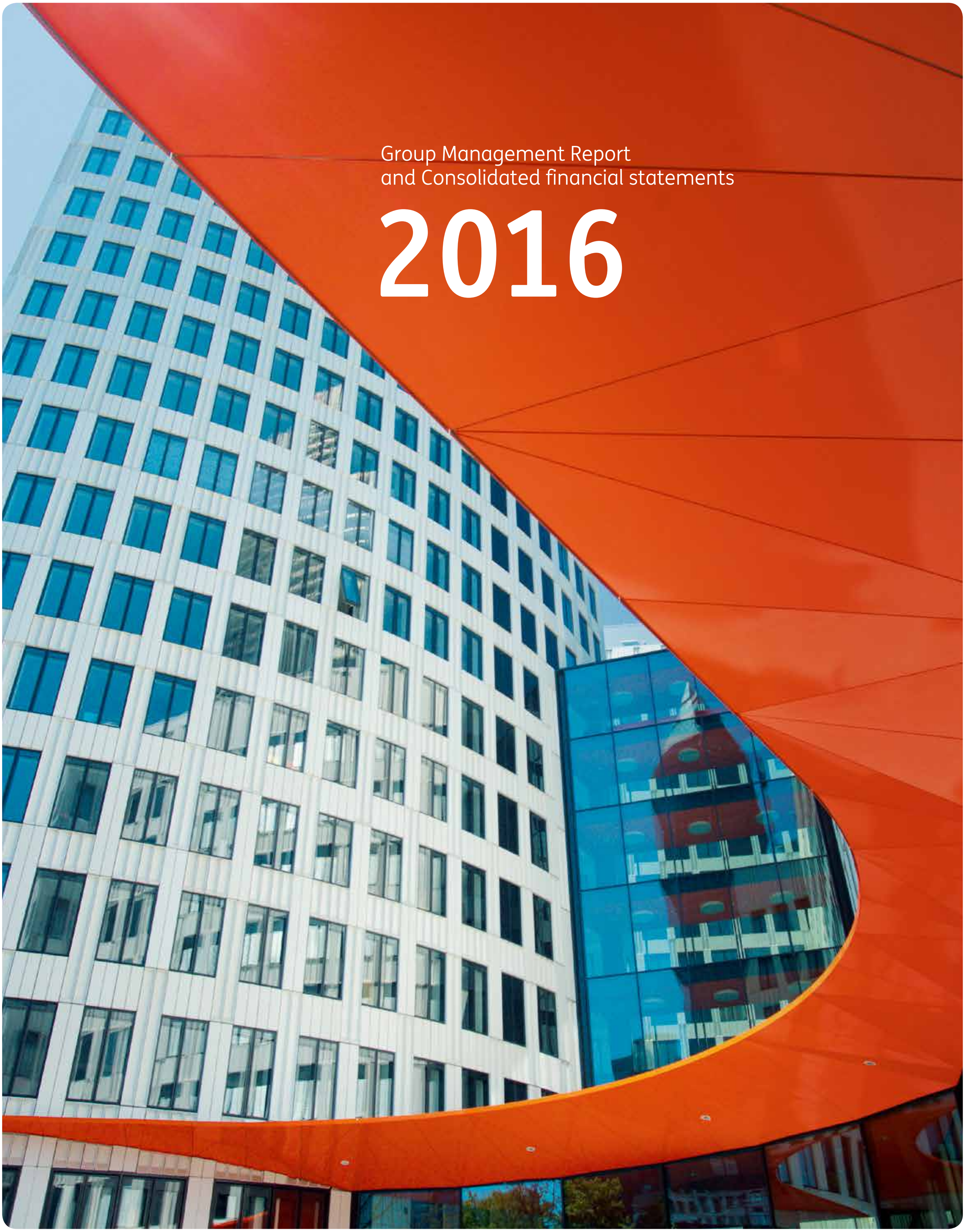
Group Management Report
and Consolidated financial statements

# 2016



ING DiBa

Die Bank und Du

# ING-DiBa at a glance

| | | 2016 | 2015 | Change Percent |
|---|---|---|---|---|
| **Key customer figures** | | | | |
| Total customers | | 8,781,078 | 8,526,209 | 3 |
| in Germany | | 8,254,062 | 8,000,405 | 3 |
| in Austria | | 527,016 | 525,804 | 0 |
| **Retail customer Assets segment*** | | | | |
| **Savings and short-term deposits** | | | | |
| Number of accounts | | 7,631,380 | 7,285,420 | 5 |
| Portfolio volume | € million | 123,251 | 115,978 | 6 |
| **Securities business** | | | | |
| Number of securities accounts | | 1,087,148 | 1,027,868 | 6 |
| Total securities depot volume | € million | 30,777 | 27,103 | 14 |
| of which funds volume | € million | 10,423 | 9,063 | 15 |
| Orders executed | | 8,746,085 | 9,060,705 | -3 |
| **Current accounts** | | | | |
| Number of accounts | | 1,732,048 | 1,395,733 | 24 |
| Deposit volume | € million | 5,665 | 3,889 | 46 |
| Total drawing on credit | € million | 272 | 266 | 2 |
| **Retail Customer Loans segment*** | | | | |
| **Mortgage loans** | | | | |
| Number of accounts | | 849,828 | 826,732 | 3 |
| Portfolio volume | € million | 67,663 | 64,710 | 5 |
| Confirmed new business | € million | 9,646 | 10,406 | -7 |
| **Consumer loans** | | | | |
| Number of accounts | | 647,783 | 578,823 | 12 |
| Portfolio volume | € million | 6,496 | 5,678 | 14 |
| **Wholesale Banking segment*** | | | | |
| Deposits | € million | 954 | 607 | 57 |
| Loans | € million | 23,745 | 13,728 | 73 |
| Contingent liabilities | € million | 1,300 | 1,124 | 16 |
| Open commitments | € million | 9,005 | 7,631 | 18 |
| | | | | |
| **Business volume*** | € million | 269,127 | 240,714 | 12 |
| | | | | |
| **Results figures** | | | | |
| Net interest income | € million | 1,972 | 1,807 | 9 |
| Risk provision | € million | -31 | -77 | -60 |
| Net commission income | € million | 104 | 92 | 13 |
| Other comprehensive income | € million | 45 | 93 | -52 |
| Other administrative expenses incl. personnel expenses | € million | -856 | -800 | 7 |
| Profit before tax | € million | 1,234 | 1,115 | 11 |
| | | | | |
| Cost-income ratio | Percent | 40 | 40 | 0 |
| | | | | |
| **Key account figures** | | | | |
| Total assets | € million | 157,553 | 143,977 | 9 |
| Customer deposits | € million | 130,151 | 121,126 | 7 |
| Loans and advances to customers | € million | 106,459 | 97,943 | 9 |
| Equity | € million | 7,690 | 7,206 | 7 |
| **Ratios** | | | | |
| Tier 1 ratio | Percent | 13.2 | 14.9 | -2 Pp. |
| **Personnel** | | | | |
| Number of employees | | 3,938 | 3,749 | 5 |
| of which trainees | | 102 | 94 | 9 |

* Segments and business volume based on Management Accounting figures

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## Additional information

# Message from the Board of Management

Dear readers,

In this report, we give a positive summary of a successful year 2016 for ING-DiBa. Despite a sometimes difficult political and economic environment, we generated the best profit in our history of EUR 1.234 billion before taxes. We therefore set a new record for the fourth time in a row. At the same time, we successfully acquired 250,000 new customers in net terms. We also chalked up two other successes again: For the tenth time in a row, ING-DiBa was chosen as Germany's favorite bank and one of its 100 best employers.

Our nearly 4,000 employees are rightly proud of these successes, which are the result of hard work, creativity and agility. Above all, our long-term OneBank strategy is paying off. Since 2011, we have been enhancing our successful business model and creating a powerful combination of retail and corporate customer business. We especially benefited from this strategy in 2016. The corporate customer business – Wholesale Banking – has become a strong second pillar for us, which we see as a success story. Since 2011, our credit volume in the corporate customer business has increased steadily. Including Structured Finance, we are now the core bank for more than 110 major international companies.

Today, our profit stems from substantially more sources than it did a few years ago. This gives us independence and more opportunities to achieve our primary objective: We want to be the leading digital bank in Germany. Why do we aspire to this? Because we see digitalization as the key to profitable growth and further increases in efficiency. We are already on track here – we are an efficiency leader with a cost/income ratio of 40 percent.

In the retail customer segment, we want to keep growing and become more people's principal bank. In the wholesale segment, we not only want to increase the number of corporate customers for whom we are the core bank, but also to augment the credit volume again this year.

With the successes of the fiscal year 2016 and previous years, we have laid ideal foundations for continuing to be "successfully different," which is why now 8.8 million retail customers and our corporate customers place their trust in us.

The Management Board of ING-DiBa

# 2016 in Pictures

**January**

ING-DiBa launches Give five! Extra to promote the culture of welcoming refugees. Around 150 colleagues in total volunteer in Frankfurt, Hanover and Nuremberg for various integration projects.

**February**

“Strong as a lion” – New records are presented at the financials press conference for the fiscal year 2015: Profit before tax of EUR 1.1 billion and over 450,000 new customers.

**March**

For the tenth time in a row, ING-DiBa is one of Germany’s 100 best employers and takes fifth place in the “2,001 to 5,000 employees” category.

**April**

ING-DiBa is Germany’s “Favorite Bank” for the tenth time in a row.

**May**

The mobile account-switching service is introduced.

**June**

We successfully celebrate the ten-year “ING-DiBa Partner Cup Anniversary” with 20 teams.

July

"Champions for Charity" with the Dirk Nowitzki All Stars, Nazionale Piloti, BasKIDs, Swinging Lions and 25,000 spectators in the stadium.

August

ING-DiBa is one of the main sponsors of the TechQuartier and the FinTech community in Frankfurt.

September

"Malteser Social Day" – ING-DiBa took part for the 5th time. Since 2012, a total of 429 employees have helped out 52 projects for a good cause.

October

ING Wholesale Banking acts as financial partner for the merger of Bayer and Monsanto – the largest corporate acquisition Germany has ever seen.

November

ING-DiBa appears with a new visual identity – more fresh and intuitive, with a specially designed font that makes pages easier to read.


December

New donation record for UNICEF: In total, ING-DiBa and its employees supported the children's aid organization with over EUR 400,000 in 2016.

# Group Management Report

# 1. General Basis

## Corporate structure, segments, and locations

ING-DiBa further solidified its position as the third largest retail bank in the fiscal year. The Bank had 8.781 million customers as of December 31, 2016, of which 527 thousand were in Austria. In the 51st year of its existence, the Bank stayed true to its tried-and-tested approach of offering a small number of transparent products to its retail customers. ING-DiBa also attaches great importance to being constantly accessible for its customers. Overall, the Bank's cost efficiency remained highly positive in fiscal year 2016; this was achieved due to its lack of a branch network and its lean corporate structure.

The Bank is managed based on three segments: Retail Customer Assets, Retail Customer Loans and Wholesale Banking (formerly "Commercial Banking"). The Retail Customer Assets segment includes all of the investment products the Bank offers. The lending business has been bundled in the Retail Customer Loans segment. While both these segments are exclusively limited to retail customers, the entire corporate customer business is covered by Wholesale Banking.

Since its founding, the Bank's headquarters have been in Frankfurt am Main; it also has offices in Hanover and Nuremberg. ING-DiBa furthermore maintains a branch named ING Wholesale Banking, which also has its registered office in Frankfurt am Main. The Austrian branch, ING-DiBa Austria (formerly "ING-DiBa Direktbank Austria"), is located in Vienna. The Bank also operates the Berlin Representative Office.

ING-DiBa is the parent company of a group. All companies in the group are domiciled in Germany. The activities of the subsidiaries are focused on property and asset management; none of them operates banking business. One company is a special purpose entity created to securitize ING-DiBa AG's mortgage loans. Please refer to note 30 "Disclosures relating to equity investments" in the IFRS notes for information on the Group's organizational structure.

## Products, services, and business processes

The product offering is divided into three segments, as shown below. It also includes the products of ING-DiBa Austria.

| Segments | Products |
|---|---|
| Retail Customer Assets | Savings deposits<br>Securities services business<br>Current accounts |
| Retail Customer Loans | Mortgage loans<br>Consumer loans |
| Wholesale banking | Corporate lending<br>Transaction services<br>Financial markets<br>Global capital markets<br>Structured finance<br>Real estate finance |

ING-DiBa's products and services are designed in all respects to help its customers do their banking easily and quickly. The Bank focuses in particular on providing easily accessible product information and on the long-term satisfaction of its customers.

Business magazine "€uro" named ING-DiBa "Germany's Most Popular Bank" for a tenth consecutive time in the fiscal year as part of Germany's largest test of banks. More than 180,000 banking customers took part in the survey. Participants evaluated factors including the banks' product portfolios, account fees, the interest rates on deposits and lending, as well as the quality of online banking.

ING-DiBa's offering in the retail business can primarily be accessed through online banking and telebanking, as well as increasingly through mobile banking. The focus is on selling the products directly, although the Bank cooperates with selected alliance partners in the lending business. The demand for mobile banking has seen a significant increase in recent years. The key reasons for this are the rapid spread of mobile devices, as well as the fact that many customers want to do their banking quickly and easily on the move. Given the increasing digitization of the banking business, further fundamental change in the relationships between customers and banks is expected in the coming years. ING-DiBa considers itself well positioned to drive forward this process.

Wholesale Banking's customer portfolio chiefly comprises global corporate customers. These well-known corporate customers operate in the chemical, automotive, energy, health, and consumer goods sectors, among others. Wholesale Banking also provides services to public-sector customers.

## Management

| Responsibilities of the Management Board members | |
|---|---|
| Roland Boekhout | Chief Strategy Officer<br>Corporate Audit Services<br>Berlin Representative Office<br>Personnel<br>Corporate Communications<br>Management Board Secretariat & Legal |
| Bernd Geilen | Compliance and Money Laundering<br>Trade Settlement<br>Consumer Loans<br>Risk Management |
| Katharina Herrmann | Digital Channels<br>Customer Dialog<br>Marketing<br>Product and Target Group Management<br>Mortgage Loan Sales |
| Željko Kaurin | WB Operations & IT<br>Mortgage Loans<br>IT<br>Program and Project Management<br>Service Center<br>Securities |
| Remco Nieland | Management Accounting<br>Procurement<br>Accounting and Taxes<br>Treasury |
| Dr. Joachim von Schorlemer | Chief Economist<br>Wholesale banking<br>ING-DiBa Austria |

## Sales markets and major influencing factors

ING-DiBa's business model is based primarily on interest-bearing products such as mortgages and consumer loans as well as call and fixed-term deposits. Commission-based products play a less important role at the Bank. The main sales market for all retail divisions is in Germany. For ING-DiBa Austria, it is in Austria. The wholesale banking business is also well-positioned internationally and takes leading positions in Eastern Europe and the Benelux countries. The Bank is one of the leading providers of export financing in Germany.

The development of the economic and capital market environment is a key factor influencing ING-DiBa's business performance. The interest rate level has a direct influence on the savings and consumption patterns of retail customers and thus has a direct impact on the savings deposits and consumer loans business. In addition, the conditions on the real estate markets and competition with other banks are key factors in driving demand for retail mortgages.

The commission income from the securities services business is highly dependent on the trading activity on the securities exchanges and in over-the-counter trading.

## Control systems

Management Accounting (MA) handles the Bank's control functions in connection with planning its results. This control of the Bank is performed using calculations of key figures based on the IFRS accounting figures. In particular the monthly management reporting provides information about whether the Bank is moving within its target corridor in terms of its operational and strategic targets.

The Bank is managed on the basis of the key financial and non-financial performance indicators:

Business volume is an important key performance figure of this control, through which the Bank's growth can be determined. This figure is composed of the total volume of the Retail Customer Assets plus the securities account volume of the securities services business, Retail Customer Loans and Wholesale Banking. In addition to customer loyalty, the Bank strives to continually gain new customers and hence accounts as well, to increase this parameter. The volume of new business is an important driver of the amount of the interest-bearing assets and therefore also has a significant influence on the future financial performance and development of net interest income. In this context, a balanced refinancing strategy provided the Bank with the necessary resources at all times and a constant comfortable liquidity level during the fiscal year.

An additional important key figure for controlling the Bank is profit before tax. According to MA, this is calculated primarily from the net interest income less administrative expenses and the costs for risk provisioning (hereinafter the "Result before Tax MA").

The responsible and efficient handling of resources is measured using the cost/income ratio as a relative indicator. This shows the relationship of administrative expenses to income.

The return on equity (ROE) is a profitability indicator which is used to evaluate the Bank's results of operations. It is determined from net income for the fiscal year based on the management accounting (MA) figures (IFRS) less risk costs in relation to the risk-weighted capital requirement using a 12-percent own funds requirement. Until 2015, this indicator was calculated using a 10-percent own funds requirement. For the purposes of comparability, the prior-year figure was adapted to the change in parameter made in the fiscal year.

In comparison with the previous year, the "cost-income ratio" and "return on equity" indicators were first defined as central performance figures in the fiscal year. Profitability indicators are a particular focus in the banking sector given the current low interest rate environment. ING-DiBa is constantly working to improve its efficiency and also measures other relative indicators in addition to absolute success.

The Bank carries out an annual survey of employee satisfaction as a key non-financial success factor; this is a significant feedback instrument to enhance the corporate culture. For this purpose, an indicator is determined by an external service provider as part of the largest employer competition, "Great Place to Work". In future the Net Promoter Score (NPS) – a measurable for quantifying customer satisfaction – will also be presented as a further non-financial performance indicator in chapter 2.

# 2. Report on Economic Position

## General macroeconomic conditions

The economic situation in Europe in the fiscal year was characterized by a remarkable ambivalence. On the one hand, the economic conditions in Germany and Austria were for the most part robust and stayed on track despite external factors such as the Brexit referendum in the UK. On the other, the situation was influenced by a range of geopolitical risks in the Middle East (in particular Syria) as well as mounting Euroscepticism in many EU member states.

Donald Trump was elected US president in November 2016. It is still too early to judge exactly what approach he will take to fiscal and economic policy.

There is also growing opposition to the TTIP and CETA free trade agreements, although the CETA agreement between the EU and Canada has a good chance of being applied in the near future. Terrorist attacks in EU member states caused additional uncertainty, with Germany being affected for the first time.

The most far-reaching political event in Europe was the Brexit referendum in the UK on June 23, 2016. Although most opinion polls until just before the vote had predicted a slim victory for those in favor of remaining in the EU, a majority voted to leave the bloc. A total of 51.9 percent voted leave, while 48.1 percent voted remain. This unexpected result led to temporary volatility both in political circles in Brussels and on the financial markets.

Trading activities by ING-DiBa's securities customers hit a record high the day after the Brexit vote. Customers placed a total of just under 150,000 orders on June 24, 2016, almost four times more than on an average trading day. In excess of two-thirds were buy orders. Overall, the situation on the financial markets calmed down relatively quickly.

However, Brexit was merely a bellwether for the dissatisfaction felt by many Europeans towards the EU. Eurosceptic and populist parties in numerous EU states recorded gains throughout the year. The consequences of the referendum in Italy, in which a majority of voters rejected sweeping changes to the constitution, are also being anxiously observed.

Despite these difficult conditions, the economic situation in Germany was positive thanks to the stable labor market and solid consumer spending. The strong consumer demand made its presence felt well into the 2016 Christmas shopping season.

Overall, Germany's gross domestic product (GDP) grew by 1.9 percent in the fiscal year. The country thus again recorded strong growth within the EU. GDP growth was lower for instance in Finland (+0.8 percent), Italy (+0.8 percent) and France (+1.3 percent).

Positive trends on the labor market were a key economic driver in Germany, with the unemployment rate averaging 6.1 percent over the course of the year. In addition, the costs of integrating refugees – which boosted public-sector consumption – are expected to have made a notable contribution to this positive development. All in all, Germany's economy appeared in good shape at the end of the fiscal year.

The rate of increase in consumer prices in Germany remained moderate in 2016, although a slight acceleration was recorded in the fourth quarter. Data from the Federal Statistical Office showed a 1.7 percent in December 2016 compared to the same month in the previous year. In August 2016, the rate of increase had been 0.4 percent higher than in the same month of the prior year. The sharp rise was due primarily to the more significant increase in rental prices, which also mitigated the price-dampening effect of lower energy prices.

While the economy in Germany and Austria proved relatively robust, the global economy showed signs of weakening in the fiscal year. At the beginning of 2017, the International Monetary Fund (IMF) forecast GDP growth of 3.1 percent for the global economy in 2016, down 0.1 percent on its forecast in the spring of 2016. The fall IMF meeting in October of the fiscal year also cited the persistently high sovereign debt levels in many countries and growing criticism of globalization in numerous regions as reasons for the somewhat sluggish global growth. The IMF's forecast for the USA saw a significant downward revision. In July 2016, the organization had assumed that the US economy would expand by 2.2 percent, while in the fourth quarter the forecast was just 1.6 percent.

The Chinese economy also continued to slow over the course of 2016. The country's exports had already recorded a double-digit decline in the previous year. China's National Bureau of Statistics estimated GDP growth at 6.7 percent in the third quarter 2016. This was also bolstered by government economic stimulus measures. Overall, growth of 6.5 percent is forecast for the fiscal year, which would be the lowest figure for 25 years.

Neither is there any permanent consolidation in sight in the highly indebted southern EU member states. On the contrary, Portugal's new government led by Prime Minister António Costa expects the budget deficit to increase further in 2017, with growth slowing to 1.5 percent from the previous forecast of 1.8 percent. Spain is in a similar situation. Following two parliamentary elections, the country was ruled by a caretaker government during the first three quarters of 2016, with a minority government under Prime Minister Mariano Rajoy in power since the fall of the fiscal year. As a result, further reforms aimed at reducing the still high sovereign debt level failed to materialize. The government expects the deficit to amount to 4.4 percent of GDP for 2016. Spain will likely miss the EU deficit target next year, too. By contrast, economic growth in Spain outpaced the eurozone average in the fiscal year, at 1.8 percent. In line with forecasts in the fourth quarter of 2016, Spain's GDP is expected to have grown by 3.2 percent in the fiscal year.

In addition, the situation in Greece remains critical. The country's sovereign debt is expected to exceed EUR 328 billion in 2016, corresponding to an increase of some 25 percent as against pre-crisis levels. Greek central bank governor Yannis Stournaras is requesting debt relief from creditors; otherwise, he believes it impossible for his country to return to the international financial markets.

Behind Greece, Italy remained the eurozone state with the second-highest sovereign debt levels in 2016. These amounted to more than 130 percent of GDP in the fiscal year, although expenditure connected with the refugee crisis was also a contributing factor. Economic growth in Italy is expected to remain below the eurozone average, at 0.8 percent.

In Austria, private household consumption rose for the first time in three years and – with an increase of 1.5 percent – made a key contribution to economic growth. Demand for capital goods had already strengthened in Austria in 2015, and this trend continued in the first two quarters of 2016. The domestic economy was weighed by the weakness of the global economy. Beginning in the fall of 2015, growth in the USA was slower than in the EU. The economic situation in the emerging markets remains difficult, although the first signs of a recovery are visible. As a consequence, Austria's exports will increase by just 2.8 percent, following 3.6 percent in the prior year.

## Industry environment

### The industry environment in Germany

The European Central Bank (ECB) continued to pursue a zero interest rate policy in the fiscal year. At its meeting on March 10, 2016, the Governing Council of the ECB furthermore resolved to decrease the interest rate on the deposit facility by 10 basis points to -0.4 percent, with effect from March 16, 2016. This negative interest rate is paid by banks to park liquidity at the ECB. The interest rate on the main refinancing operations was also reduced to a record low of zero percent. It was announced at the end of 2016 that the ECB would extend its asset purchase program until at least the end of 2017.

This ECB policy is putting pressure on the finance sector over an increasing period of time. It is clear that the business models pursued to date are under growing strain. In recent months, some financial institutions – primarily cooperative banks – have sought to implement unusual concepts such as negative interest rates for call deposit accounts. These costs for customer savings are frequently referred to as "parking charges for money" or as a type of "deposit charge". Many banks increased their fees, e.g., for current accounts, wire transfers, and credit cards. Despite the systematic downsizing of branches, the cost structures at many "branch banks" remain so high that they will no longer be able to face current and future challenges. The only option for many branch banks is thus to increase fees or burden savers with negative interest rates.

However, the low interest rate policy pursued by the ECB is not the only challenge facing the banking industry. In addition to interest rates, growing compliance pressure and greater competition – increasingly from digital competitors – are playing a major role. Against this backdrop, two-thirds of all German and Austrian banks expect the sector to perform below the respective overall economy in both countries in the period through 2019. Two years ago only half this many banks were so pessimistic.

These results are based on a survey commissioned by Sopra Steria Consulting and carried out by the "forsa" research institute for the "Branchenkompass Banking 2016" study in July 2016. In the view of the bankers participating in the survey, the adverse effects do not just stem from negative interest rates but equally from new regulatory requirements, for instance the own funds requirements as part of the Basel III risk management framework. Added to this is competition from players new to the sector who are launching digital financial services on the market.

Roughly 95 percent of those surveyed expect the regulatory pressure to further drive forward processing and standardization. In addition, the vast majority of the banks surveyed assume that mobile banking will increase in significance. Overall, the low interest rates, the challenge of digitization, and the regulatory burden will lead to higher cost pressure for the banks. Over the next few years, they are therefore faced with the task of adjusting their cost structure accordingly and streamlining their organization and operations.

A branchless bank such as ING-DiBa is well positioned in this ever more challenging industry environment. Not least, the annual increases in the number of customers is evidence for this. From the outset – i.e., long before the current challenges – the Bank has always taken care to ensure a lean and transparent cost structure, maintained a clear product portfolio and dispensed with branches, without economizing on quality. In this context, ING-DiBa set the course for digitization at a very early stage.

The crisis at Deutsche Bank also dominated developments in the financial industry in 2016. Reports frequently circulated that the German lender would have to be rescued using public funds in order to avert a second banking crisis. The bank denied this. The situation at several Italian banks remained tense. This first and foremost affected the world's oldest bank, Monte dei Paschi di Siena. The Atlante bank rescue fund was established in Italy to support lenders struggling with the effects of bad loans.

### The industry environment in Austria

Austrian banks have seen profitability rise significantly. Nevertheless, net interest income – the key profitability factor for the country's banks – remained under pressure. The low interest rate environment poses a particular challenge, since Austrian banks are heavily funded by deposits. Dominated by a generally dense branch network, the banks' business models result in high cost intensity and in addition adversely affect operating efficiency. The negative effects of the low interest rate environment will only gradually become apparent, among other things as high-interest assets and liabilities mature, and thus it is crucial for the financial institutions in question to put countermeasures in place at an early stage. To increase operational efficiency, the focus is conclusively shifting towards reviewing and revising business models.

Austrian banks generated an aggregate profit of approximately EUR 2.9 billion in the first half of 2016, up EUR 255.8 million year on year. This positive result was primarily due to the sharp drop in risk provisions.

On August 23, 2016, ratings agency Moody's raised its outlook for the Austrian banking system to "stable" from "negative", where it had been since 2009.

## Summary

2016 was another challenging year for many in the financial industry. It must be assumed that the shift towards digitization as well as the low interest rate environment will continue in the coming years. ING-DiBa is successfully positioned for this, reinforced by the profit generated in the fiscal year. The Bank is well-equipped to compete with other direct banks, branch banks, online brokers, and mortgage lenders. A key reason for this is its proven business model. The early focus on digitization and the provision of corresponding services for customers have proven to be just as much success factors as the timely further development of mobile banking and expanding the wholesale banking business.

ING-DiBa does not primarily see the so-called FinTechs as competitors, but in some cases as attractive cooperation partners. With the aim of promoting new financial enterprises, the Bank made the decision in the fiscal year to support the FinTech community in Frankfurt am Main as one of the main sponsors of the new TechQuartier.

## Overview of business development

2016 was another record year for ING-DiBa. The Bank again succeeded in improving on the already high levels of almost all relevant indicators – despite the continuing low interest rate policy pursued by the ECB and the effects that this has on the banking business. This result was achieved in spite of the increasingly fierce competition in both the retail business and wholesale banking. As a consequence, business development in 2016 was once again extremely satisfactory.

In its development, ING-DiBa takes great care to ensure in particular balanced quantitative as well as qualitative growth, which is reflected in the overall result. For example, net income before tax was again increased, reaching a value of EUR 1,234 million (previous year: EUR 1,115 million). The Result before Tax MA rose from EUR 1,091 million as of December 31, 2015 to EUR 1,277 million as of December 31, 2016. The forecast Result before Tax MA was significantly exceeded in 2016, in line with the profit before tax. The deviation from the forecast Result before Tax MA in the 2016 fiscal year is rooted in particular in the development of risk costs, which were significantly lower than expected.

RoE rose to 21 percent from 20 percent in the 2015 fiscal year, 4 percentage points above the prior-year forecast on the back of the high Result before Tax MA.

The cost-income ratio remained stable and slightly exceeded the forecast. This is attributable to the overall higher income.

At the end of the fiscal year the Bank's business volume, which is determined based on the IFRS figures pursuant to Management Accounting (MA) was EUR 269.1 billion compared to EUR 240.7 billion in the previous year. This value exceeded the budgeted figure by about EUR 10 billion and again confirms the Bank's successful business model. Volume in the individual segments was comprised of the following:

› In the Retail Customer Assets segment, the volume of savings products and current accounts totaled EUR 129.2 billion in the fiscal year (previous year: EUR 120.1 billion), thus generally corresponding to the expectations from the previous year. Also in this segment, the volume of the securities services business was EUR 30.8 billion (previous year: EUR 27.1 billion), around EUR 2 billion above the forecast value. At approximately 8.7 million (previous year: EUR 9.1 million), the number of orders executed was in line with the prior-year forecast.

› In the Retail Customer Loans segment, the figure of EUR 74.2 billion (previous year: EUR 70.4 billion) was exactly in line with the forecast for 2016.

- Volume in the Wholesale Banking segment was EUR 35 billion (previous year: EUR 23.1 billion), significantly above the prior-year expectations by around EUR 6.5 billion.

Further details can be found in the comments on the development of the Retail Customer Assets, Retail Customer Loans, and Wholesale Banking segments in the following section.

ING-DiBa had 8.781 million customers as of December 31, 2016, compared with approximately 8.526 million at the end of 2015. Of that number, 8.254 million were attributable to Germany (previous year: 8.0 million) and 0.527 million to Austria (previous year: 0.526 million). These figures are evidence that ING-DiBa was able to win over a large number of customers to its attractive business model despite a further increase in competition and the difficult industry environment caused by the low interest rates.

The Bank had a total of 3,938 employees as of December 31, 2016 (previous year: 3,749), of which 102 were trainees (previous year: 94).

In Retail Banking, the Bank relies on well-informed customers acting on their own. It therefore chooses a "third way" in comparison to commission-based consulting (which is customary at branch banks) and fee-based consulting (which is generally only worthwhile in the case of high-value assets). At ING-DiBa, customers are offered a deliberately lean product and service portfolio that nevertheless includes everything that banking customers need for their money and savings matters as well as for finance.

ING-DiBa increasingly invested in the further development of business processes and customer applications in the fiscal year as part of the ongoing digitization. In this context, development costs amounting to EUR 8.8 million were capitalized for internally generated intangible assets (previous year: EUR 0). The Bank will also focus on the early identification of digital trends going forward, and this will influence its development.

Since mid-2016, ING-DiBa has offered new customers the opportunity to prove their identity either at a post office (PostIdent) as well as now also using the PostIdent procedure via video chat. When using PostIdent via video chat, new customers can connect with a Deutsche Post employee from their computers or an app on their smartphones. The identity of the new customer opening an account can be legally established within several minutes. Video identification had already been possible since September 2014 in cooperation with ING-DiBa's partner WebID Solution. The Bank now offers the traditional identification procedure at post offices or PostIdent via video chat from a single source in cooperation with its partner Deutsche Post.

Service quality, and ensuring it long term, is another core element. This is measured and monitored continually on the basis of service levels. The effectiveness of this strategy is reflected in the satisfaction of customers, a large number of whom recommend ING-DiBa.

A very good Net Promoter Score of 36 percent (previous year: 32 percent) underscores this approval and represents an extremely satisfactory result that far exceeded the prior-year forecast.

ING-DiBa awarded the Helmut Schmidt Award for Journalism for the 21st time in a row in the fiscal year. The award was presented at the Kap Europa Congress Center in Frankfurt in a new frame on the first anniversary of the death of Helmut Schmidt, the former German Chancellor for whom the award is named. The Bank has also announced a prize for up-and-coming journalists that will be awarded for the first time in 2017.

In July of the fiscal year, Ben Tellings announced his decision to resign as Chairman of the Supervisory Board of ING-DiBa with immediate effect. Deputy Chairman of the Supervisory Board Rüdiger Köppel will assume his duties until such time as a successor is announced.

For ING-DiBa Austria, the focus in 2016 was on further development towards becoming a "full-service" bank. A key milestone was achieved in the summer of 2016 with the introduction of current accounts (in addition to the classic savings, lending and funds products already offered). A proprietary app enables simple and secure banking whenever and wherever needed.

The foundation remains the more than half a million direct savings customers who remain loyal to ING-DiBa Austria. Despite the low interest rates, Austrians are sticking with simple savings offerings and willingly invest in the Bank's direct savings account – doubtless due to their preference for savings products payable on demand.

There is also a simultaneous increase in demand for simple securities products, and ING-DiBa has made inroads with its range of over 100 selected, comprehensible, and readily accessible funds. This and the low entry threshold (funds savings from EUR 50 per month or a one-off investment in funds and ETFs from EUR 500 with appreciable cost benefits) resulted in a double-digit percent increase in securities account volumes in 2016.

Significant growth in business volume was also recorded in the lending business. The major advantages of automobile loans, homeowners' loans, and installment loans are their favorable conditions and quick and easy settlement.

Another key milestone was the amalgamation of the Austrian retail and wholesale banking activities. The company now trades as ING-DiBa Austria (formerly "ING-DiBa Direktbank Austria"). The Wholesale Banking segment currently provides comprehensive funding and cash management solutions to leading Austrian businesses and subsidiaries of international groups active in Austria. Going forward, the aim is to expand the portfolio and to strengthen ING-DiBa Austria's position as a financial partner for businesses that wish to operate internationally.

CEO Luc Truyens and CFO/CRO Volker Panreck currently lead a team of 204 employees in the Retail- and Wholesale Banking segments, and support 527 thousand retail customers and well-known Austrian and international corporate customers. The business volume increased to EUR 8.1 billion in 2016 (previous year: EUR 7.9 billion).

## Development of the Retail Customer Assets, Retail Customer Loans, and Wholesale Banking segments

## Retail Customer Assets

### General

The Retail Customer Assets segment comprises all of ING-DiBa's products that it offers its retail customers as investment opportunities. These include the core products of savings deposits, the securities services business, and current accounts.

### Savings deposits

Savers and investors focusing on maximum security and appropriate returns again faced challenges in 2016. The ECB's zero interest rate policy meant that, at many banks offering traditional savings products, it was either impossible to generate returns or these were extremely low. After factoring in the rate of increase in prices, the majority of savers recorded negative returns. The first cooperative banks even introduced negative interest rates for larger deposits. This interest rate policy has obviously not left ING-DiBa unaffected. However, the Bank again succeeded in the fiscal year in offering its customers an interest rate that wherever possible was above the average offered by other banks in Germany and Austria. This business policy was appreciated by many customers, and enabled ING-DiBa to make further gains in savings deposits too in 2016.

In addition to the Extra and Direkt-Sparen accounts (both call deposit accounts), the Bank also offers direct time deposit accounts with terms of 6 or 12 months in both Germany and Austria. The Bank's product portfolio in this segment also includes savings bonds and savings schemes within the scope of capital contribution benefits.

For Extra account deposits, ING-DiBa paid 1 percent interest p.a. in the fiscal year on a newly-opened account for the first four months on balances up to EUR 100,000. Subsequently, the variable Extra account interest rate applied was 0.35 percent per year up to EUR 100,000; for larger deposits the rate was 0.15 percent until November 18, 2016, and since then 0.05 percent.

The Bank's savings and short-term deposits rose to EUR 123.3 billion in the fiscal year, as against almost EUR 116 billion as of December 31, 2015. The customer deposits for ING-DiBa Austria included in that figure increased to EUR 7.7 billion as of the end of fiscal year 2016 (previous year: EUR 7.6[1] billion).

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[1] Prior-year figure adjusted

### Securities services business

The world's major stock exchanges made a rather turbulent start to 2016. Anxieties surrounding further economic development in the United States and China and the decline in oil prices led investors to adopt a more defensive approach to purchases. In January 2016, the DAX periodically hit its lowest level since October 2014. The German equities market then recovered in the following weeks. The DAX broke through the 10,000 point mark, where it stabilized. The equity markets saw rather volatile price movements in light of the political uncertainties – primarily the Brexit referendum in the UK and the US presidential election. Although the outcome of both events was different than the majority of pollsters had expected, this only caused temporary irritations on the world's key capital markets in both instances. Indeed, the Dow Jones Index climbed to an all-time record high in mid-November following Donald Trump's election as the new US president.

In Germany, the problems at DAX heavyweights VW and Deutsche Bank also weighed on the equity market, while the ongoing positive consumer sentiment acted to boost the equity markets. This was joined by the extremely low interest rates on traditional savings products and the mostly unattractive returns in the bonds segment. Good economic forecasts and the attractive dividend returns on various equities meant that many investors increasingly turned their attention to equities and equity funds. The DAX closed the trading year at 11,481 points on December 30, 2016 (previous year: 10,743 points).

Analysis shows that ING-DiBa's customers are increasingly investing in exchange-traded funds (ETFs), i.e., funds featuring passive management. This trend continued unabated.

ING-DiBa's customers executed 8.7 million securities orders in the fiscal year (previous year: 9.1 million). The Bank managed 1.1 million securities accounts for its retail customers as of December 31, 2016 (previous year: 1.0 million). The securities account volume increased to EUR 30.8 billion in the fiscal year (previous year: EUR 27.1 billion). The fund volume included in these accounts at the end of the fiscal year was EUR 10.4 billion (previous year: EUR 9.1 billion).

### Current accounts

ING-DiBa again saw an increase in the number of current accounts in fiscal year 2016. Current accounts at the Bank have no fee and allow account holders to withdraw cash without a fee at more than 90 percent of all ATMs in Germany using the ING-DiBa VISA card (also no-fee). Customers also appreciate the fact that at ING-DiBa they can execute many banking transactions via an app, e.g., transfer money using photos.

The product portfolio also includes the no-fee "Student current account", for which a student overdraft facility in the amount of EUR 500 can be granted upon request.

As of the end of fiscal year 2016, ING-DiBa maintained 1.7 million current accounts for its customers (previous year: 1.4 million). The deposit volume increased significantly to EUR 5.7 billion (previous year: EUR 3.9 billion). Overdrafts on current accounts totaled EUR 272 million as of the reporting date (previous year: EUR 266 million).

## Retail Customer Loans

### General

The Retail Customer Loans segment comprises all of the Bank's products which its retail customers can use to obtain access to a loan from ING-DiBa. This includes long-term mortgage loans and short- and mid-term consumer loans. ING-DiBa also posted growth in this segment in the fiscal year.

### Mortgage loans

Demand for home ownership rose significantly in the fiscal year, primarily in urban areas and on the outskirts of large cities. This was due firstly to the historically low interest rates, which lead to high liquidity on the market and motivate investors to consider alternative investment opportunities. Many investors continue to focus on real estate and purchasing properties in German towns and cities, which as a consequence leads to persistently high demand pressure. Secondly, more and more Germans are moving to urban areas, further exacerbating the housing shortage that continues to exist despite the increase in construction activity. However, the effects of price increases in residential property differ greatly from region to region.

According to "Preisspiegel Wohneigentum", a review of residential real estate prices published by the German Real Estate Association (Immobilienverband Deutschland, IVD) in fall 2016, prices for existing owner-occupied apartments with mid-range residential quality in Germany increased by an average of more than six percent in 2016. The figure had been just under five percent in the previous year. Prices for existing apartments with mid-range residential quality increased by an average of 9.42 percent in the 14 largest German cities. Owner-occupied apartments with good residential quality increased by as much as 11.6 percent on average. According to the IDV data, the highest average prices are in Munich, while the sharpest price increases were in Frankfurt. Likewise, prices for single-family homes in almost all urban categories increased at a faster pace than in the prior year.

Despite the sharp price increases, home ownership in Germany is more affordable than ever before. This can be seen from the IVD's "affordability index". Very low interest rates in conjunction with an increase in wages and salaries are clearly compensating for the growth in real estate prices. This is also reflected in a representative survey by ING-DiBa in 13 European countries, the United States, and Australia, as published in the fiscal year. In contrast to the situation in the other countries surveyed, the majority of Germans have barely any problems paying their rent and mortgages, despite the increase in real estate prices.

The EU Mortgage Credit Directive was transposed into German law in the fiscal year. Since March 21, 2016, new standards have been in place across Europe for the granting of mortgages. Banks and credit institutions must now provide better consultation and more stringently review their customers' creditworthiness before granting mortgages. ING-DiBa had already worked together with product and advisory experts in 2015 to develop consultation minutes based on the EU bill, and the Bank has been using the initial draft for consultation sessions since December 2015. Before the legislation came into force, credit intermediaries were thus already providing ING-DiBa mortgage customers an individual recommendation documented in writing and containing all key information from the consultation sessions. The documentation covers the customer's personal and financial situation, the type of finance required and the fixed interest rate period; it also includes the preferences and goals as well as opportunities and risks for the consumer. In addition, the Bank's repayment recommendation – an annual minimum of three percent of the amount borrowed – is visualized in a chart. Furthermore, the consultation documentation confirms that the advisor has undertaken a property valuation.

ING-DiBa also expanded its pricing model for mortgage loans in the fiscal year and permanently introduced interest rebates in selected cities and districts. The Bank offers a discount of 0.1 to 0.2 percent for customers who require finance in high-growth regions. Key economic data, the regional real estate market and the competitive situation are taken into consideration in each case when determining the relevant cities and districts.

The Bank again maintained its position as one of the leading mortgage lenders in Germany in fiscal year 2016 and further expanded it business. On the one hand, ING-DiBa offers financing for owner-occupied residential property with fixed interest rate periods of between 5 and 15 years. The very low interest rates mean that the majority of customers opt for the longest possible term.

On the other, many customers in turn decided on follow-up financing at favorable terms in the fiscal year. At the customer's request, both new and follow-up financing can be combined with selected programs offered by the KfW development bank. Possibilities for new financing include KfW's programs for "financing of residential property" as well as parts of the program for "energy-efficient construction." New and follow-up financing may also be combined with KfW's "Energy efficient refurbishment" program.

The Bank's mortgage loan portfolio volume amounted to EUR 67.6 billion as of the end of the fiscal year (previous year: EUR 64.7 billion). Committed new business for 2016 was EUR 9.6 billion (previous year: EUR 10.4 billion), of which EUR 5.3 billion (previous year: EUR 5.3 billion) had not been drawn. As of the December 31, 2016 reporting date, the Bank maintained around 850 thousand mortgage loans (previous year: 827 thousand).

### Consumer loans

Consumer spending remained high in 2016. This trend was further reinforced by the continuing beneficial developments on the labor market and the low interest rates.

Many consumers are taking advantage of the low interest rates to make new purchases funded by cheap consumer credit. The figure for consumer loan accounts rose to EUR 648 thousand during the fiscal year (previous year: EUR 579 thousand). The consumer loan portfolio volume amounted to EUR 6.5 billion at the end of 2016 (previous year: EUR 5.7 billion). The Bank continues not to insist on contract components that place customers at an additional disadvantage – such as compulsory residual debt insurance.

## Wholesale Banking

### General

Wholesale Banking (formerly Commercial Banking) comprises ING-DiBa's corporate customer business. The focus is on global enterprises with annual revenues in excess of EUR 250 million. These customers benefit from the sector-specific knowledge of the experts at ING and from the international network of the ING Group – primarily in Central and Eastern Europe and in Asia.

The Wholesale Banking segment was integrated into ING-DiBa in 2011, and since then has been a branch of the Bank. The segment is part of ING's global wholesale banking network, in which approximately 11,000 employees in more than 40 countries worldwide offer financial services for key accounts.

### Customers in Germany

For corporate customers in Germany, the Wholesale Banking segment primarily offers loans, transaction services and financial markets products. The lending business covers the entire range of products that allow major companies to finance themselves. Transaction Services focuses on payments & cash management, trade finance services, i.e., guarantees and letters of credit, as well as working capital solutions. Wholesale Banking offers extensive hedges for currency, commodity, and interest rate risks through its Financial Markets unit. The sectors in which ING-DiBa is active for corporate customers in Germany are: Automotive; chemicals & pharma; consumer, food & retail; industrials; natural resources; power, utilities, renewables & infrastructure; telecom, media & technology; transport & logistics; as well as services for financial institutions.

### Global investors

Wholesale Banking offers global investors and projects structured finance solutions, which focus on four different sectors: Structured Export Finance primarily supports German business with the export of merchandise by granting loans for exports to developing countries which are covered by a governmental export credit insurer, e.g. Euler Hermes.

ING Structured Export Finance has a leading role in the German market. Since 2013, Frankfurt am Main has been the global competence center of ING Groep N.V. for structured export finance. Since 2015, Frankfurt am Main has also been the global competence center for the automotive platform for corporate clients as well as for rail- and aviation finance.

Real Estate Finance supports investors from around the world in acquiring attractively located commercial property, using debt capital.

Structured Acquisition Finance promotes investments in strong growth companies and the Structured Solution Group supports companies with asset-based lending for liquidity generation. ING also offers global investors expertise in the following sectors: Metals & energy, natural resources, telecom, media & technology, transportation finance as well as utilities, power & renewables.

During the fiscal year, the Bank again gained well-known German and international companies either as new customers or strengthened relationships with existing customers. The quality of the loan portfolio developed in line with the Bank's strategic guidelines.

Despite of an overall stagnating market, the Wholesale Banking segment attained encouraging growth figures. Further sub-participations in customer receivables of ING Capital LLC, New York, USA, were acquired. In addition, the establishment of the global Automotive Platform and construction of the Global Competence Center for transport finance in Frankfurt in the fiscal year contributed to this growth.

As of December 31, 2016, Wholesale Banking's loan volume totaled EUR 25.7 billion (previous year: EUR 15.2 billion). This corresponds to an increase of 69 percent within one year. Guarantees, contingent liabilities and irrevocable loan commitments increased during the fiscal year to EUR 9.8 billion (previous year: EUR 8.6 billion).

The entity which had previously operated under the name "ING Bank N.V. Vienna Branch" has been included as part of ING-DiBa. It was included by way of a non-cash contribution without the exchange of consideration. The business operations were transferred as of August 1, 2016.

The profit of the transferred branch was included in the ING-DiBa Group's consolidated financial statements as of August 1, 2016. The assets, liabilities and contingent liabilities acquired were included at Group carrying amounts for ING Bank N.V. The equity transferred was accounted for as a contribution to free capital reserves as of the effective date of the inclusion, August 1, 2016, analogously to the treatment in accordance with HGB accounting policies.

## Results of operations

## Group overall results of operations

The following presents the year-on-year development of key measures of income and expense.

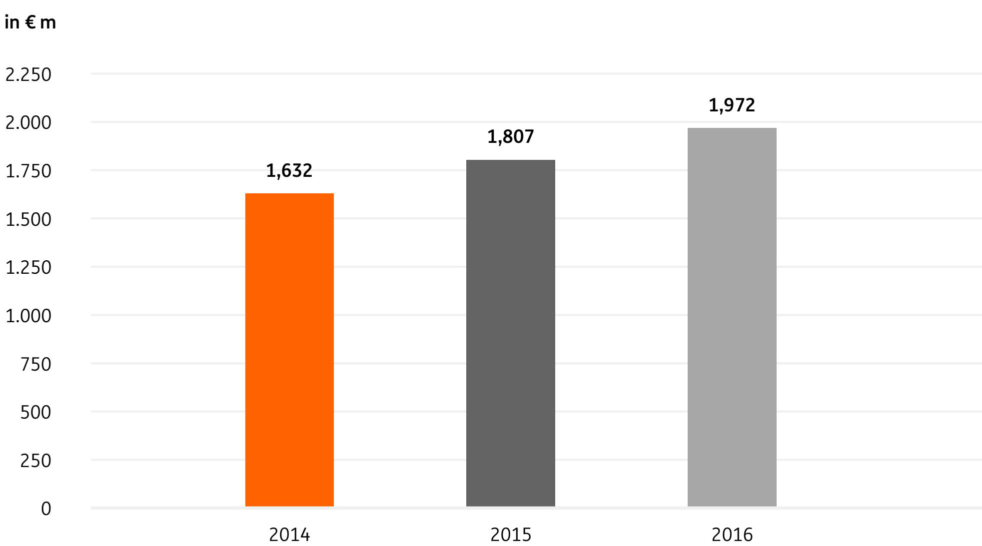
| Income Statement | 2016<br>€ m | 2015<br>€ m | Change<br>€ m |
|---|---|---|---|
| Net interest income | 1,972 | 1,807 | 165 |
| Net commission income | 104 | 92 | 12 |
| Other net income | 45 | 93 | -48 |
| Risk provision | -31 | -77 | 46 |
| Personnel expenses | -342 | -314 | -28 |
| Other administrative expenses | -514 | -486 | -28 |
| Profit before tax | 1,234 | 1,115 | 119 |
| Income tax | -375 | -360 | -15 |
| Profit after tax | 859 | 755 | 104 |

In fiscal year 2016 the ING-DiBa Group generated EUR 1,234 million in profit before tax, representing a 10.6 percent increase as compared to the previous year, despite a challenging industry environment.

## Net interest income

| | 2016<br>€ m | 2015<br>€ m |
|---|---|---|
| **Interest income** | | |
| Interest income from lending transactions | 2,991 | 3,028 |
| Interest income from available-for-sale securities | 581 | 620 |
| Interest income from held-to-maturity securities | 16 | 14 |
| Other interest income | -753 | -801 |
| Negative interest | 16 | 1 |
| Total interest income | 2,851 | 2,862 |
| | | |
| **Interest expenses** | | |
| Interest expenses on deposits from banks | 289 | 248 |
| Interest expenses on amounts due to customers | 537 | 769 |
| Interest expenses on securitized liabilities | 20 | 27 |
| Other interest expenses | 14 | 2 |
| Negative interest | 19 | 9 |
| Total interest expenses | 879 | 1,055 |
| Net interest income | 1,972 | 1,807 |

### Net interest income (year-on-year-comparison)




In the banking industry, the main factors impacting the year under review were competition and the continuing low overall interest rate levels. In this environment, the Bank increased net interest income in the fiscal year by 9.1 percent, from EUR 1,807 million to EUR 1,972 million. This development was largely driven by a decline in interest expenses on customer deposits. This decrease essentially resulted from interest rate adjustments to match the capital market during the course of the fiscal year. The lower average interest on deposits compensated for the positive growth in deposit volumes.

Interest income from lending transactions declined by EUR 37 million to EUR 2,991 million (2015: EUR 3,028 million) despite higher lending volume. Interest income from securities decreased from EUR 634 million in fiscal year 2015 to EUR 597 million for fiscal year 2016.

Other interest income, which includes net interest income on hedging derivatives, improved to EUR -753 million (2015: EUR -801 million).

Overall, interest income declined by EUR 11 million to EUR 2,851 million, while interest expenses fell by EUR 176 million to EUR 879 million.

### Net commission income

Net commission income totaled EUR 104 million in fiscal year 2016 (2015: EUR 92 million). Commission income increased from EUR 228 million to EUR 243 million. The decrease in commission income in the securities business due to reduced customer trading activity was more than offset by higher commission income due to the strong growth in the Wholesale Banking segment. On balance, commission expenses increased slightly. Additional costs in payment transactions were partly offset by lower brokerage commissions and savings achieved in relation to online cooperations.

### Other net income

Other net income includes EUR 27 million in measurement gains on derivatives and hedged items (2015: EUR 4 million), EUR 48 million in other gains on financial investments and investment property (2015: EUR 76 million), and net income from other income and expenses of EUR -30 million (2015: EUR 13 million).

Other net income from financial investments and investment property in fiscal year 2016 was primarily influenced by gains on the sale of shares in Visa Europe amounting to EUR 44 million. Fiscal year 2015 was dominated by gains on optimization of the securities portfolio.

The net income from other income and expenses in fiscal year 2016 included currency translation expenses amounting to EUR 24 million (2015: currency translation gains of EUR 5 million).

### Risk provision

Risk provisioning expenses decreased by EUR 46 million year on year in 2016 to a total of EUR 31 million, due in particular to increased disposals in the mortgage loan portfolio and fewer loan defaults. The generally favorable economic conditions in Germany (declining unemployment and the upward trend in real estate prices) contributed to this development.

### Personnel expenses

Personnel expenses increased by 8.9 percent year on year, from EUR 314 million to EUR 342 million, in particular as a consequence of the hiring of new employees as well as from salary increases.

### Other administrative expenses

Other administrative expenses including amortization of software and depreciation of buildings and office equipment increased from EUR 486 million in the prior-year period to EUR 514 million in fiscal year 2016. This development was primarily attributable to higher legal and consulting expenses as well as IT costs for the Bank's further development (Project "Welcome"). By contrast, there was a year-on-year decline in premiums to the bank restructuring funds (bank levies) and contributions for deposit protection.

### Income tax

Income tax amounted to EUR 375 million (2015: EUR 360 million) and comprised the current tax expense of EUR 371 million (2015: EUR 354 million) and deferred tax expense of EUR 4 million (2015: EUR 6 million).

In accordance with the principle of substance over form and despite the existence of the consolidated tax group, both the current and deferred income taxes are disclosed in the IFRS consolidated financial statements by the entity responsible, ING-DiBa AG.

At 30.4 percent, the effective tax rate for 2016 was below the nominal tax rate of 31.6 percent. In 2015, the effective tax rate of 32.3 percent was above the nominal tax rate of 31.5 percent. There were no notable events having a material effect on the tax rate during the reporting period.

## Results of operations by segment

| | 2016 Retail Customer Loans €m | 2016 Retail Customer Assets €m | 2016 Wholesale Banking €m | 2016 MA total €m | 2016 Reconciliation €m | 2016 IFRS €m |
|---|---|---|---|---|---|---|
| Net interest income | 743 | 931 | 325 | 1,999 | – 27 | 1,972 |
| Net commission income | – 84 | 86 | 58 | 60 | 44 | 104 |
| Other income | 0 | 43 | 18 | 61 | – 16 | 45 |
| MA income | 659 | 1,060 | 401 | 2,120 | 1 | 2,121 |
| Risk provision | 22 | – 4 | – 5 | 13 | – 44 | – 31 |
| Administrative expenses | – 189 | – 574 | – 93 | – 856 | 0 | – 856 |
| Result before Tax MA | 492 | 482 | 303 | 1,277 | – 43 | 1,234 |

| | 2015 Retail Customer Loans Mio. € | 2015 Retail Customer Assets Mio. € | 2015 Wholesale Banking Mio. € | 2015 MA total Mio. € | 2015 Reconciliation Mio. € | 2015 IFRS Mio. € |
|---|---|---|---|---|---|---|
| Net interest income | 726 | 899 | 173 | 1,798 | 9 | 1,807 |
| Net commission income | – 96 | 109 | 41 | 54 | 38 | 92 |
| Other income | 0 | 103 | 10 | 113 | – 20 | 93 |
| MA income | 630 | 1,111 | 224 | 1,965 | 27 | 1,992 |
| Risk provision | – 53 | – 4 | – 20 | – 77 | 0 | – 77 |
| Administrative expenses | – 186 | – 545 | – 66 | – 797 | – 3 | – 800 |
| Result before Tax MA | 391 | 562 | 138 | 1,091 | 24 | 1,115 |

## Retail Customer Loans segment

The core products of the Retail Customer Loans segment include mortgage and consumer loans. Earnings from the Retail Customer Loans segment rose by EUR 101 million in fiscal year 2016 to EUR 492 million (2015: EUR 391 million). This was primarily due to the growth in net interest income, which rose by EUR 17 million to EUR 743 million in fiscal year 2016, as well as a EUR 75 million reduction in the risk provision. The risk provision was influenced by a positive effect of EUR 22 million during the year.

The positive development of net interest income was due to factors including further growth in volumes for both mortgage and consumer loan products.

In addition, net commission income increased by EUR 12 million to EUR -84 million (2015: EUR -96 million) due to lower bonus payments and a decrease in new business from brokers.

The significant year-on-year improvement in the risk provision was due to fewer loan defaults and increased disposals in the mortgage loan portfolio in fiscal year 2016.

Administrative expenses rose slightly, increasing by EUR 3 million to EUR 189 million.

## Retail Customer Assets segment

The Retail Customer Assets segment includes the core products of savings deposits, securities business and current accounts. Earnings from the Retail Customer Assets segment decreased by EUR 80 million to EUR 482 million in fiscal year 2016 (2015: EUR 562 million). This was due in particular to the decline in net commission income, lower other income, and higher administrative expenses.

Net interest income continued to improve, growing by EUR 32 million as against the prior year.

Of the EUR 23 million decrease in net commission income, EUR 15 million was attributable to lower net commission income in the securities business due to a decline in securities transactions, portfolio commissions, and front-end loads.

Administrative expenses for the Retail Customer Assets segment increased by EUR 29 million to EUR 574 million due to higher personnel expenses and IT and consulting expenses.

The other net income of EUR 43 million in fiscal year 2016 is primarily due to the disposal of shares in Visa Europe. In the previous year, the net income of EUR 103 million was mainly attributable to gains from the optimization of the securities portfolio.

## Wholesale Banking segment

Earnings from the Wholesale Banking segment increased by EUR 165 million to EUR 303 million in fiscal year 2016 (2015: EUR 138 million). This increase was mainly due to the EUR 169 million total increase in interest and commission income resulting from the increased volume of lending to and new business with customers.

The EUR 27 million increase in administrative expenses in this segment was attributable to the hiring of additional employees, increased project costs, and services due to the higher business volume in fiscal year 2016, as well as a rise in recharged costs.

## Assets, liabilities, and financial position

### Development of the statement of financial position

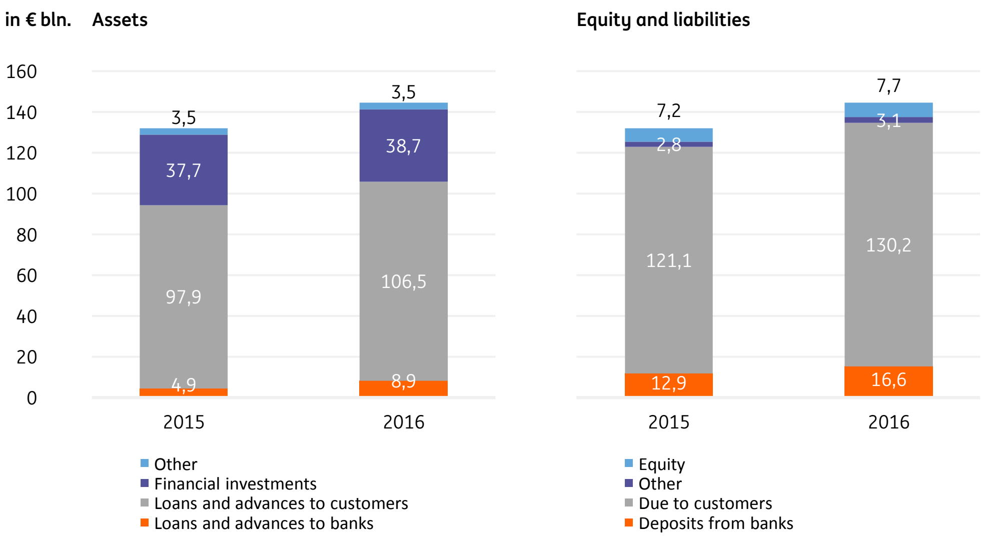
The following presents the development of the key measures of assets, liabilities and financial position as of December 31, 2016, as compared to the previous year.

| Consolidated statement of financial position | 12/31/2016 €m | 12/31/2015 €m | Change €m | Change Percent |
|---|---|---|---|---|
| Assets | | | | |
| Loans and advances to banks | 8,881 | 4,904 | 3,977 | 81 |
| Loans and advances to customers | 106,459 | 97,943 | 8,516 | 9 |
| Adjustment to portfolio fair value hedges | 879 | 1,183 | – 304 | -26 |
| Financial investments | 38,738 | 37,670 | 1,068 | 3 |
| Derivatives with positive fair value | 345 | 68 | 277 | 407 |
| Other assets | 2,251 | 2,209 | 42 | 2 |
| Total assets | 157,553 | 143,977 | 13,576 | 9 |
| Equity and liabilities | | | | |
| Equity | 7,690 | 7,206 | 484 | 7 |
| Securitized liabilities | 1,272 | 1,283 | – 11 | -1 |
| Deposits from banks | 16,595 | 12,941 | 3,654 | 28 |
| Due to customers | 130,151 | 121,126 | 9,025 | 7 |
| Derivatives with negative fair value | 336 | 76 | 260 | 342 |
| Other liabilities | 1,509 | 1,345 | 164 | 12 |
| Total equity and liabilities | 157,553 | 143,977 | 13,576 | 9 |

The ING-DiBa Group's total assets grew by 9.4 percent to EUR 157.6 billion as of December 31, 2016 (December 31, 2015: EUR 144.0 billion). Assets are characterized by loans and advances to customers and financial investments. The Bank's liquidity position was continuously good during the fiscal year. Regulatory requirements were complied with at all times in the fiscal year. Please refer to the section entitled "Monitoring and management of liquidity risks" in chapter 4 – Risk report for a presentation of the liquidity analysis, the capital structure and the results therefrom. The changes in cash flows from operating, investing and financing activities for the fiscal year and the previous fiscal year are presented in the statement of cash flows in the consolidated financial statements.

Contingent liabilities increased to EUR 15.6 billion at the end of the fiscal year (December 31, 2015: EUR 14.0 billion). Contingent liabilities included EUR 14.5 billion in irrevocable loan commitments as of December 31, 2016 (December 31, 2015: EUR 13.0 billion).

**Structure of the statement of financial position**




## Assets

Loans and advances to banks increased by EUR 4.0 billion to EUR 8.9 billion in fiscal year 2016. The change compared to the previous year essentially resulted from an increase in loans and advances to the Group parent ING Bank N.V., for which cash collateral has been provided.

Loans and advances to customers increased from EUR 97.9 billion to EUR 106.5 billion in fiscal year 2016. The EUR 8.6 billion increase in loans and advances compared to

December 31, 2016 is attributable primarily to the growth in the corporate customer business and in mortgage financing.

The portfolio of financial investments increased by EUR 1.0 billion to EUR 38.7 billion in 2016. The rise resulted from purchases, in particular of government and corporate bonds, that more than compensated for the final maturities.

Other assets primarily present interest accruals and the cash reserve.

### Equity and liabilities

Liabilities to banks posted an increase of 28.7 percent in fiscal year 2016 to EUR 16.6 billion. This increase was almost exclusively due to the increase in time deposits in foreign currency that were used to refinance new business in the Wholesale Banking segment.

Despite the generally low market interest rates in fiscal year 2016, ING-DiBa was able to increase the deposit volume once again. Amounts due to customers increased by 7.4 percent or EUR 9.0 billion to EUR 130.1 billion.

The growth was based on increases in current accounts and call deposit accounts. ING-DiBa's average interest rate on call deposits was above normal industry levels. While a decline was seen in term deposits, there was a rise in the volume of call deposits. As of the reporting date, customers maintained more than 7.6 million (December 31, 2015: 7.3 million) savings accounts (term deposit, call deposit and other savings accounts) and 1.7 million current accounts (December 31, 2015: 1.4 million) at the Bank.

Equity increased from EUR 7.2 billion as of December 31, 2015 to EUR 7.7 billion as of December 31, 2016. ING-DiBa's share capital was completely held by ING Deutschland GmbH, Frankfurt am Main, as of December 31, 2016.

### Derivative financial instruments

Derivative financial instruments serve firstly to hedge the general interest rate risk. In addition, FX swaps and, for the first time, cross-currency swaps were entered into in the fiscal year to hedge against both interest rate and currency risk. Derivatives are generally recognized together with the respective underlying as a hedging relationship. The prospective hedge effectiveness is established using regression analysis or, in isolated cases, the critical terms method. Other economic hedging relationships are entered into for the purpose of risk management, which are not subject to hedge accounting.

### Overall statement

ING-DiBa again attained its goal of realizing business development based on solid growth in fiscal year 2016. Significant increases were recorded in both profit before tax and business volume, without exposing the Bank to additional material risks in the process. The assets, liabilities, financial position, and results of operations were extremely satisfactory at the end of the year under review.

## Non-financial performance indicators

ING-DiBa's economic performance and its further development are also affected decisively by non-financial factors. The Bank focuses on both corporate and social responsibility, in particular towards its customers and employees. The key factors are those that support the quality and qualifications of employees and aim to ensure appropriate participation in the Bank's success.

### Key non-financial performance indicators

#### Employee satisfaction and culture

Typifying this is a culture that is characterized by open communication, short decision-making processes and recognition of special performance. Our employees confirm this in the regular internal surveys with high overall satisfaction. For example, ING-DiBa was selected as one of the best German employers in the "Great Place To Work" competition for the tenth time in a row. The survey serves as an important feedback tool, above all for discussing the corporate culture throughout the Company in all our teams in order to further develop this culture. As in the previous year, 82 percent of employees indicated that they are highly satisfied with their job at ING-DiBa.

### Other non-financial performance indicators

#### Number of customers

As in previous years, ING-DiBa's customer base again grew significantly in fiscal year 2016. The number of customers in Germany and Austria rose by 255 thousand as against 2015 to almost 8.781 million (previous year: 8.526 million). This success emphasizes the fact that the Bank's strategy of offering customer proximity and simple, fair banking is consistently meeting with a very positive response on the market. This success gains considerable significance against the backdrop of the persistently tense market environment.

#### Customer satisfaction

Constantly high customer satisfaction is a key factor for the Bank's continuing customer growth. The high customer satisfaction at ING-DiBa was again proven by first place in the major test of banks, "Germany's Most Popular Bank", by the business magazine "€uro". The Bank has now won this accolade for the tenth time in succession. At the same time, ING-DiBa was also voted "Germany's Best Bank" for the ninth time.

The winner in the "Germany's Most Popular Bank" category was determined by more than 180,000 bank customers, who voted on this issue. Participants evaluated factors including the banks' product portfolios, account fees, the interest rates on deposits and lending, as well as the quality of online banking.

The "Germany's Best Bank" award illustrates that ING-DiBa's customers were the most satisfied overall with their bank. The contributing factors in winning the award included good terms and conditions in the product areas current accounts and call deposit accounts, as well as very favorable conditions for securities trading. ING-DiBa also came out on top in complaints management and customer friendliness.

A key figure for quantifying customer satisfaction is the Net Promoter Score (NPS). To determine this score, customers are regularly surveyed online on a voluntary basis about their willingness to recommend ING-DiBa to friends or relatives. NPS represents the proportion of customers who would recommend the Bank less those who would not make such a recommendation. ING-DiBa's NPS amounted to an excellent 36 percent in the fiscal year (previous year: 32 percent), 4 percentage points above the prior-year forecast.

### Service level

High quality of service is one of the central elements of ING-DiBa's business model. As one of Germany's leading banks, it has opted not to operate a branch network; instead, it is available for its customers around the clock by telephone and via the Internet. Its customers can reach the Bank 24 hours a day, every day of the year. The goal is the greatest possible accessibility combined with high quality when handling and answering customer queries.

Independent studies also attest to the high level of service quality at ING-DiBa. For example, between August and September 2016, the German Institute for Service Quality (Deutsches Institut für Service-Qualität, "DISQ") on behalf of the news channel n-tv surveyed more than 25,000 banking customers, asking how satisfied they are with their bank. As in the previous year, ING-DiBa took first place in the direct bank category. There was a particularly high level of satisfaction in the areas of security and service. Customers also had extremely high opinions in all other areas such as terms and conditions, transparency, and image.

### "FAIRantwortung" (Fairness in acting responsibly)

The corporate culture and social commitment are decisive factors for ING-DiBa's continuing success. With that in mind, the Bank relies on the principle called "FAIRantwortung" (a play on the German word for responsibility "Verantwortung"). It is based on the corporate values of fairness and responsibility and does not just cover a sustainable banking business but also social and environmental commitment. The Bank wishes to give back some of its economic success to society, and as an employer, to offer its employees an excellent workplace.

### Handling diversity

The Bank places great value on a work environment that is characterized by respect, fairness, tolerance and equal opportunity. An open, diverse workforce promotes motivation and performance and thus provides an important contribution to the corporate culture and sustainability as an employer. Through the "Diversity Council", which was founded in 2011, ING-DiBa is pursuing the goal of attaining a good understanding and high degree of penetration for the topic of diversity among employees and managers. The Diversity Council's work focuses on the topics "Women and Career", "Age mix" and a "Diversity Dashboard" in order to use facts and figures to observe diversity trends in ING-DiBa and derive measures where appropriate. The Bank's "Opportunities through Training" program fosters versatility, self-determination and inclusion in its own organization. As part of its "Education 50+" program, ING-DiBa has been training people on the other side of 50 to be banking assistants since 2006. With an expanded training offering, mothers can now complete training in office management or dialog marketing part-time. As part of a special development program, socially disadvantaged young people can learn interesting professions such as bank business management assistant or office management assistant. In the same manner, women and men with handicaps can obtain training as a bank business management assistant or IT specialist. ING-DiBa has already been presented with the "Diversity" special award by the "Great Place to Work" Institute for this program.

### Healthy with "DiBa FIT"

The topic of health is also a fixed component of the corporate culture. "DiBa FIT" provides employees with offerings on a range of topics, such as nutrition and exercise as well as psychological and preventive healthcare. In order to anchor the subject of health even more strongly in the consciousness of employees and managers, all managers are trained on the subject of "Healthy management". In this role, managers regularly and actively approach employees in order to address health topics. ING-DiBa was awarded the Corporate Health Award in the Excellence class for its health management program.

### Forward-looking collective bargaining agreement with ver.di

Many of the measures already described were set forth in a forward-looking collective bargaining agreement, which the Bank has agreed to together with the ver.di service union. It supplements the Bank's existing collective bargaining agreement by additional, attractive offerings, among them on topics such as childcare, adult care, health and phased retirement. The forward-looking collective bargaining agreement is a first in the banking industry. The goal of the agreement is to live up to changing life and work conditions sustainably in the future as well.

## Promotion of women

ING-DiBa supports fixed target quotas for women in management positions and sets ambitious goals for senior management. The development of women in management positions is of high strategic importance to the Bank and is a core component of diversity management. The future viability and innovative ability of ING-DiBa depends significantly on gaining and further developing the most qualified employees for the Company. In order to achieve this objective, women in all phases of life are supported in their career development and the awareness for this subject in the Bank is strengthened by internal communications with managers and upper management.

The following measures are taken specifically for the promotion of women:

- Early identification and promotion of female talent
- Special management programs for women
- Mentoring and coaching
- Targeted promotion with cross-divisional projects, foreign deployments and networking events.

### Current status and target quotas for the promotion of women

| | Men 12/31/2016 | Women 12/31/2016 | Total 12/31/2016 | Percentage of women in percent 12/31/2015 | Percentage of women in percent 12/31/2016 | 1. Target quota in percent 06/30/2017 | 2. Target quota in percent 06/30/2020 |
|---|---|---|---|---|---|---|---|
| Supervisory Board | 9 | 2 | 11 | 17 | 18 | 25 | 33 |
| Management Board | 5 | 1 | 6 | 17 | 17 | 20 | 20 |
| Senior management | 43 | 6 | 49 | 16 | 12 | 22 | 30 |

The Bank combines the two management levels below the Management Board in senior management. As of the closing date, the first management level had five women out of 28 employees. The quote of women at this level thus rose from 13 percent in the previous year to approximately 18 percent, confirming the Bank's approach to the promotion of women. The percentage of women at the second management level amounted to 5 percent at the end of the fiscal year (previous year: 20 percent); this was caused firstly by promotion to the first management level, and secondly by the departure of female managers at this level from the Bank.

The target quotas are identical for both the first and second management levels and they are combined within the goals for senior management.

### Compatibility of career and family

The Bank has launched numerous measures in support of the goal of promoting the career path of women, including finding the right balance between career and family.

- The job guarantee allows the return to their job within twelve months after the birth of a child. The Bank maintains active contact with its employees during parental leave.

- ING-DiBa supports its employees with childcare centers at all locations, a monthly expense allowance for childcare as well as care during vacations and emergencies.

- Employees who care for a family member privately received a care allowance and free consulting as well as support in the search for the appropriate type of care.

# 3. Risk Report

## Principles of risk management

### Risk categories

ING-DiBa is exposed to risks within the scope of its business activities; the following risks, in particular, were classified as significant risk categories as part of the annual risk inventory based on the Bank's business model:

Market price risk relates to the potential loss resulting from a change in market parameters. In this risk category, ING-DiBa differentiates between interest rate risk, basis risk, spread risk and currency risk. Liquidity risk is defined as the risk of not being able to meet current or future payment obligations on the agreed date (liquidity risk in the narrow sense). Intraday liquidity risk, i.e., the risk that the Bank will not be able to meet its payment obligations at the expected time on a given day, is a subset of this risk type. In addition, this risk category subsumes potential losses as a result of the increase in the cost of refinancing funds on the money and capital markets (funding liquidity risk) as well as the risk of a shortfall in proceeds from the sale of assets due to market conditions (market liquidity risk). Liquidity risks can arise in different currencies.

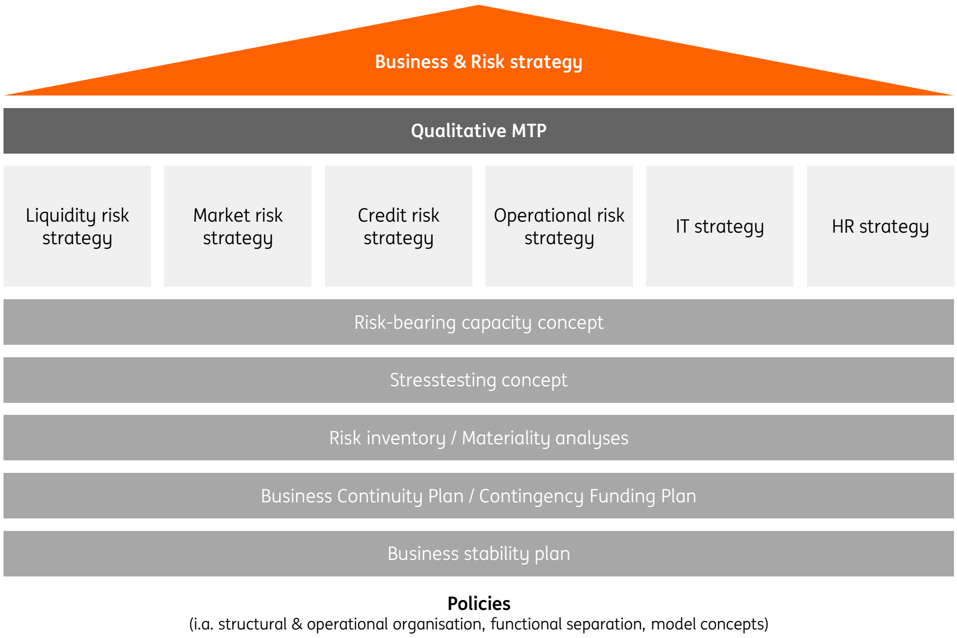
Traditional credit risk is a component of counterparty default risk and represents the risk of a loss due to the default or deterioration in creditworthiness of an external counterparty.

Operational risk signifies the risk of losses incurred as a result of inappropriate or failed internal processes, individuals, or systems (e.g. failure of data processing systems, misappropriation of funds, human error, erroneous processes, structural weaknesses, insufficient monitoring) or as a result of external events (criminal acts, natural disasters, etc.). This definition also includes legal risks resulting from contractual agreements or the legal environment.

### Organization

The full Management Board is responsible for the organization of risk management at ING-DiBa, including its branch offices, Group companies, and equity investments. It is responsible for managing the risk profile and establishing the risk strategy and the Risk-Bearing Capacity Model. The Management Board regularly informs the Supervisory Board of developments in ING-DiBa's business and risk situation.

The principles of risk strategy are implemented within the framework of a comprehensive risk management system. In addition to specific individual risk strategies for every significant type of risk, this also includes concepts for the management of the overall risk profile as well as written regulations specifying the operational implementation of the strategic orientation. The risk management system is set up dynamically and is adjusted continuously based on the development of the business and changing operating environment.




As part of the annual risk inventory, the Bank ensures that all significant risks for the ING-DiBa Group are identified. The full Management Board of ING-DiBa installed an organizational structure for risk management based on this risk profile, which ensures the functional and hierarchical separation of the risk-bearing organizational units.

The respective Risk Management organizational units are responsible for independently managing ING-DiBa's risks: Market & Integrative Risk Management, Credit Risk Management as well as Non-Financial Risk Management & Compliance. All the above units report directly to the Chief Risk Officer. Corporate Audit Services reviews the risk management system as a rule on an annual basis, however at a minimum every second year.

## Risk committees

The Bank's Management Board has established the following risk committees as part of its overall responsibility for the risk management of the Bank:

The Risk & Capital Committee (RCC) is responsible for assessing and managing risk-bearing capacity, capital planning, the annual risk inventory, and other related topics such as stress testing or recovery and resolution planning. Its comprises the Management Board members and representatives of the relevant divisions.

The Asset & Liability Committee (ALCO) is responsible for assessing and managing the market price and liquidity risks of ING-DiBa's overall portfolio as well as the risk structure of the Bank's institutional investments. The committee is made up of the Management Board members as well as representatives of the relevant divisions.

The Credit Risk Committee (CRC) deals with the assessment and management of counterparty default and credit risk. Its special duties include, for example, the definition of specifications and guidelines for the lending business, the limit allocation for counterparty default risks, the definition of the limit system, and approval of risk measurement methods and models. In addition to the Management Board members, the CRC is made up of representatives of the relevant divisions.

The tasks of the Non-Financial Risk Committee (NFRC) include assessing and managing ING-DiBa's operational risk. The committee is made up of the Management Board members and representatives of the relevant divisions.

## Risk strategy

The overall risk strategy is in line with the Bank's business strategy and represents a framework for risk management at ING-DiBa. The Bank's principles of risk strategy and the resulting orientation for the risk policy, which is consistent with the business strategy, are formulated in the overall risk strategy.

Specific individual risk strategies are derived for each significant risk category based on the overall risk strategy and complete ING-DiBa's risk management system together with various concepts for the management of the Bank's overall risk profile (including risk inventory, Risk-Bearing Capacity Concept, and stress testing concept) and the written regulations. In conjunction with the risk-bearing capacity, the overall risk strategy reflects the Bank's risk appetite.

The deliberate and controlled acceptance of risks within a prescribed range in return for appropriate compensation for the risk is a key prerequisite for a bank to generate profits. The goal of all of ING-DiBa's risk management activities is to ensure the Bank's continued existence, including under adverse conditions. Risk management comprises all activities concerning the identification, analysis, measurement, and communication of risks, as well as the decision to incur (or not to incur) and control risks.

The Bank's strategic risk orientation is derived from the idea of fairness and ING-DiBa's express focus on quality, which includes a sound and trustworthy way of doing business.

Consequently, risks may only be incurred with respect to all business activities to the extent necessary to reach the Bank's strategic goals. An unnecessarily risky and complex business and risk policy is strictly rejected.

## Risk-Bearing Capacity Concept

ING-DiBa has implemented a Risk-Bearing Capacity Concept for regularly assessing the risk situation at the overall bank level. The risk-bearing capacity reveals the extent to which the defined risk-taking capital can carry the risk exposure.

The objective of this concept is that a sufficient amount of risk-taking potential is held at all times. The Risk-Bearing Capacity Concept represents an important part of ING-DiBa's risk management activities.

The Bank's risk-bearing capacity is assessed from both a balance sheet-based going-concern as well as a value-based gone-concern perspective. The two approaches define different risk management steering approaches in a bank, which differ according to the extent to which the risk potential is used and the way risks are quantified. Since 2016, these two approaches have been supplemented by an additional value-based steering approach implemented as part of the ING Group's international Group management.

While the balance sheet-based approach focuses on the continued existence of the business, the value-based approaches prioritize the protection of creditors. ING-DiBa takes the approaches into account in parallel, although management has defined the going-concern perspective as the primary management approach.

In order to determine the overall risk position, the individual risk types are first observed separately. Each risk type is quantified using appropriate models. When quantifying the default and operational risks, the same methods are used as for calculating the economic and regulatory minimum capital requirements under Basel III (Internal Ratings-Based Approach (IRBA) or Advanced Measurement Approach (AMA)). The market price risk is quantified using periodic analysis as well as present-value analysis on the basis of internal simulation models.

An appropriate limit buffer is established for other material risks that are unquantifiable or can only be quantified with difficulty; this is deducted from the available risk-taking potential. It is based on expert estimates and not on a model. The limit buffer covers business risk, country risk, model risk, and concentration risk.

## Risk-taking potential and risk limits

After deducting the limit buffer, only a portion of the risk-taking potential is allocated as risk-taking capital for the going-concern and gone-concern approaches. The amount of allocated risk-taking capital and the definition of the limit buffer, the overall limit, and the allocation of limits to the individual risk types are established annually by the RCC and are based on the business strategy and the associated risk appetite of the Management Board.

The risks quantified using the instruments appropriate for the respective risk type are compared to the corresponding limits under the going-concern approach and are regularly monitored to ensure risk-bearing capacity. No diversification effects between the risk types are currently considered.

The limits or limit allocation can be changed at any time if required. Limit changes must be approved by the RCC.

## Risk-bearing capacity in the year under review

Under the balance-sheet-based going-concern approach, risk-bearing capacity is managed in such a way that the Bank can continue to operate, while complying with the regulatory minimum capital requirements, even if all items of the risk-taking potential are consumed by risks that have materialized. The risk-taking potential is calculated factoring in the allocable portion of regulatory modified equity and components of the current and future reporting periods based on HGB accounting.

The Bank's risk-bearing capacity was ensured at all times during the course of the 2016 fiscal year. The existing limits were not exceeded. The limits and risk-taking capital, as well as their relevant utilization as of December 31, 2016, are quantified in the table below.

| | 12/31/2016 Limits €m | 12/31/2016 Utilization of limit Percent limit | 12/31/2015 Limits €m | 12/31/2015 Utilization of limit Percent limit |
|---|---|---|---|---|
| Counterparty default risk | 700 | 70 | 600 | 69 |
| Market price risk | 700 | 36 | 900 | 46 |
| Operational risk | 40 | 72 | 40 | 70 |
| Overall limit and limit utilization | 1,440 | 54 | 1,540 | 56 |
| Risk-taking capital and utilization | 2,378 | 33 | 2,262 | 38 |

ING-DiBa's risk-taking capital amounted to EUR 2,378 million as of December 31, 2016, an increase of EUR 116 million compared with the previous year (EUR 2,262 million). This was due to a relatively more significant increase in regulatory capital, eligible reserves, and available returns on plan assets as against the deduction items under capital requirements.

The utilization of the overall limit was below the previous year's level and amounted to 54 percent as of December 31, 2016 (previous year's level: 56 percent). The decline resulted primarily from lower market price risks due to the further reduction in the Bank's investment and liquidity portfolio (marking-to-market risk).

The amendments made to the Risk-Bearing Capacity Model in 2016 chiefly concerned the treatment of currency risk as a material risk type as well as modification of the limit buffer for business risk. The latter amendment increased the limit buffer to a total of EUR 550 million (previous year: EUR 500 million). The risk-taking potential thus amounted to EUR 2,928 million as of December 31, 2016 (previous year: EUR 2,762 million).

## Stress tests

The performance of stress tests within ING-DiBa is a key component of risk management and serves alongside other risk management concepts (such as risk inventory and risk-bearing capacity) for managing the Bank's overall risk profile.

ING-DiBa established other stress procedures in addition to observing representative stress scenarios within the framework of the Risk-Bearing Capacity Concept. These procedures are observed within the Risk-Bearing Capacity Concept and, in addition to standardized risk category-specific stress tests conducted periodically each quarter, they also include integrated ad hoc stress tests and reverse stress tests.

The effects of a strong global recession in conjunction with an increase in interest rates, an increase in the EUR/USD exchange rate, and an expansion of spreads are examined for all significant risk types in the representative stress scenarios and observed in the context of the going-concern assumption in the Risk-Bearing Capacity Concept. The objective is to review the Bank's risk-bearing capacity in the event of a potentially sharp economic downturn. The review is carried out for all risk types relevant to the Risk-Bearing Capacity Concept. The results of the representative stress tests across risk categories conducted as of December 31, 2016, show that the available risk-taking capital also sufficiently covers the overall risk exposure under the stress conditions observed.

The effects of various recessive macroeconomic trends on economic and regulatory capital are analyzed as part of the standardized integrated stress tests for counterparty default risk. The Bank has defined standardized scenarios for various degrees of economic downturn for all sub-portfolios in the retail and institutional business as well as in Wholesale Banking, whereby the recession scenarios are expressed through an increase in the probability of default as well as through elevated losses given default.

With respect to the standardized stress tests for market price risk, the impact of market interest rate shocks, and changes in volume on the expected result are observed in the context of Net Interest Income@Risk and Economic Value@Risk, with the changes in market interest rates modeled using parallel shifts (shocks) of yield curves and tilting scenarios. In addition, exchange rate shifts are simulated for net interest income and economic value. For spread and interest-driven write-down risks, different effects of the relevant spread and interest rate parameters are simulated for the securities portfolio. Basis risks are also subjected to separate stress tests to analyze changes affecting basis swaps, which would be detrimental to the Bank, yet plausibly possible. The different categories of liquidity risk are also analyzed on the basis of several stress tests which examine, for example, the effects of high outflows of savings deposits or lower proceeds from the disposal of securities. The stress tests are based on both hypothetical and historical parameters.

The appropriateness of stress scenarios is reviewed annually and adjusted as needed.

For the integrated ad hoc stress tests, the Bank installed an expert committee made up of board members and specialists in management positions which, as part of the RCC, defines one or more individual scenarios for the Bank – taking the current economic operating environment into account – that could arise in particular from a combination of various economic parameters. The results of the stress tests are assessed in the RCC against the background of risk-bearing capacity and the liquidity situation. If necessary, potential management input is also derived for the future. In addition, the Bank conducts an integrated reverse stress test across risk types as well as specific reverse stress tests for counterparty default, market price, liquidity, and operational risks.

The Risk Management organizational unit is responsible for carrying out stress tests, the performance of which is part of the Bank's risk management process and internal process for ensuring risk-bearing capacity (Internal Capital Adequacy Assessment Process (ICAAP)).

## Risk concentration

With its focus on retail business, ING-DiBa consciously accepts certain concentrations at the product level in this business line. The resulting concentrations at the product and/or collateral level are qualified by the broad diversification within the individual portfolios of the standardized retail business. A homogeneous distribution in the retail portfolio is ensured by defining certain product features and specifying maximum loan and limit amounts as well as maturities.

In the institutional business and in Wholesale Banking, concentrations on selected clients, industries, and asset classes are accepted intentionally. These concentrations are accepted against the background of the sizes specified and target customers defined under the strategic business orientation and are monitored regularly. Moreover, in addition to the stress tests described already, risk concentrations for counterparty default risks are taken into account in the design of the stress tests. To this end, stress tests are regularly conducted on counterparty, industry, and country concentrations and the results analyzed.

The objective of risk management activities is to detect risk concentrations early and to find opportunities for diversification, if necessary. The Bank has defined specific limits for the management of concentrations for each business segment. The limits are regularly reviewed and adjusted as necessary. In addition, all loan portfolios are analyzed for potential concentrations in separate concentration reports.

ING-DiBa implemented a country limit system through which the country risks from all business segments are monitored for the management of concentrations at the country level.

An intentional concentration of refinancing through retail savings deposits, which in turn make up a very granular portfolio, is accepted with respect to liquidity risks, given ING-DiBa's business model with its focus on the retail business in Germany. Refinancing funds from KfW, issued Pfandbriefe, repos and deposits from corporate customers and institutional investors are further significant instruments and contribute to diversification in refinancing.

As part of the annual risk inventory, representatives of senior management examine all of the Bank's risks for materiality. This includes assessing whether individual risk types are exposed to intra-risk concentrations (interactions between risk exposures within a risk type) or inter-risk concentrations (interactions across different risk types). The assessment is based on qualitative and, where possible, quantitative procedures.

## Risk reporting

The Risk Management organizational unit is responsible for risk reporting, which is directed to the Chief Risk Officer or the full Management Board as well as to members of the corresponding risk committees, depending on the focus of the risk. The Supervisory Board is informed by the Management Board on a regular basis, at least four times per year.

The reports are tailored to the significance of the risks and prepared on a daily, monthly, or quarterly basis. In the event of changes in important parameters of risk calculation or relevant factors of influence in the market environment, the decision-makers are informed promptly of all relevant changes and deviations.

The risk-bearing capacity is calculated at least quarterly, or on a monthly basis if necessary. The results are presented to the participants of the RCC as well as other risk committees if applicable.

Risk utilization by individual risk type is documented in a regular report from the organizational units mentioned above and includes all units belonging to ING-DiBa.

In 2016, the Bank launched a project to fundamentally revise the reporting framework and associated data architecture and adapt it to the expanded provisions of the Minimum Requirements for Risk Management (MaRisk) and various international standards.

## Monitoring and management of market price risks

### Risk definition

ING-DiBa generally understands market price risk as the potential loss resulting from a change in market parameters. Due to its business model and the strategy pursued, ING-DiBa is only exposed to a limited number of market price risks. Essentially, the Bank differentiates between general interest rate risk (risk of changing interest rates), which is the potential loss resulting from a change in the risk-free interest rate, basis risk, which is the potential loss resulting from a change in basis swaps, currency risk, which is the potential loss resulting from a shift in exchange rates, and spread risk, which ING-DiBa defines as a residual risk, i.e., the risk that the value of a financial instrument changes at a higher or lower rate than the market as a whole.

Volatility risks currently arise at ING-DiBa from implicit options: the risk of changes in customer behavior (e.g. unscheduled repayments on mortgage loans and installment loans or withdrawal behavior with Extra accounts) due to market fluctuations.

The risks quantified in this section are understood as after implementing mitigating measures.

### Organization

The Management Board commissioned the Market & Integrative Risk Management organizational unit with monitoring compliance with market price risk regulations. This responsibility includes application of methods and models for risk identification and measurement, monitoring limits and the reporting function. The Treasury organizational unit is responsible for the implementation of operational management measures. To maintain the segregation of functions, Treasury's trading activities are organizationally separate from the settlement activities of the back office.

## Market price risk strategy

The strategic orientation of market price risk management is based directly on the business strategy.

Market price risks are generally incurred only in connection with asset/liability management and thus form the basis for pursuing the general corporate policy goals in the Retail and Wholesale Banking segments.

Positions are not intentionally left open in order to speculate specifically on certain changes in market price parameters. The Bank does not enter into trades with the intention of generating short-term profits by taking advantage of market price fluctuations. Therefore, the Bank does not use its trading book and holds the positions in its banking book. In light of this, ING-DiBa pursues a passive strategy in the area of interest rate risk.

As a matter of principle, market price risks may only be incurred at ING-DiBa in line with the risk tolerance established by the Management Board. The primary goal of the market price risk strategy is to ensure that the sum of all market risks incurred always remains smaller than the risk-taking capital allocated to this type of risk.

With a view to ensuring the continued existence of the Bank as a going concern, so-called Risk Appetite Statements are defined, from which in turn the limits for operational management are derived:

› The Bank wants to limit fluctuations in the expected net interest income of the next 12 months as a result of changes in interest rates

› The Bank wants to limit fluctuations in the economic value as a result of changes in interest rates

› The Bank wants to limit fluctuations in the revaluation reserve (IFRS) as a result of changes in market prices

› The Bank's risk-bearing capacity should always be ensured

› The Bank wants to limit fluctuations in the IFRS income statement as a result of changes in market prices

› The Bank wants to avoid fluctuations in the economic value as a result of changes in foreign exchange rates.

## Operational risk management and risk control

ING-DiBa's market price risk management includes the following core elements for which various organizational units (Market & Integrative Risk Management, Treasury, Trade Settlement, and Accounting) are responsible:

- To ensure position data is entered correctly
- To check that limits are complied with, and when necessary to obtain approval of limit excesses from the authorized decision maker
- To identify, measure, and manage market price risks
- To prepare, maintain, and further develop market price risk models
- To keep management adequately informed of the risk situation
- To conduct scenario analyses and stress tests.

The Bank pursues a dual management approach to dealing with interest rate risk. ING-DiBa analyzes the effects of interest rate risk firstly on net interest income from a periodic perspective and secondly on the Bank's economic value as part of the present value analysis.

The Net Income at Risk (NII@R) approach is used for analyzing the effects on net interest income. This approach involves simulation calculations for a 36-month planning horizon, which forecast net interest income as well as its change for various scenarios, taking planned future new business into account. Market and business parameters (e.g., volume growth) are changed and their effects are examined as part of the analysis.

ING-DiBa applies the economic value at risk (EV@R) approach on the basis of a detailed present value model as a metric for measuring the effect of the interest rate risk on present value. Economic value describes the sum of the carrying amount of shareholders' equity and "added value", which is defined as the present value of all future cash flows from continuing operations less the carrying amount of shareholders' equity. It is an indicator for the increase in value of the banking book.

Within the regular monthly simulation analyses, the effects of changes in market interest rates on the present value of the portfolio are analyzed. The value at risk is determined as the respective difference in present value under a defined interest rate scenario from the present value of the base scenario. ING-DiBa uses internal models to calculate the present value of customer transactions. Appropriate assumptions are made for products with unknown capital commitments and for options contained in the products. The assumptions applied are validated through regular backtesting.

The modeling of savings deposits (call and fixed-term deposits) is performed with a model that is used to calculate both EV@R and NII@R. It essentially consists of the simulation of market interest rates, the associated simulation of customer terms and conditions, and the simulation of the trend in savings deposits.

The "Basel II ratio" serves as the regulatory limit for the deviation of the economic value at risk. This metric limits the negative change in present value for a defined interest rate scenario to 20 percent of the Bank's regulatory capital. The relevant scenario is determined based on the corresponding specifications of the supervisory authorities. This limit is supplemented by internal limits in order to curb the fluctuations of the economic value as a result of changes in interest rates.

To quantify spread risk, the Bank calculates each month the effect of spread changes on the fair value of its investment portfolio using historical simulations as a basis. The calculations are made both from a dynamic perspective, analyzing the potential write-down risks, and from a purely economic ad hoc perspective. Both key indicators are incorporated into the calculation of risk-bearing capacity.

Basis risks are also calculated each month, both from the periodic and the economic perspective and using historical simulations as a basis. The results also form part of the analysis of risk-bearing capacity.

Foreign currency risk is calculated on a monthly basis, both from the period and the economic perspective, as part of the analysis of risk-bearing capacity. Historical simulations are used for this purpose, as is the case with the categories of market price risk referred to above.

### Sensitivity analysis in the year under review

The sensitivity of net interest income measures the effect on net interest income in the next twelve months in the event of a shock-like increase or decline in the yield curve by 100 basis points (bp), applying a floor of zero or any lower current interest rate.

Following the ad hoc change, the analysis assumes that the interest rate remains at the changed level for one year. The table below shows the results of measuring the sensitivity of net interest income:

| Sensitivity of net interest income<br>Scenario | 12/31/2016<br>Percent | 12/31/2015<br>Percent |
|---|---|---|
| +100 bp | 4.42 | -0.05 |
| -100 bp | 1.30 | 1.82 |

As of December 31, 2016, assuming a parallel interest rate increase of 100 basis points, the results of the sensitivity analysis show a 4.42 percent increase in net interest income compared with the starting point (previous year: decrease of 0.05 percent). Assuming a parallel interest rate decrease of 100 basis points, net interest income would increase by 1.30 percent (previous year: increase of 1.82 percent). Interest rate sensitivity remained at a low level.

The following table shows the results of the sensitivity analysis on economic value. The analysis illustrates the impacts of interest rate changes on the present value of the Bank as a whole. The change in the present value of the Bank as a whole cannot be linked directly to the impact on the income statement or equity. The greatest portion of the changes in present value arises from items not measured at fair value; changes in the value of those items thus have no impact on the statement of financial position.

| Sensitivity of economic value<br>Scenario | 12/31/2016<br>Percent | 12/31/2015<br>Percent |
|---|---|---|
| +100 bp | -2.49 | -3.69 |
| -100 bp | -0.81 | -7.90 |

Assuming an interest rate shock of +100 basis points, the economic value as of December 31, 2016 would decrease by 2.49 percent (previous year: decrease of 3.69 percent), whereas a decrease of 0.81 percent would result from a decline in the interest rate (previous year: decrease of 7.90 percent). As the regulatory floor of zero is considered at an interest rate shock of -100 basis points, this is de facto a tilting scenario (the market interest rates at the front end of the yield curve as of December 31, 2016 are already in negative territory and can no longer move due to the floor in the scenario. Due to the steepness of the market interest rate curve, there is still an interval to the zero line at the long end; the interest rate shock can still have an impact here). The informative value is thus limited (as was also the case in the previous year), meaning that no useful comparison with the prior-year figure is possible.

The following overview presents the results of the sensitivity analysis of the revaluation reserve as a component of equity. The analysis shows the impacts of interest rate changes on the items which are classified as available-for-sale (AfS) and subject to measurement at fair value through other comprehensive income.

| Sensitivity of revaluation reserve<br>Scenario | 12/31/2016<br>€ m | 12/31/2015<br>€ m |
|---|---|---|
| +100 bp | -716 | -720 |
| -100 bp | 215 | 498 |

Assuming an interest rate shock of +100 basis points, the revaluation reserve as of December 31, 2016 would decrease by EUR 716 million (previous year: decrease of EUR 720 million), whereas a decrease in the interest rate would result in an increase of EUR 215 million (previous year: increase of EUR 498 million).

## Limitation

The direction, extent, and timing of changes in market prices are by nature unknown and cannot be predicted. ING-DiBa manages its portfolio accordingly by limiting the effects of market price changes on financial earnings power and capital base. At ING-DiBa, market price risks are monitored using a system of risk limits based on sensitivity and present value analyses.

The ALCO approves the limits and is regularly informed of limit utilization. The Management Board and ALCO are informed immediately if a limit is exceeded.

## Market price risk reporting

Timely information on relevant developments that could impact net interest income or the economic value at risk, for example, is an essential element in ING-DiBa's market price risk management organization.

As an independent unit, the Market & Integrative Risk Management organizational unit prepares the relevant reports on a daily, monthly, and quarterly basis. There are reporting lines to the local ALCO as well as to the responsible specialized departments in the parent company. Reporting provides information on monitoring of the limits and requirements in place. The Supervisory Board is informed of the risk situation at least once a quarter. In addition, ad hoc reports are provided in the event of special or unexpected developments.

## Monitoring and management of liquidity risks

### Risk definition

Liquidity risk is not an actively generated risk, but a by-product of the Bank's core business activities. Disruptions in the liquidity of individual market segments (e.g., in crisis situations), unexpected events in the loan and deposit business (withdrawal of deposits, late payments, etc.), or the deterioration of the Bank's refinancing basis (e.g., as a result of a decrease in its rating) may, in an extreme case, result in the institution no longer being able to meet its payment obligations or may be reflected in a decrease in net income.

With respect to liquidity risk, the Bank therefore differentiates between

- Insolvency risk (liquidity risk in the narrow sense), i.e., the risk that the Bank cannot meet its payment obligations in full or on the agreed date.

- The liquidity risk in foreign currency, i.e., the risk that the Bank cannot obtain the necessary currencies on the market.

- Intraday liquidity risk, i.e., the risk that the Bank will not be able to meet its payment obligations at the expected time on a given day (including in foreign currencies).

- Refinancing risk, i.e., the risk of a potential loss of earnings that arises as a result of a deterioration in the Bank's refinancing terms and conditions on the money or capital market. The most important cause is a change in the Bank's credit rating by other market participants.

- The market liquidity risk, i.e., the risk of potential losses that have to be carried if low levels of liquidity in individual market segments require transactions to be entered into on terms and conditions that do not correspond to fair market value. Market liquidity risks may result primarily from securities positions in the trading and banking books.

The risks quantified in this section are understood as after implementing mitigating measures.

### Organization

The Management Board is responsible for structuring the organization and tasks within liquidity risk management. Methods and processes for risk management along with the related responsibilities were established on the basis of the liquidity risk strategy. The Management Board commissioned the Market & Integrative Risk Management organizational unit with monitoring compliance with liquidity risk regulations. This responsibility includes application of methods and models for risk identification and measurement, monitoring limits and the reporting function.

The Treasury organizational unit is responsible for the implementation of operational management measures.

## Liquidity risk strategy

As a result of its specific business model, ING-DiBa's assets are normally less liquid than its liabilities, the majority of which are comprised of technically short-term demand deposits by retail customers. Based on historical analyses, a significantly longer holding period is assumed for these payable-on-demand deposits for the purpose of liquidity risk management. Consequently, ING-DiBa's primary liquidity risk is an adverse trend in the volume of retail deposits given a fixed commitment of longer-term assets (withdrawal of deposits). Such a case could result in losses if assets either have to be liquidated or alternatively refinanced via the money and capital markets.

Consequently, the primary goal of the liquidity risk strategy is to ensure a stable and comfortable liquidity position that prevents in particular insolvency as well as potential losses from the liquidation of assets or refinancing on the money and capital markets. With a view to ensuring the continued existence of the Bank as a going concern, so-called Risk Appetite Statements are defined, from which in turn the limits for operational management are derived:

› The Bank aims to fulfill the regulatory liquidity requirements even after a mild stress situation.

› The Bank aims to fulfill its payment obligations in EUR at all times, even after a strong stress situation.

› ING-DiBa aims to comply with the limits and requirements allocated to it by ING Bank N.V.

› The Bank aims to meet its USD payment obligations for three months even if the USD funding market is closed for it.

› The Bank aims to avoid roll-over-risk on at least 2/3 of its USD loan volume.

## Contingency Funding Plan (CFP)

ING-DiBa has established a Contingency Funding Plan, which specifies actions to be taken by the liquidity crisis management team to deal with liquidity crisis situations.

In the event of a crisis, the liquidity crisis management team will be convened to determine and initiate all necessary measures and activities. This special committee is made up of members of the Management Board and representatives of the departments responsible.

The most important tasks include assessing the crisis situation as well as activating and executing the Contingency Funding Plan. The chairman of the local liquidity crisis management team acts as the contact person for communication with ING Bank N.V.

The Contingency Funding Plan is the core element of liquidity management in crisis situations. It includes the following aspects:

› Defined criteria to initiate the CFP

› Strategy for covering liquidity shortages in emergency situations

› Rules for tasks, responsibilities, and decision-making authority in a crisis

› Rules for informing management and preparing the information in a timely manner

› The internal and external paths of communication used in the event of a liquidity shortage

› Measures that are continuously reviewed for their ability to be executed and adjusted if necessary

› The results of stress tests to be taken into account

› Planning of alternative refinancing sources, taking any income shortfall into account.

## Operational risk management and risk control

ING-DiBa's liquidity risk management includes the following core elements for which various organizational units (Market & Integrative Risk Management, Treasury, Trade Settlement and Accounting) are responsible:

› To ensure position data is entered correctly

› To check that limits are complied with, and when necessary to obtain approval of limit excesses from the authorized decision maker

› To determine the medium and long-term refinancing structure within the scope of multi-period planning

- To measure and manage liquidity risk
- To prepare, maintain, and further develop the liquidity risk model
- To keep management adequately informed of the risk situation
- To execute stress tests
- To determine internal transfer prices for liquidity as part of the funds transfer pricing methodology
- To monitor transactions with Group companies from a liquidity perspective
- To develop and implement a contingency plan for liquidity risks including regular monitoring.

Under normal conditions, customer deposits serve as ING-DiBa's main refinancing basis. The following table shows the Bank's refinancing structure at the last two reporting dates:

| Refinancing structure | 12/31/2016 in % | 12/31/2015 in % |
|---|---|---|
| Due to customers | 83 | 84 |
| of which with indefinite terms | 74 | 75 |
| of which definite terms | 9 | 9 |
| Other liabilities | 12 | 11 |
| Equity | 5 | 5 |
| Equity and liabilities | 100 | 100 |

The sum of equity and liabilities is broken down according to amounts due to customers, other liabilities, and equity. The portfolio of amounts due to customers includes customer deposits with indefinite terms (such as Extra accounts payable on demand) and with definite terms (such as fixed-term deposits and savings bonds), as well as, in both categories, other deposits from institutional customers, and recorded an increase of approximately EUR 9.0 billion in the fiscal year. At 83 percent in fiscal year 2016, the ratio of amounts due to customers to total equity and liabilities declined slightly. Other liabilities essentially include securitized liabilities in connection with Pfandbrief issues and amounts due to banks and increased slightly to 12 percent of total equity and liabilities in fiscal year 2016. With a share of 5 percent, equity remained stable at prior-year levels.

ING-DiBa operates its banking business as a fully licensed bank. On this basis, it has direct access to European money and capital markets as well as to the investment and refinancing opportunities offered by the European Central Bank (ECB).

Thus, ING-DiBa has sufficient flexibility at all times for both its daily liquidity management as well as for liquidity crisis management. In addition to retail customer deposits, which are the main source of refinancing, ING-DiBa can also use other alternative refinancing sources:

- Borrowing funds from central banks
- Money market transactions and repos with other counterparties
- Sale of asset positions (e.g., from the portfolio of highly liquid securities)
- Securitization of assets
- Use of KfW global loans
- Long-term refinancing on the capital market through Pfandbrief issues
- Active acquisition of Wholesale Banking deposits.

The following refinancing sources can also be used for liquidity management in USD:

- Foreign exchange swaps
- Cross-currency swaps
- Foreign exchange call and time deposits.

The rating agency Moody's has rated ING-DiBa A2 due to its robust business profile in conjunction with its earnings power and capitalization. The Bank's own Pfandbriefe currently remain rated AAA.

Insolvency risk is regularly monitored by the Market & Integrative Risk Management organizational unit by means of scenario analysis on the basis of a cash flow-based gap calculation. As a part of its daily activities, Treasury monitors the intraday liquidity risk based on intraday simulations. In addition, the Market & Integrative Risk Management organizational unit carries out a monthly stress test. The funding liquidity risk can be classified as low due to ING-DiBa's low dependency on the money and capital markets as a source of refinancing. Market liquidity risk is factored into market price risk. To supplement the regulatory

Liquidity Coverage Ratio (LCR), which the reporting system has to produce on a monthly basis, Market & Integrative Risk Management calculates an LCR each day using simplified assumptions in order to ensure compliance at all times.

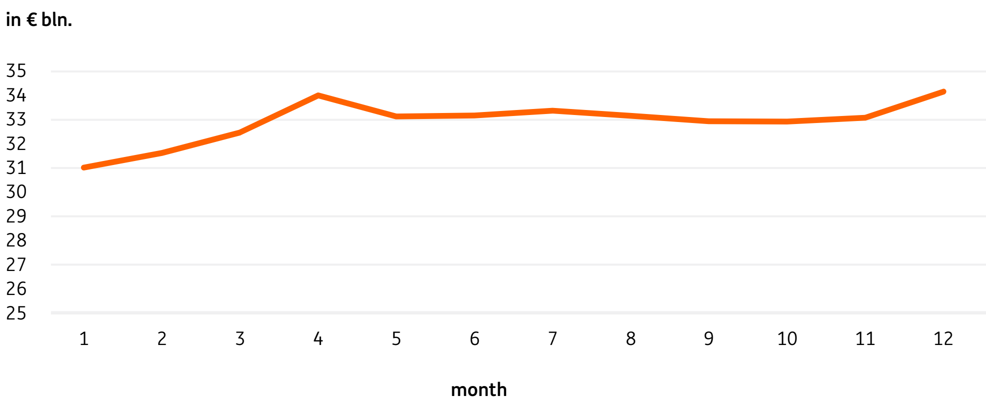
The liquidity forecast (including contract expirations and expectations) for the next twelve months is reviewed as part of the scenario analyses under various assumptions about expected future development.

In addition to the base scenario, other scenarios are regularly prepared in which unfavorable assumptions are made for liquidity development. Both historical and hypothetical scenarios are examined in accordance with the Minimum Requirements for Risk Management (MaRisk). These include assumptions relating to adverse volume developments, e.g., in the form of outflows from savings deposits, the unexpected drawdown of committed credit lines, or the non-materialization of expected unscheduled repayments.

The liquidity gaps are determined and accumulated for the individual periods subsequent to the calculation of cash flows. In order to assess the development of liquidity, the accumulated liquidity gaps are compared to the securities and loans against borrower's notes available-for-sale in the respective periods.

It is reviewed in that context whether freely marketable securities cover the accumulated liquidity requirement at all times, even after the occurrence of a scenario. The chart below shows the results of this comparison in the base scenario as at the end of 2016.

**Liquidity forecast**




For selected scenarios, the Bank also calculates whether the criteria for complying with the LCR as a regulatory metric will still be met after the occurrence of a scenario.

The results of the scenario analyses are presented in the monthly ALCO meetings and to the Management Board if necessary, and are a component of regular risk reports. The design of the scenarios is further developed and optimized on an ongoing basis.

Liquidity was consistently positive throughout the year 2016, not only for the base scenario but also for all stress scenarios used.

In addition, the regulatory minimum liquidity requirements were complied with at all times in fiscal year 2016.

### Limitation

In general, the liquidity risk in the narrow sense and the intraday liquidity risk cannot be backed by capital, because they are measured at payment, not at capital level. To ensure solvency, limits are therefore placed on maximum liquidity gaps in the simulation analysis maturity buckets. The market liquidity risk is covered in the Risk-Bearing Capacity Concept through the capital charge for market price risk. Solvency in USD is monitored using a separate limit.

### Liquidity risk reporting

The Market & Integrative Risk Management organizational unit is responsible for reporting on liquidity risks. The reports are tailored to the significance of the risks, include all important regulatory and internally required contents, and are regularly prepared at daily, weekly, monthly, or quarterly intervals.

The reports are addressed to the full Management Board of ING-DiBa as well as the members of the corresponding risk committees, depending on the specific topics addressed. In addition, there is a separate reporting path to ING. The Supervisory Board is normally informed of the liquidity situation by the Management Board on a quarterly basis. The regular reports are supplemented by reports on the results of the scenario analyses and stress tests. The relevant parties are promptly informed in the event of changes in important parameters of risk calculation or relevant influential factors in the market environment as well as during crises (ad hoc reporting).

## Monitoring and management of counterparty default risks

### Risk definition

The Bank defines counterparty default risk and credit risk as the risk of potential losses, which can arise due to changes in the credit rating, impending illiquidity, or even insolvency of a business partner. Counterparty default risk takes the following forms:

**Default and migration risks** constitute the risk of a loss due to the non-repayment of capital loaned to the borrower. Losses may also be triggered by changes in the credit rating. This is the traditional credit risk in the retail and wholesale banking businesses. In the institutional business, it can be further differentiated as issuer or counterparty credit risk and settlement risk.

**Issuer and counterparty credit risk** includes potential losses resulting from the default of a contractual partner or the deterioration in their credit rating. It is associated with risks of unrealized gains on executory contracts. This risk is also referred to as replacement risk. It relates to the additional expense of entering into a new contract to replace the lost business.

**Settlement risk** constitutes the risk that a contractual partner does not fulfill their end of a contract after the Bank has already met its obligations or the compensatory payment is not made in cases where both parties' deliveries are to be offset. Settlement risk can be eliminated if the correct value of the equivalent is acquired in advance from the contractual partner or is to be acquired on the basis of delivery versus payment, or if there is sufficient cover.

**Collateral and residual value risks** arise if, in the event of enforcement, the assumed fair values of credit collateral are not recoverable in the amount assumed as part of the modeling.

**Country risks** relate to potential losses that arise despite the debtor's solvency and willingness to pay due to overriding government impediments (transfer risk).

## Organization

Under its overall responsibility, the full Management Board has defined a basic loan policy for all business activities and also established methods and processes for credit risk management with the corresponding responsibilities and competencies.

The Credit Risk Management organizational unit has been given general responsibility by the Management Board for managing credit risks for ING-DiBa. In addition to the Retail and Institutional Business, this also includes operational management of credit risks arising from Wholesale Banking. In addition, a risk unit with specialists was founded specifically for the North American market environment and is responsible for a specified portion of the Wholesale Banking portfolio.
The Credit Risk Management organizational unit is also responsible for operational limit monitoring. In so doing, Credit Risk Management works closely with the Market & Integrative Risk Management organizational unit. This unit was given the responsibility for the applied methods and models for identifying, quantifying, and managing the credit risks. In addition, Market & Integrative Risk Management formulates the Bank's credit risk strategy

based on the directives from the full Management Board. In addition, the full Management Board determines the Bank's risk appetite.

The Risk Management unit in the ING-DiBa Austria branch is responsible for the operational management of credit risks.

Functional and hierarchical separation is ensured by the division of responsibilities according to ING-DiBa's organizational chart.

## Credit risk strategy

ING-DiBa's credit risk strategy is based on the Bank's basic risk strategy of only incurring risk as necessary to achieve the strategic goals. Accordingly, ING-DiBa's loan policy is designed conservatively. Importance is attached to high product quality and a balanced ratio of returns and risk for all loan transactions. In addition, the Bank practices strict risk selection.

ING-DiBa's credit risk strategy is based on three pillars:


In Retail Banking, ING-DiBa concentrates on customers with low, calculable risk domiciled in Germany or Austria. In line with its strategic orientation, the Bank offers simple, easily understood loan products, with a focus on mortgage loans, though the high-volume real estate business forms the exception and is intentionally held at a very low level. Another focus area is the consumer loans business.

The Wholesale Banking segment offers its customers a comprehensive range of tailored financing solutions. Wholesale Banking's lending business has two divisions. On the one hand, the Bank offers traditional lending and payment transactions in the Corporate Lending and Financial Institutions Lending division. The focus is on very creditworthy companies, in particular large corporates (revenues > EUR 1 billion). Companies with a revenue volume > EUR 250 million comprise an additional target group. As an additional segment, ING Group customers (primarily German subsidiaries of companies based in Benelux countries) receive local support. On the other hand, the Bank offers products in the areas of export financing and specialized lending, as well as specialized financing forms for selected companies in its Industry Lending Products division. Domestic and international infrastructure projects are also financed.

The capital market-oriented institutional business is used for the purposes of the Bank's liquidity management and asset/liability management. For this reason, the guiding principle for the institutional lending business is "security and liquidity before returns". In line with this principle, ING-DiBa has established a restrictive spectrum of permitted counterparties and transactions in the institutional business. Investments in shares are explicitly forbidden. Investments in the ABS/MBS asset class are only made to a small extent, subject to restrictive criteria. In addition, existing investments in securitizations of Dutch retail mortgage loans granted by ING are managed. The Bank avoids exposures in countries whose credit ratings do not conform to the conservative risk strategy of the institutional business environment. Moreover, fiscal policy and geopolitical developments are closely monitored and investment or divestment strategies formulated on this basis.

## Operational risk management and risk control

ING-DiBa has implemented various management elements at all levels of credit risk management in order to manage and monitor credit risks. All building blocks of credit risk management represent important measures for implementing the Bank's loan policy.

**Management elements of the Bank's credit risk strategy**

| Credit risk policy | Credit risk measurement | Credit risk management | Credit risk control |
|---|---|---|---|
| › Strategic specifications<br>› Product policy<br>› Risk appetite & scoring | › IRBA-models<br>› EL & risk costs (PBI A & SIA)<br>› UL, RWA | › Credit policies<br>› Processes<br>› Resources<br>› Monitoring / early detection<br>› Portfolio based management | › Limit monitoring<br>› Reporting |

IRBA: Internal Ratings-Based Approach; EL: expected loss; UL: unexpected loss; SIA: specific impairment allowance; PBIA: portfolio-based impairment allowance; RWA: risk-weighted assets

## Credit risk policy

The Bank's product policy focuses on high-quality products and services for its customers in accordance with ING-DiBa's general strategic orientation and the guidelines for the lending business defined in the credit risk strategy.

According to this principle, product policy in the retail business is geared toward simple, easily understood products that facilitate standardized, scalable processes. For mortgage loans, lending is focused on financing owner-occupied residential units. Other retail lending business includes consumer loans, in particular installment loans and lines of credit in the form of revolving credit and overdraft lines of credit on current accounts.

In order to offer Wholesale Banking customers a high degree of service and product quality, product policy in this segment is focused on comprehensive and individual financing solutions. ING-DiBa strives to win long-term customer loyalty by means of a "multi-product" customer relationship.

The catalog of authorized products is set up conservatively in the institutional business and is concentrated on transparent, plain-vanilla products. The focus is on highly liquid investments as defined by the Basel III regulations.

Based on the risk-averse orientation of the Bank, the defined willingness to assume risk (risk appetite) is further substantiated in the specific lending criteria and criteria for setting limits, as well as the approval and authority structures.

## Credit risk measurement and management

ING-DiBa uses the advanced IRB approach (IRBA models in accordance with Basel III/Capital Requirements Regulation (CRR)) for risk measurement and assessment. This approach complies with the methodical and procedural/organizational requirements of European and national supervisory authorities. In addition to supporting the loan decision process, the rating results are used in particular to calculate expected and unexpected losses on the Bank's positions exposed to counterparty default risk.

The internal rating models in the retail business were developed in coordination with the Group parent, ING. In wholesale banking and the institutional business, ING-DiBa uses the global IRBA models devised centrally by ING for Group-wide uniform implementation. Within the scope of monitoring the ratings system, Market & Integrative Risk Management routinely reviews, among other things, the forecast quality, accuracy, and stability of the models, and ensures their functionality and proper application. In addition, the models are reviewed on an annual basis as part of model validations. To this end, local model performance analyses are carried out and additional model analyses are performed by

ING's Group-wide independent model validation unit. In this way, potential changes in the loss history impacting on the functionality of the ratings system can be identified early and adjusted if needed within the scope of the applicable model governance guideline. The Bank's Management Board receives regular information on the functionality of the IRBA models as well as on the results of the ratings performed as part of the management reporting process.

ING-DiBa's maximum credit risk is defined as part of the so-called Credit Risk Appetite Statement; in turn, the limits for operational management are derived from this.

## Credit risk management

**Policies and processes:** Credit policies substantiate the specifications for entering into credit risk positions defined in the Bank's credit risk strategy and regulate all important operational control measures and loan processes. Credit approvals are provided according to an established system of authorities, which acts as a framework within which decision-making individuals or bodies are authorized to approve lending transactions.

The adequate segregation of functions between front office, back office, and risk monitoring in accordance with regulatory requirements (KWG, MaRisk) is essential for loan approval. The majority of ING-DiBa's standardized retail business is not risk-relevant. For real estate loans in the retail business classified as risk-relevant, the loan decision-making authority lies with ING-DiBa's full Management Board. The Bank has established an authority matrix for decision-making powers in the wholesale banking lending business based on the riskiness of the transactions. Approval in the institutional business is granted within the scope of the limit system established by the full Management Board.

The strategic principle of efficient processes is taken into account in the entire lending process. The Bank has largely standardized its lending processes in the retail business. Credit approval, processing and process control are heavily automated by integrating the appropriate application controls and approval authorities in the corresponding IT systems.

**Risk profile monitoring and early risk identification:** In order to identify changes in the risk structures early in the individual portfolios, the Bank regularly conducts loan portfolio analyses and stress test scenarios. These are based on, among other things, advanced IRBA models to determine value at risk or the expected and unexpected losses for portfolios subject to counterparty default risk.

In addition, the approval processes are applied to ensure the risk profile in Wholesale Banking and in the institutional lending business is managed efficiently. They are embedded in ING's Group-wide credit risk management and include both a comprehensive assessment of each customer's financial standing as well as an estimate of the appropriateness of the planned transaction volume. Moreover, industry, market, and rating changes are observed on an ongoing basis. The standard early risk detection measures also include monitoring late interest and capital payments and a number of other indicators. Conspicuous customers with elevated risk are closely monitored on the watch lists for the wholesale banking and institutional business.

In addition, the development of the credit spreads is monitored in the institutional business as an enhanced measure for risk monitoring. Stress tests are also carried out periodically for the entire ABS/MBS portfolio in order to obtain early indications of any existing requirement to set aside loan loss provisions.

**Collateral management:** ING-DiBa places strict requirements on the quality of collateral taken on deposit. For instance, mortgage loans are always secured by means of an enforceable, senior, registered land charge on the property to be financed. Property accepted as collateral must be domestic and used mostly for residential purposes. The valuation for all mortgage loans is based on a conservative approach.

The Bank follows the market fluctuation concept for residential units produced by the German Banking Industry Committee of the Bundesverband deutscher Banken e.V., Berlin (Association of German Banks). The market fluctuation concept has been recognized by BaFin and the Deutsche Bundesbank as a statistical method under the German Banking Act (Kreditwesengesetz (KWG)). The Bank uses this method to ensure that significant house price fluctuations are identified during the annual analysis. In addition, ING-DiBa carries out an annual update of the valuation for investment properties in the credit risk-relevant real estate loan business (loan amounts in excess of EUR 1.5 million). The relevant real estate markets are also periodically analyzed.

In Wholesale Banking, especially for major clients with a good financial standing, there is a strong focus on contractually agreed equal treatment of creditors. Guarantee collateral is also very important for a portion of the wholesale banking business. Examples include structured export financing, where the economic and political risk is covered by government export credit insurance. A broad base of collateral is used for further structured finance products, e.g., security on the basis of cash flows, the transfer of ownership of fixed and current assets, as well as the assignment of receivables. Commercial real estate can also be used as collateral for selected financing.

The majority of investments in the institutional loan portfolio are covered investments (covered bonds, securities with government guarantees). Generally, pre-settlement transactions (repo and swap transactions) may only be entered into if there is a collateral agreement (high-value securities or cash collateral). In line with supervisory requirements, all derivatives subject to the clearing obligation are cleared via a central counterparty. Portfolio business executed before the clearing obligation entered into force has been fully transferred to the central counterparty. Inter-group transactions subject to the clearing obligation are exempted from this requirement.

**Credit monitoring and problem loan procedures:** ING-DiBa monitors all risk-relevant loan exposures at least annually as part of a comprehensive analysis of a borrower's economic relationships and conducts additional ad-hoc analyses as deemed necessary.

To offer borrowers special customer service or increase the probability that loans will be serviced, loan installments in the retail business may be deferred or capitalized in selected circumstances. These cases are labeled as amendments to the loan agreement (forbearance), but it should not necessarily be assumed that they are due to financial difficulties on the part of the borrower. Partial debt waivers or the reduction or suspension of interest is not possible.

In Wholesale Banking, non-standard adjustments to terms and conditions and refinancing at non-standard market terms and conditions are only granted in exceptional circumstances.

Prior to the date on which the lending commitment is terminated (or for mortgage loans prior to internal termination), intensified management of retail loans in arrears is the responsibility of the team specialized in dunning procedures within the mortgage loan and other retail loans product area. Subsequently, the Collection organizational unit in Credit Risk Management takes over responsibility for the market sale, foreclosure sale, and collection.

If payment interruptions, negative market developments, or industry trends occur in the wholesale banking or institutional business, or information is obtained about a borrower's potential financial difficulties, the affected loan exposure is placed on a watch list and closely monitored. Prompt and meaningful reporting to all decision-makers, including the Management Board, is a crucial component of intensified monitoring on the part of the responsible Risk Management department. This ensures that corresponding measures to limit the risk are taken in a timely manner.

**Portfolio management:** ING-DiBa's goal is to avoid inappropriate concentrations, thereby ensuring an adequate capital situation for the Bank at all times. Specific loan granting and product design criteria and approval processes serve as management instruments. A differentiated limit system also contributes to sustaining the defined risk profile both on the level of the individual borrower as well as at the portfolio level. In addition, efficient portfolio management is ensured through periodic monitoring of the risk structures and potential concentrations in the individual loan portfolios both in new as well as existing business.

In order to minimize country risks, ING-DiBa has implemented a country limit system through which all risks associated with international transactions are managed and monitored comprehensively. In order to ensure a low-risk structure of the institutional portfolio, additional country restrictions apply for the institutional business.

## Credit risk control

**Limit review:** ING-DiBa has set up corresponding lines in the limit systems for all approved loans taking the respective term to maturity into account. Compliance with the extended credit lines is monitored daily. In addition, the specific limits at the product or product group level as well as at the country level are periodically subjected to monitoring.

**Reporting:** The overview of recent changes in the risk structure of the loan portfolios and the results of detailed risk analyses are included in periodic reports to the Management Board and the designated committees of ING-DiBa and ING. In addition, the Management Board and managers of the relevant divisions receive information on the development of risk structures of the loan portfolios on a monthly basis and whenever necessary. Reports to the decision-makers also include measures and recommendations for dealing with credit risks. The monthly credit risk reports are supplemented with the quarterly credit risk report in accordance with MaRisk provided to the full Management Board and the Credit Committee of the Supervisory Board.

## Loan portfolio

Unless otherwise specified, all quantitative data referenced in the risk report below is based on nominal values in the same way as ING-DiBa's management reporting.

Please refer to the tables in the section entitled "Additional disclosures under IFRS 7" for a reconciliation of nominal values to carrying amounts.

## Structural risk profile

The focus in the Retail Banking segment lies in particular on the mortgage business. Mortgage loans are available with fixed-interest periods of five, ten, and fifteen years. Property can only serve as collateral if it is located in Germany and exclusively used for residential purposes. The focus in mortgage lending is on standardized retail business. This ensures a high granularity within the mortgage portfolio. The Bank offers consumer loans as additional retail loan products in the form of installment and special-rate loans as well as lines of credit (revolving credit lines). In addition, the Bank's range of products in the retail lending business also includes overdraft facilities on current accounts.

Driven by a positive market environment, the new mortgage lending business continued to meet the strategic requirements in fiscal year 2016. At EUR 9.6 billion (previous year: EUR 10.7 billion), the committed volume remained stable at a high level. The risk profile of this new business likewise remains at the excellent positive level achieved in previous years. ING-DiBa's existing mortgage portfolio also showed a high degree of stability without structural changes in the risk profile over the course of the year.

Demand for consumer loans was strong in recent fiscal years. As in the previous years, this trend persisted in fiscal year 2016. The committed new loan volume increased by 10.5 percent (previous year: 34.8 percent) to around EUR 2.9 billion at year-end (previous year: EUR 2.6 billion).

There was particularly strong demand for current accounts in 2016. In total, 356,000 new accounts were opened in fiscal year 2016. The number of accounts stood at around 1.7 million at the end of the year (previous year: 1.4 million accounts).

The lending business in the Corporate Lending and Financial Institutions Lending sections of the Wholesale Banking segment mostly encompasses the financing and provision of tailored financing solutions for reputable German or Austrian corporate customers and their foreign and domestic subsidiaries. The focus lies in particular on large corporates in sound financial standing. The expanded target group includes companies with a revenue volume > EUR 250 million. In addition to traditional loan products for financing investments and working capital, the product range also includes the hedging of customers' payment risks in transactions with selected foreign banks. Individual credit solutions in the area of long-term export financing form one point of focus in Structured Finance, where ING-DiBa strives for the most effective coverage of the financing package possible through government export credit insurance in order to minimize the associated economic and political risks. In addition, in the interest of product and feature diversification, the Bank offers other special forms of finance, such as national and international infrastructure finance. The expansion of the Wholesale Banking segment continued in 2016. The total loan volume climbed by 68.5 percent to EUR 28.9 billion at the end of 2016 (previous year: EUR 17.1 billion). In addition to strong new business, the significant increase is also rooted in the expansion of an existing loan portfolio of sub-participations of another Group unit amounting to a total of EUR 4.9 billion (previous year: EUR 2.3 billion).

ING-DiBa's investment policy in the institutional business is primarily aimed at security and liquidity. Pursuing this objective, the Bank is restrictive when establishing the spectrum of permissible transactions and the credit criteria for counterparties, issuers, or issues and does not enter into any trading book positions. The investment focus is on interest-bearing bonds of German development banks as well as on collateralized (i.e., covered) bonds. In addition, the Bank continued in fiscal year 2016 to use the attractive investment opportunities within the Group to facilitate asset/liability management and liquidity management. Intra-Group transactions relate on the one hand to fully collateralized covered bonds issued by ING and its subsidiaries (AAA rating). On the other hand, currency derivatives are entered into with the Group parent in order to refinance the growing Wholesale Banking business with foreign currency loans. The "collateralized deposit" product was introduced to further manage foreign currency refinancing. Under these transactions, ING-DiBa issues loans in euros to ING Bank N.V. that are secured in full by foreign currency deposits. In addition, the Bank maintains a decreasing portfolio of fully-collateralized RMBS securitizations of ING Bank N.V. based on top-rated asset pools (AAA rating). The portfolio also contains one bank bond of the parent company that matures in 2017. The significant majority of intra-Group transactions therefore lies outside of eligible liabilities (bail-in) in accordance with the German Recovery and Resolution Act (*Sanierungs-und Abwicklungsgesetz*, "SAG").

Since 2014, the Bank has also invested in corporate notes and bonds to a limited extent. The reason for doing so is that existing liquidity can be invested favorably and inhouse expertise in the Wholesale Banking segment can be utilized at the same time. The criteria for selecting possible issuers were therefore based on the criteria for selecting loan customers.

Geographically, the institutional business focuses on selected countries of the European Union, with the Netherlands at 42.7 percent (previous year: 35.2 percent) due to intra-Group investments and Germany at 30.2 percent (previous year: 35.9 percent) still accounting for the largest share. The geographical selection of possible investments is subject to a strict criteria catalog. Fiscal and geopolitical developments are closely monitored at the same time. In the institutional business, there is no exposure to the Russian Federation. Please refer to the section entitled "Regional breakdown of the loan portfolio" for a detailed presentation of the overall exposure.

In addition to the repo business with selected financial institutions, ING-DiBa is active on the money market providing short-term lendings to German municipalities and municipal enterprises.

In order to ensure that the investment portfolio has a low-risk structure, the product catalog for the institutional business does not provide for any investments in shares or credit derivatives. Derivative financial instruments are used only for duration control in the form of interest rate swaps and are normally entered into via a central counterparty. In addition, since 2015 ING-DiBa has also used foreign exchange derivatives for controlling foreign currency transactions from Wholesale Banking activities.

New lines for counterparties and issues are generally only granted if they have at least an investment grade rating. The entire institutional portfolio continues to have a very positive risk structure with around 72.9 percent attributable to AAA-/AA-rated exposures as of the end of the year (previous year: 77.7 percent).

### Industry structure of the loan portfolio

The overviews below show the composition of the loan portfolio broken down by sector. The presentation in all tables of the risk report is based on nominal values unless otherwise indicated and includes contingent liabilities entered into in the Wholesale Banking segment amounting to EUR 1.6 billion as of December 31, 2016 (previous year: EUR 1.3 billion). The disclosures include the Austrian Wholesale Banking business, which the Group parent company integrated into ING-DiBa in 2016, amounting to EUR 331.4 million as of December 31, 2016.

The disclosures for the retail business are based on the main lending business affecting the statement of financial position (mortgage loans, installment loans, lines of credit, current accounts) in Germany. The ING-DiBa Austria branch offers installment loans as its only retail loan product, as well as overdraft facilities on current accounts. The lending business of the Austrian branch is not classified as risk-relevant due to the currently low business volume; it is therefore not included in the following tables. The ING-DiBa Austria branch's retail loan portfolio included loans and advances of EUR 167.2 million as of December 31, 2016 (previous year: EUR 142.9 million).

In addition to the retail loans extended, which are contained in the following overviews as business affecting the statement of financial position, there are retail lending transactions not recognized in the statement of financial position, consisting primarily of irrevocable mortgage loan commitments not yet drawn down amounting to EUR 5.3 billion as of December 31, 2016 (previous year: EUR 5.3 billion). There are also irrevocable loan commitments in the Wholesale Banking segment amounting to EUR 9.0 billion as of December 31, 2016 (previous year: EUR 7.7 billion), which were also not included in the following overviews.

## Distribution of the overall portfolio by sector (percentage distribution)

| | Retail 12/31/2016 Percent | Institutional 12/31/2016 Percent | Wholesale Banking 12/31/2016 Percent | Total 12/31/2016 Percent |
|---|---|---|---|---|
| Retail customers | 100.0 | 0.0 | 0.0 | 48.4 |
| Pfandbriefe/ covered securities (1) | 0.0 | 24.3 | 0.0 | 8.0 |
| Governments/ local authorities | 0.0 | 30.2 | 0.0 | 9.9 |
| Banks/ financial institutions (unsecured) | 0.0 | 0.0 | 0.0 | 0.0 |
| ABS/ MBS (2) | 0.0 | 4.7 | 0.0 | 1.5 |
| Repos | 0.0 | 0.2 | 0.0 | 0.1 |
| Corporates/Corporate lending | 0.0 | 2.8 | 26.4 | 5.9 |
| Structured finance | 0.0 | 0.0 | 68.6 | 12.9 |
| Intercompany (ING) | 0.0 | 37.8 | 5.0 | 13.3 |
| Total | 100.0 | 100.0 | 100.0 | 100.0 |

| | Retail 12/31/2015 Percent | Institutional 12/31/2015 Percent | Wholesale Banking 12/31/2015 Percent | Total 12/31/2015 Percent |
|---|---|---|---|---|
| Retail customers | 100.0 | 0.0 | 0.0 | 50.2 |
| Pfandbriefe/ covered securities (1) | 0.0 | 26.6 | 0.0 | 10.0 |
| Governments/ local authorities | 0.0 | 33.6 | 0.0 | 12.6 |
| Banks/ financial institutions (unsecured) | 0.0 | 0.0 | 0.0 | 0.0 |
| ABS/ MBS (2) | 0.0 | 12.9 | 0.0 | 4.9 |
| Repos | 0.0 | 2.0 | 0.0 | 0.8 |
| Corporates/Corporate lending | 0.0 | 2.3 | 27.9 | 4.2 |
| Structured finance | 0.0 | 0.0 | 70.4 | 8.6 |
| Intercompany (ING) | 0.0 | 22.6 | 1.7 | 8.7 |
| Total | 100.0 | 100.0 | 100.0 | 100.0 |

### Distribution of the overall portfolio by sector (nominal values)

| | Retail 12/31/2016 €m | Institutional 12/31/2016 €m | Wholesale Banking 12/31/2016 €m | Total 12/31/2016 €m |
|---|---|---|---|---|
| Retail customers | 74,152.9 | 0.0 | 0.0 | 74,152.9 |
| Pfandbriefe/ covered securities [1] | 0.0 | 12,191.1 | 0.0 | 12,191.1 |
| Governments/ local authorities | 0.0 | 15,140.7 | 0.0 | 15,140.7 |
| Banks/ financial institutions (unsecured) | 0.0 | 0.0 | 0.0 | 0.0 |
| ABS/ MBS [2] | 0.0 | 2,343.5 | 0.0 | 2,343.5 |
| Repos | 0.0 | 102.8 | 0.0 | 102.8 |
| Corporates/ Corporate lending | 0.0 | 1,380.2 | 7,612.6 | 8,992.8 |
| Structured finance | 0.0 | 0.0 | 19,810.6 | 19,810.6 |
| Intercompany (ING) | 0.0 | 18,955.0 | 1,451.3 | 20,406.3 |
| Total | 74,152.9 | 50,113.3 | 28,874.5 | 153,140.7 |

| | Retail 12/31/2015 €m | Institutional 12/31/2015 €m | Wholesale Banking 12/31/2015 €m | Total 12/31/2015 €m |
|---|---|---|---|---|
| Retail customers | 70,428.3 | 0.0 | 0.0 | 70,428.3 |
| Pfandbriefe/ covered securities [1] | 0.0 | 14,059.3 | 0.0 | 14,059.3 |
| Governments/ local authorities | 0.0 | 17,738.3 | 0.0 | 17,738.3 |
| Banks/ financial institutions (unsecured) | 0.0 | 0.0 | 0.0 | 0.0 |
| ABS/ MBS [2] | 0.0 | 6,827.6 | 0.0 | 6,827.6 |
| Repos | 0.0 | 1,067.2 | 0.0 | 1,067.2 |
| Corporates/ Corporate lending | 0.0 | 1,189.3 | 4,774.6 | 5,963.9 |
| Structured finance | 0.0 | 0.0 | 12,059.4 | 12,059.4 |
| Intercompany (ING) | 0.0 | 11,952.6 | 298.2 | 12,250.8 |
| Total | 70,428.3 | 52,834.3 | 17,132.2 | 140,394.8 |

1 Covered securities include covered bonds such as Pfandbriefe, as well as securities covered by government guarantees.
2 ABS/MBS also include intra-Group securitizations in the amount of EUR 1.7 billion.
3 ABS/MBS also include intra-Group securitizations in the amount of EUR 5.9 billion.

## Regional breakdown of the loan portfolio

The Bank is exposed to country risks as part of its investment business on the money and capital markets as well as through Wholesale Banking's business activities. The retail lending business is not exposed to country risk, since according to the strategic focus, loans are only granted to borrowers residing in Germany.

The regional distribution of ING-DiBa's loan portfolio is as follows:

### Risk concentration by geographic area

| | 12/31/2016 € m | 12/31/2016 Percent | 12/31/2015 € m | 12/31/2015 Percent |
|---|---|---|---|---|
| Germany | 94,259.4 | 61.6 | 93,460.0 | 66.6 |
| EMU | 38,158.1 | 24.9 | 32,769.0 | 23.3 |
| Other EU | 3,416.3 | 2.2 | 2,799.9 | 2.0 |
| Non-EU | 17,306.9 | 11.3 | 11,365.9 | 8.1 |
| Total | 153,140.7 | 100.0 | 140,394.8 | 100.0 |

At 61.6 percent, the major portion of the loan portfolio can be attributed to exposures in the German domestic market (previous year: 66.6 percent). Another 24.9 percent of the overall loan portfolio was attributable to loans and advances to borrowers within the Economic and Monetary Union of the European Union (EMU) as of the end of 2016 (previous year: 23.3 percent). As in the previous year, loans and advances to borrowers in the Netherlands make up the largest share of this loan portfolio at 16.2 percent (previous year: 14.5 percent). The share of the overall exposure to borrowers from the peripheral European countries (Portugal, Italy, Ireland, Greece and Spain) remained small, amounting to 1.1 percent (previous year: 1.4 percent). For loans and advances to borrowers outside of the European Union, the USA (4.1 percent of the loan portfolio; previous year: 2.2 percent) represented the largest position.

There are exposures to Russian borrowers through the Wholesale Banking segment. Compared with the previous year, the share of the loan portfolio attributable to Russian borrowers further declined to 0.6 percent for 2016 (previous year: 0.9 percent). In relation to the allocated limit, less than 25 percent (previous year: 30 percent) or EUR 0.3 billion (previous year: EUR 0.4 billion) of the existing exposure to Russian customers is not backed by government export credit insurance (e.g. Hermes coverage). In order to limit the risks associated with Ukraine, the Bank has decided to freeze its exposure in that country at the currently negligible volume. As part of its stress-testing framework, the Bank continuously analyzes economic and political scenarios to determine their relevance to and potential impact on ING-DiBa.

### Credit quality structure of the loan portfolio

For purposes of risk management, the Bank routinely relies on the internal rating used for the capital adequacy requirement. This is based on the issuer rather than the issue rating. Only in the institutional lending business in the area of ABS/MBS investments is the internal rating derived from the external issue rating of the tranche.

Within the ING Group, all internal ratings are plotted on a uniform master scale, which assigns a risk class or a certain probability of default to each ratings result. The risk classes of 1 through 22 are based on the classification by external ratings agencies such as Standard & Poor's, Moody's, or Fitch. For example, an ING rating of risk class 1 corresponds to an AAA rating by external ratings agencies, an ING rating of 2 to a rating of AA+ by external agencies. Exposures of risk classes 1 through 7 are regarded as low-risk exposures. The risk classes of 8 through 13 are categorized as medium risk; risk is high starting with risk class 14. Defaulted customers are assigned to risk classes 20 to 22.

The distributions of the credit risk-bearing portfolios over the individual risk classes of the ING master scale provide information about the credit quality structure and thus about the credit quality of the overall portfolio and show ING-DiBa's conservative approach across all business segments.

### Credit quality of financial instruments in the retail business that are neither delinquent nor impaired[1]

| | Mortgage loans 12/31/2016 €m | Other retail loans 12/31/2016 €m | Total 12/31/2016 €m |
|---|---|---|---|
| Low risk (AAA to A) | 12,745.6 | 791.3 | 13,536.9 |
| Medium risk (BBB to BB) | 51,177.2 | 4,838.7 | 56,015.9 |
| High risk (B to CCC) | 2,748.6 | 644.0 | 3,392.6 |
| Total | 66,671.4 | 6,274.0 | 72,945.4 |

| | Mortgage loans 12/31/2015 €m | Other retail loans 12/31/2015 €m | Total 12/31/2015 €m |
|---|---|---|---|
| Low risk (AAA to A) | 11,700.7 | 706.4 | 12,407.1 |
| Medium risk (BBB to BB) | 49,316.8 | 4,237.7 | 53,554.5 |
| High risk (B to CCC) | 2,670.3 | 570.9 | 3,241.2 |
| Total | 63,687.8 | 5,515.0 | 69,202.8 |

[1] Rating distribution based on internal credit risk classification in terms of the default probability without taking into account any collateral.

## Credit quality of financial instruments in the institutional business that are neither delinquent nor impaired[1, 2, 3]

| | Uncovered securities 12/31/2016 € m | Covered securities 12/31/2016 € m | ABS/ MBS 12/31/2016 € m | Repos / lending 12/31/2016 € m | Short-term lending to munici-palities 12/31/2016 € m | Collatera-lized Deposit 12/31/2016 € m | Total 12/31/2016 € m |
|---|---|---|---|---|---|---|---|
| Low risk (AAA to A) | 15,738.6 | 21,198.3 | 2,311.9 | 707.8 | 1,932.4 | 6,575.0 | 48,464.0 |
| Medium risk (BBB to BB) | 368.5 | 1,242.8 | 31.6 | 6.2 | 0.0 | 0.0 | 1,649.1 |
| High risk (B to CCC) | 0.2 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.2 |
| Total | 16,107.3 | 22,441.1 | 2,343.5 | 714.0 | 1,932.4 | 6,575.0 | 50,113.3 |

| | Uncovered securities 12/31/2015 € m | Covered securities 12/31/2015 € m | ABS/ MBS 12/31/2015 € m | Repos / lending 12/31/2015 € m | Short-term lending to munici-palities 12/31/2015 € m | Collatera-lized Deposit 12/31/2015 € m | Total 12/31/2015 € m |
|---|---|---|---|---|---|---|---|
| Low risk (AAA to A) | 17,428.4 | 18,966.5 | 6,751.3 | 1,067.2 | 2,763.7 | 4,148.6 | 51,125.7 |
| Medium risk (BBB to BB) | 289.3 | 1,342.8 | 76.3 | 0.0 | 0.0 | 0.0 | 1,708.4 |
| High risk (B to CCC) | 0.2 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.2 |
| Total | 17,717.9 | 20,309.3 | 6,827.6 | 1,067.2 | 2,763.7 | 4,148.6 | 52,834.3 |

1 Rating distribution based on internal credit risk classification in terms of the default probability without taking into account any collateral.
2 Covered securities include covered bonds, in particular Pfandbriefe, as well as securities covered by government guarantees.
3 Cash collateral in foreign currencies amounting to the equivalent of EUR 7,662 million for fiscal year 2016 and EUR 4,576 million for fiscal year 2015 was provided for collateralized deposits.

## Credit quality of financial instruments in the Wholesale Banking segment that are neither delinquent nor impaired[1, 2, 3]

| | Corporate Lending 12/31/2016 €m | Structured Finance 12/31/2016 €m | Total 12/31/2016 €m |
|---|---|---|---|
| Low risk (AAA to A) | 1,979.6 | 2,198.4 | 4,178.0 |
| Medium risk (BBB to BB) | 5,990.2 | 16,746.1 | 22,736.3 |
| High risk (B to CCC) | 42.7 | 1,849.5 | 1,892.2 |
| Total | 8,012.5 | 20,794.0 | 28,806.5 |

| | Corporate Lending 12/31/2016 €m | Structured Finance 12/31/2016 €m | Total 12/31/2016 €m |
|---|---|---|---|
| Low risk (AAA to A) | 1,267.7 | 460.9 | 1,728.6 |
| Medium risk (BBB to BB) | 3,692.1 | 10,676.3 | 14,368.4 |
| High risk (B to CCC) | 72.9 | 901.9 | 974.8 |
| Total | 5,032.7 | 12,039.1 | 17,071.8 |

1 Rating distribution based on internal credit risk classification in terms of the default probability without taking into account any collateral.
2 Presentation based on nominal values, including contingent liabilities entered into in the Wholesale Banking segment.
3 Corporate lending also includes loans and advances to companies of ING Groep N.V.

### Collateralization of the loan portfolio

The tables below provide an overview of the collateral accepted in the retail and wholesale banking business for the reporting dates for fiscal years 2016 and 2015. The collateral is divided into three categories for presentation purposes. In addition to real estate pledged as collateral, guarantees, including export credit insurance (e.g. Hermes coverage) are reported. The "Other" category includes all types of collateral that cannot be allocated to either of the other categories.

The institutional business comprises primarily asset classes with product-inherent collateral, such as covered bonds or RMBS as well as some cash-collateralized loans. Derivatives are fully collateralized.

## Collateralization in fiscal year 2016

| | 12/31/2016 Business volume €m | 12/31/2016 Real estate[1] €m | 12/31/2016 Guarantees[2] €m | 12/31/2016 Other €m | 12/31/2016 Total[3] €m |
|---|---|---|---|---|---|
| Mortgage loans | 67,609.8 | 105,793.5 | 0.0 | 0.0 | 105,793.5 |
| of which not impaired | 67,104.3 | 105,265.6 | 0.0 | 0.0 | 105,265.6 |
| of which impaired | 505.5 | 527.9 | 0.0 | 0.0 | 527.9 |
| Other retail business | 6,543.1 | 0.0 | 0.0 | 0.0 | 0.0 |
| Wholesale Banking | 28,874.5 | 4,381.6 | 9,542.5 | 6,389.0 | 20,313.1 |
| of which not impaired | 28,806.5 | 4,381.6 | 9,526.8 | 6,386.6 | 20,295.0 |
| of which impaired | 68.0 | 0.0 | 15.7 | 2.4 | 18.1 |
| Total | 103,027.4 | 110,175.1 | 9,542.5 | 6,389.0 | 126,106.6 |

## Collateralization in fiscal year 2015

| | 12/31/2015 Business volume €m | 12/31/2015 Real estate[1] €m | 12/31/2015 Guarantees[2] €m | 12/31/2015 Other €m | 12/31/2015 Total[3] €m |
|---|---|---|---|---|---|
| Mortgage loans | 64,683.8 | 100,297.8 | 0.0 | 0.0 | 100,297.8 |
| of which not impaired | 64,103.1 | 99,704.0 | 0.0 | 0.0 | 99,704.0 |
| of which impaired | 580.7 | 593.8 | 0.0 | 0.0 | 593.8 |
| Other retail business | 5,744.4 | 0.0 | 0.0 | 0.0 | 0.0 |
| Wholesale Banking | 17,132.2 | 2,494.2 | 6,746.8 | 3,211.1 | 12,452.1 |
| of which not impaired | 17,071.8 | 2,494.2 | 6,727.9 | 3,208.8 | 12,430.9 |
| of which impaired | 60.4 | 0.0 | 18.9 | 2.3 | 21.2 |
| Total | 87,560.4 | 102,792.0 | 6,746.8 | 3,211.1 | 112,749.9 |

1 An annual test is performed to establish whether the collateral needs to be remeasured. Retail loans under EUR 1.5 million are covered by the regulatory market fluctuation concept. Loans in excess of EUR 1.5 million are tested individually once a year.
2 Incl. intercompany guarantee of EUR 69 million (2015: EUR 116 million).
3 Total of collateral provided. Since some loans may be overcollateralized, the list should not be used for net analysis.

## Securitization

With its ABS/MBS portfolio for the Retail Banking core business, the Bank holds comparable assets from other markets (credit substitution business). The ABS/MBS portfolio declined by 65.7 percent year on year as of December 31, 2016. As a result, the ABS/MBS portfolio amounted to 1.5 percent of the total loan portfolio (previous year: 4.9 percent) and 4.7 percent of the institutional loan portfolio (previous year: 12.9 percent).

The approximately EUR 4.5 billion decrease in the securitization portfolio was due primarily to the reduction in intra-Group investments in securitizations to the current level of EUR 1.7 billion.

The large share of AAA-/AA-rated investments of 88.8 percent (previous year: 94.8 percent) reflects a very conservative approach in this segment. Overall, investments in RMBSs provide by far the highest share (around 84.5 percent). In addition, the Bank holds a small volume of partially government-guaranteed positions in ABS consumer loans (excluding credit card receivables) and auto ABS.

### Securitization portfolio broken down by rating

| | ABS<br>12/31/2016<br>€ m | MBS<br>12/31/2016<br>€ m | Total<br>12/31/2016<br>€ m |
|---|---|---|---|
| Low risk (AAA to A) | 364.2 | 1,947.7 | 2,311.9 |
| Medium risk (BBB to BB) | 0.0 | 31.6 | 31.6 |
| High risk (B to CCC) | 0.0 | 0.0 | 0.0 |
| Total | 364.2 | 1,979.3 | 2,343.5 |

| | ABS<br>12/31/2015<br>€ m | MBS<br>12/31/2015<br>€ m | Total<br>12/31/2015<br>€ m |
|---|---|---|---|
| Low risk (AAA to A) | 362.7 | 6,388.6 | 6,751.3 |
| Medium risk (BBB to BB) | 0.0 | 76.3 | 76.3 |
| High risk (B to CCC) | 0.0 | 0.0 | 0.0 |
| Total | 362.7 | 6,464.9 | 6,827.6 |

| | ABS 12/31/2016 in % | MBS 12/31/2016 in % | Total 12/31/2016 in % |
|---|---|---|---|
| Low risk (AAA to A) | 15.5 | 83.2 | 98.7 |
| Medium risk (BBB to BB) | 0.0 | 1.3 | 1.3 |
| High risk (B to CCC) | 0.0 | 0.0 | 0.0 |
| Total | 15.5 | 84.5 | 100.0 |

| | ABS 12/31/2015 in % | MBS 12/31/2015 in % | Total 12/31/2015 in % |
|---|---|---|---|
| Low risk (AAA to A) | 5.3 | 93.6 | 98.9 |
| Medium risk (BBB to BB) | 0.0 | 1.1 | 1.1 |
| High risk (B to CCC) | 0.0 | 0.0 | 0.0 |
| Total | 5.3 | 94.7 | 100.0 |

## Securitization portfolio by country

The geographical focus of the securitization portfolio continues to be on European issues, which amounted to approximately 85.5 percent (previous year: 94.5 percent). Due to intra-Group investments, the Netherlands account for the most significant share of approximately 72.9 percent (previous year: 86.0 percent).

| | ABS 12/31/2016 € m | MBS 12/31/2016 € m | Total 12/31/2016 € m |
|---|---|---|---|
| Germany | 28.3 | 0.0 | 28.3 |
| EMU | 0.0 | 1,898.8 | 1,898.8 |
| Other EU | 0.0 | 75.5 | 75.5 |
| Non-EU | 335.9 | 5.0 | 340.9 |
| Total | 364.2 | 1,979.3 | 2,343.5 |

| | ABS 12/31/2015 € m | MBS 12/31/2015 € m | Total 12/31/2015 € m |
|---|---|---|---|
| Germany | 0.0 | 0.0 | 0.0 |
| EMU | 0.0 | 6,341.5 | 6,341.5 |
| Other EU | 0.0 | 111.9 | 111.9 |
| Non-EU | 362.7 | 11.5 | 374.2 |
| Total | 362.7 | 6,464.9 | 6,827.6 |

| | ABS 12/31/2016 in % | MBS 12/31/2016 in % | Total 12/31/2016 in % |
|---|---|---|---|
| Germany | 7.8 | 0.0 | 1.2 |
| EMU | 0.0 | 95.9 | 81.1 |
| Other EU | 0.0 | 3.8 | 3.2 |
| Non-EU | 92.2 | 0.3 | 14.5 |
| Total | 100.0 | 100.0 | 100.0 |

| | ABS 12/31/2015 in % | MBS 12/31/2015 in % | Total 12/31/2015 in % |
|---|---|---|---|
| Germany | 0.0 | 0.0 | 0.0 |
| EMU | 0.0 | 98.1 | 92.9 |
| Other EU | 0.0 | 1.7 | 1.6 |
| Non-EU | 100.0 | 0.2 | 5.5 |
| Total | 100.0 | 100.0 | 100.0 |

## Delinquent loan volume and problem loans

ING-DiBa monitors the overall loan portfolio regularly with regard to delinquencies and arrears. An obligation is generally defined as "delinquent" if the agreed interest and capital repayment is more than one day overdue. If this is the case, the regular dunning process is initiated. In the event of delinquencies of over 90 days, the loans are considered defaulted in terms of the requirements of Basel III. The regulatory definition of default serves to distinguish the current portfolio from the default portfolio. Exposures that meet the criteria of the Capital Requirements Directive for unlikeliness to pay are also considered defaulted.

The tables below show the credit quality of the outstanding loans and advances as of the indicated reporting date at their nominal values, including contingent liabilities entered into in the Wholesale Banking segment.

## Credit quality of outstanding loans[1, 2]

| | Mortgage loans 12/31/2016 € m | Other retail loans 12/31/2016 € m | Total retail portfolio 12/31/2016 € m | Institutional portfolio 12/31/2016 € m | Wholesale Banking 12/31/2016 € m | Total 12/31/2016 € m |
|---|---|---|---|---|---|---|
| Neither delinquent nor impaired | 66,671.3 | 6,274.0 | 72,945.3 | 50,113.3 | 28,806.5 | 151,865.1 |
| Delinquent but not impaired (1 - 90 days) | 433.0 | 80.0 | 513.0 | 0.0 | 0.0 | 513.0 |
| Impaired | 505.5 | 189.1 | 694.6 | 0.0 | 68.0 | 762.6 |
| Total | 67,609.8 | 6,543.1 | 74,152.9 | 50,113.3 | 28,874.5 | 153,140.7 |

| | Mortgage loans 12/31/2015 € m | Other retail loans 12/31/2015 € m | Total retail portfolio 12/31/2015 € m | Institutional portfolio 12/31/2015 € m | Wholesale Banking 12/31/2015 € m | Total 12/31/2015 € m |
|---|---|---|---|---|---|---|
| Neither delinquent nor impaired | 63,687.8 | 5,515.0 | 69,202.8 | 52,834.3 | 17,071.8 | 139,108.9 |
| Delinquent but not impaired (1 - 90 days) | 415.3 | 66.1 | 481.4 | 0.0 | 0.0 | 481.4 |
| Impaired | 580.7 | 163.4 | 744.1 | 0.0 | 60.4 | 804.5 |
| Total | 64,683.8 | 5,744.5 | 70,428.3 | 52,834.3 | 17,132.2 | 140,394.8 |

1 The impaired exposures shown are presented at nominal values.

2 The volume of impaired loans and advances reported for Wholesale Banking includes exposures of EUR 6.1 million for which no specific impairment allowances have been recognized because, for example, no losses are expected due to sufficient security, in particular from guarantees from other companies belonging to the ING Group.

The Bank has recognized portfolio-based specific impairment allowances for all loans and advances that are neither delinquent nor impaired or delinquent but not impaired.

Loans classified as non-performing on the basis of the forbearance definition of the European Banking Authority are included in the impaired loans and advances category. The total amount of forborne loans and advances as of December 31, 2016 amounted to EUR 504.2 million in mortgage loans (previous year: EUR 582.4 million) and EUR 109.5 million in the other retail business (previous year: EUR 84.9 million). Out of these totals, the amount of loans classified as non-performing purely on the basis of the forbearance definition was EUR 32.8 million in mortgage lending (previous year: EUR 39.4 million) and EUR 5.7 million in the other retail business (previous year: EUR 1.7 million). The reduction of cases classified as non-performing purely on the basis of the forbearance definition compared to the previous year resulted from an adjustment to the calculation model due to instructions from the European Banking Authority (EBA).

In Wholesale Banking, forborne loans and advances amounted to EUR 150.7 million (previous year: EUR 33.8 million). Of this amount, EUR 16.8 million (previous year: EUR 20.3 million) has been classified as non-performing forborne loans and advances.

## Aging analysis (up to 90 days delinquent, but not impaired): outstanding loans and advances[1]

| | Mortgage loans 12/31/2016 €m | Other retail loans 12/31/2016 €m | Total 12/31/2016 €m |
|---|---|---|---|
| Delinquent 1–30 days | 228.4 | 14.7 | 243.1 |
| Delinquent 31–60 days | 163.1 | 50.7 | 213.8 |
| Delinquent 61–90 days | 41.5 | 14.6 | 56.1 |
| Total | 433.0 | 80.0 | 513.0 |

| | Mortgage loans 12/31/2015 €m | Other retail loans 12/31/2015 €m | Total 12/31/2015 €m |
|---|---|---|---|
| Delinquent 1–30 days | 184.5 | 10.2 | 194.7 |
| Delinquent 31–60 days | 174.2 | 42.8 | 217.0 |
| Delinquent 61–90 days | 56.6 | 13.1 | 69.7 |
| Total | 415.3 | 66.1 | 481.4 |

[1] There are no loans and advances in wholesale banking and in the institutional business that are up to 90 days delinquent but not impaired.

The ratio of delinquent loans and advances to the total retail portfolio (0.7 percent) is constant at the same level as in the previous year (0.7 percent). As with the current portfolio, no significant concentration of any specific type of credit was observed in the delinquent portfolio segment.

## Risk provision

The loan loss provisions in the lending business include portfolio-based specific impairment allowances, specific impairment allowances, and provisions for contingent liabilities and loan commitments. The IRBA models according to Basel III are used to calculate portfolio-based specific impairment allowances as well as the portfolio-based provisions. The amount of the portfolio-based risk provisions corresponds to the expected loss (EL).

In addition, specific impairment allowances or provisions for contingent liabilities and loan commitments are recognized as appropriate for all terminated mortgage loans and all material defaulted receivables in the Wholesale Banking segment (receivable volume > EUR 1 million). The need for risk provisions is calculated quarterly and approved by the full Management Board.

## Development of the risk provision under IFRS

| | 12/31/2016<br>€ m | 12/31/2015<br>€ m |
|---|---|---|
| Opening balance | -564 | -537 |
| Utilization of existing allowances | 51 | 61 |
| Additions to/ reversals of risk provision | -55 | -88 |
| Other changes | 1 | 0 |
| Closing balance | -567 | -564 |

The risk costs were down year on year in 2016 due to the good market environment. This was boosted by the healthy economic situation in Germany, in particular for mortgage loans. Integrating ING-Bank N.V. Vienna Branch into ING-DiBa Austria caused a EUR 19.1 million addition to risk provisions. Risk provisions for impaired loans and advances and contingent liabilities amounted to EUR 385.6 million as of the end of the fiscal year.

## Monitoring and management of operational risks

## Risk definition

Operational risk is defined as the risk of financial loss through external influence (criminal acts, natural disasters, etc.) or through internal factors (e.g., failure of IT systems, fraud, human error, faulty processes, structural weaknesses, insufficient monitoring).

At ING-DiBa, operational risk also includes legal risks that result from contractual arrangements or general legal conditions. Legal risks which may have a negative impact on the Bank's future operating results may arise from a continuing consumer-friendly interpretation of laws by the courts. There are also risks if the number of customers citing such ruling deviates significantly from the forecast number.

## Organization

The Non-Financial Risk Management & Compliance organizational unit is responsible for coordinating all activities with regard to management of the operational risk. Among others, its duties include the methodical specifications for identifying, quantifying, and managing operational risks and adequate risk reporting to the NFRC as well quarterly reports to

ING within the framework of the Non-Financial Risk Dashboard (NFRD). In this function, the Non-Financial Risk Management & Compliance organizational unit works closely with the functional departments.

Management of operational risks also includes ensuring compliance with requirements of the Sarbanes-Oxley Act (SOX 404) and fraud prevention.

Contact persons for SOX and fraud are appointed within the relevant departments with legal or regulatory provisions for this purpose.

The topic of outsourcing services is handled comprehensively in a separate guideline. All instances of outsourcing within the meaning of the KWG have been subjected to a risk analysis.

### Operational risk strategy

Operational risk management is aimed at identifying, analyzing, and assessing all of the Bank's material risks based on a comprehensive and integrated approach. Acceptable and unacceptable risks are differentiated. Risk mitigation strategies must be developed for the unacceptable risks and derived measures implemented in order to reduce the risks to an acceptable level. This ensures that the total of all risks is always covered by the risk-taking capital allocated for this risk type in accordance with the Risk-Bearing Capacity Concept and the Bank's continued existence is ensured.

### Operational risk management and risk control

Management of the operational risks is based on the Basel III qualitative requirements, compliance with legal or regulatory provisions, and the regulations established within the Group; it is aimed at ensuring a high level of information security.

### Incident reporting and risk assessments

Operational risk management includes a Company-wide incident reporting system, observation and analysis of key risk indicators (KRI), and the implementation of risk & control assessments (R&CSAs) in critical divisions and projects that impact the Bank's risk profile.

### Information security

The high standards for information security (IS) are set forth in detailed IS guidelines. Compliance with these guidelines is continuously monitored by the Non-Financial Risk Management & Compliance organizational unit.

## Legal security

To safeguard against legal risks, the Bank generally uses standardized basic or master agreements reviewed by the Legal department. Customized individual contractual arrangements are reviewed by the Legal department.

## Business Continuity Plan

ING-DiBa has Business Continuity Plans (BCPs) for all three sites in Germany and its ING-DiBa Austria branch, which are integrated in a comprehensive Business Continuity Management (BCM) plan.

This plan includes detailed communications plans, instructions, system documentation, and codes of conduct, which ensure the maintenance and restoration of operations in an emergency (system outage, destruction of an office, the loss of personnel or the loss of a critical supplier). The BCM and all of its subparts are subject to regular tests (e.g., evacuation drills, power blackout simulations, testing the notification chain).

The Non-Financial Risk Management & Compliance organizational unit is also responsible for maintenance and lifecycle management of the BCM. The BCP was updated as scheduled during the year under review. The updated plans were subsequently tested and checked for continued applicability.

## Risk management at the portfolio level

The Bank manages operational risk at the portfolio level by setting limits under the Risk-Bearing Capacity Concept. The economic capital requirement is determined using the Advanced Measurement Approach (AMA) in accordance with Basel III. This risk model was centrally developed by ING. The modeling takes place at the level of ING's business lines and allocations are made to the respective business units using capital and risk-relevant metrics. The calculation on the basis of the Bank's AMA model includes figures from historical internal loss events, risk costs calculated using risk & control self-assessments, and scenario analyses which are specific to ING-DiBa. These data are supplemented by the comprehensive external loss database of the Operational Riskdata eXchange Association (ORX) containing anonymized losses suffered by comparable credit institutions.

## Risk situation

Thanks to its conservative strategic risk orientation, the Bank continued to enjoy a positive risk profile overall in fiscal year 2016. ING-DiBa's comfortable risk situation is illustrated by an analysis of its risk-bearing capacity, which (taking into consideration the risk mitigation measures) reveals a 33 percent utilization of the available risk-taking capital under the going-concern assumption as of the end of fiscal year 2016 (previous year: 38 percent). The Bank's capital reserves are therefore sufficient to guarantee its risk-bearing capacity even in the event of adverse developments.

As in the previous years, ING-DiBa's liquidity level was comfortable at all times in fiscal year 2016. In addition, the regulatory minimum liquidity requirements were complied with at all times. This was particularly visible in the Bank's liquidity coverage ratio, which was constantly above 125%.

As part of the ING Group, ING-DiBa was subject to the European Central Bank's Supervisory Review and Evaluation Process (SREP) in fiscal year 2016. The objective of the annual assessment for all banks directly supervised by the ECB is to obtain a full overview of the current business situation and the sustainability of the banks' business model based on an analysis of the business model, an assessment of internal governance, and an assessment of capital and liquidity risks. As a result, the banks studied are notified of an individual minimum capital requirement and, beyond this, a capital recommendation.

With a Tier 1 ratio of 13.2 percent (previous year: 14.9 percent) at the end of 2016, the equity base remains significantly above the Bank's individual supervisory minimum ratio applicable in the reporting year and the corresponding supervisory capital recommendation. Additionally, the multi-year capital planning, which is updated regularly, also ensures that future own funds requirements will be adhered to as well.

As of the end of fiscal year 2016, the sum of the capital requirement from the overall risk exposure and the supplemental capital requirement pursuant to article 500 of the CRR amounting to EUR 5.4 billion (previous year: EUR 5.0 billion) was covered by Tier 1 capital amounting to EUR 5.9 billion (previous year: EUR 5.5 billion).

# 4. Additional disclosures under IFRS 7

## Maximum default risk for each class of financial instrument

| | 12/31/2016<br>€ m | 12/31/2015<br>€ m |
|---|---|---|
| **Balance sheet assets** | | |
| Cash reserve | 1,487 | 1,497 |
| Loans and advances to banks | | |
| Payable on demand | 604 | 256 |
| Other loans and advances | 763 | 363 |
| Loans and advances to customers | | |
| Mortgage loans | 68,029 | 65,047 |
| Consumer loans | 6,769 | 5,945 |
| Public sector loans and other loans and advances | 3,481 | 4,752 |
| Corporate loans | 25,628 | 15,183 |
| Asset-backed securities/ mortgage-backed securities | 2,270 | 6,731 |
| Pfandbriefe | 835 | 829 |
| Risk provision | – 553 | – 544 |
| Adjustment to portfolio fair value hedges | 879 | 1,183 |
| Derivatives with positive fair value | | |
| Hedging derivatives | 0 | 0 |
| Other derivatives | 345 | 68 |
| Financial investments | | |
| Held to Maturity | 1,228 | 1,255 |
| Available for sale | 37,510 | 36,415 |
| Other assets | | |
| Accrued interest on loans and advances to banks | 4 | 1 |
| Accrued interest on HtM financial investments | 15 | 14 |
| Accrued interest on AfS financial investments | 414 | 452 |
| Accrued interest on loans and advances to customers | 77 | 64 |
| Accrued interest on hedging derivatives | 0 | 0 |
| Accrued interest on other derivatives | 1 | 1 |
| Other | 126 | 94 |
| Maximum default risk for assets in statement of financial position | 149,912 | 139,606 |
| Financial guarantees | 458 | 399 |
| Irrevocable loan commitments | 14,479 | 12,999 |
| Maximum default risk | 164,849 | 153,004 |

Offsetting in the statement of financial position is required for derivative transactions that are settled through a central counterparty (see Notes to the Consolidated Financial Statements, note 26).

Please see the risk report for further disclosures on "Collateralization of the loan portfolio".

## Reconciliation of IFRS carrying amounts to risk report

| | Descriptions from risk report | 12/31/2016 IFRS carrying amount €m | 12/31/2016 Risk report nominal €m |
|---|---|---|---|
| **Balance sheet assets** | | | |
| Cash reserve | | 1,487 | |
| Payable on demand | | 604 | |
| | Corporates/ Corporate lending | | 150 |
| Other loans and advances | | 8,277 | |
| | Reverse repo | | 599 |
| | Uncovered securities [1] | | 19 |
| | Covered securities [1] | | 0 |
| | Collateralized Deposit | | 6,575 |
| | Corporates/ Corporate lending | | 1,061 |
| | Structured finance | | 1,140 |
| Loans and advances to banks | | 8,881 | 9,544 |
| Mortgage loans | Mortgage loans | 68,029 | 67,610 |
| Consumer loans | Other retail loans | 6,769 | 6,543 |
| Public sector loans, other loans and advances | | 3,481 | |
| | Short-term lending to municipalities | | 1,932 |
| | Uncovered securities | | 1,348 |
| | Covered securities [1] | | 50 |
| | Corporates/ Corporate lending | | 0 |
| | Structured finance | | 294 |
| Corporate loans | | 25,628 | |
| | Corporates/ Corporate lending | | 6,551 |
| | Structured finance | | 17,793 |
| Asset-backed securities (ABS)/ mortgage-backed securities (MBS) | ABS/ MBS | 2,270 | 2,256 |
| Pfandbriefe | Covered securities [1] | 835 | 835 |
| Risk provision | | – 553 | |
| Loans and advances to customers | | 106,459 | 105,212 |
| Adjustment to portfolio fair value hedges | | 879 | |
| Hedging derivatives | | 0 | |
| Other derivatives | | 345 | |
| | Uncovered securities | | 0 |
| Derivatives with positive fair value | | 345 | 0 |

**Continued on next page**

| Continued | Descriptions from risk report | 12/31/2016 IFRS carrying amount €m | 12/31/2016 Risk report nominal €m |
|---|---|---|---|
| **Balance sheet assets** | | | |
| Held to maturity | | 1,228 | |
| | Uncovered securities | | 430 |
| | Covered securities | | 1,256 |
| Available for sale | | 37,510 | |
| | Uncovered securities | | 14,310 |
| | Covered securities | | 20,300 |
| | ABS/ MBS | | 88 |
| Financial investments | | 38,738 | 36,384 |
| Accrued interest on loans and advances to banks | | 4 | |
| Accrued interest on HtM financial investments | | 15 | |
| Accrued interest on AfS financial investments | | 414 | |
| Accrued interest on loans and advances to customers | | 77 | |
| Accrued interest on hedging derivatives | | 0 | |
| Accrued interest on other derivatives | | 1 | |
| Other | | 126 | |
| Other assets | | 637 | |
| | | | |
| Maximum default risk for assets in statement of financial position | | 157,426 | 151,140 |
| Guarantees and letters of credit | | 0 | |
| | Corporates/ Corporate lending | | 992 |
| | Structured finance | | 2 |
| Financial guarantees | | 458 | |
| | Corporates/ Corporate lending | | 445 |
| | Structured finance | | 0 |
| Total assets | | 157,884 | 152,579 |

(1) This item includes collateralized and uncollateralized loans against borrower's notes.

| | Descriptions from risk report | 12/31/2015 IFRS carrying amount €m | 12/31/2015 Risk report nominal €m |
|---|---|---|---|
| **Balance sheet assets** | | | |
| Cash reserve | | 1,497 | |
| Payable on demand | | 256 | |
| | Corporates/ Corporate lending | | 96 |
| Other loans and advances | | 4,648 | |
| | Reverse repo | | 1,067 |
| | Uncovered securities [1] | | 0 |
| | Covered securities [1] | | 0 |
| | Collateralized Deposit | | 4,149 |
| | Corporates/ Corporate lending | | 85 |
| | Structured finance | | 277 |
| Loans and advances to banks | | 4,904 | 5,674 |
| Mortgage loans | Mortgage loans | 65,047 | 64,684 |
| Consumer loans | Other retail loans | 5,945 | 5,744 |
| Public sector loans, other loans and advances | | 4,752 | |
| | Short-term lending to municipalities | | 2,764 |
| | Uncovered securities | | 1,870 |
| | Covered securities [1] | | 50 |
| | Corporates/ Corporate lending | | 55 |
| | Structured finance | | 158 |
| Corporate loans | | 15,183 | |
| | Corporates/ Corporate lending | | 3,573 |
| | Structured finance | | 11,564 |
| Asset-backed securities (ABS)/ mortgage-backed securities (MBS) | ABS/ MBS | 6,731 | 6,740 |
| Pfandbriefe | Covered securities [1] | 829 | 835 |
| Risk provision | | – 544 | |
| Loans and advances to customers | | 97,943 | 98,037 |
| Adjustment to portfolio fair value hedges | | 1,183 | |
| Hedging derivatives | | 0 | |
| Other derivatives | | 68 | |
| | Uncovered securities | | 0 |
| Derivatives with positive fair value | | 68 | 0 |

Continued on next page

| Continued | Descriptions from risk report | 12/31/2015 IFRS carrying amount €m | 12/31/2015 Risk report nominal €m |
|---|---|---|---|
| **Balance sheet assets** | | | |
| Held to maturity | | 1,255 | |
| | Uncovered securities | | 20 |
| | Covered securities | | 1,156 |
| Available for sale | | 36,415 | |
| | Uncovered securities | | 15,828 |
| | Covered securities | | 18,268 |
| | ABS/ MBS | | 88 |
| Other assets | | 37,670 | 35,360 |
| Accrued interest on loans and advances to banks | | 1 | |
| Accrued interest on HtM financial investments | | 14 | |
| Accrued interest on AfS financial investments | | 452 | |
| Accrued interest on loans and advances to customers | | 64 | |
| Accrued interest on hedging derivatives | | 0 | |
| Accrued interest on other derivatives | | 1 | |
| Other | | 94 | |
| Other assets | | 626 | |
| | | | |
| Maximum default risk for assets in statement of financial position | | 143,891 | 139,071 |
| Guarantees and letters of credit | | 0 | |
| | Corporates/ Corporate lending | | 881 |
| | Structured finance | | 43 |
| Financial guarantees | | 399 | |
| | Corporates/ Corporate lending | | 381 |
| | Structured finance | | 17 |
| Total assets | | 144,290 | 140,393 |

(1) This item includes collateralized and uncollateralized loans against borrower's notes.

# 5. Internal Control System for Accounting

## Goal of the internal control and risk management system

In preparing the consolidated financial statements for publication, the highest priority is given to dependable compliance with the generally accepted accounting principles. In doing so, all regulatory and legal requirements relevant for ING-DiBa must be followed. The internal control and risk management system for accounting (ICS Ac) assists in achieving this objective. Losses could arise through misstatements in financial reporting. For this reason, processes in the preparation of the consolidated financial statements are backed with appropriate controls.

## Risks associated with accounting

Because of unintended errors or fraudulent actions, financial statements may suggest a view of the net assets, financial position, and results of operations that does not represent a true and fair view. This is the case when data or disclosures in the notes included in the financial statements differ materially from proper disclosure. In this context, variances are considered material when they can influence economic decisions made on the basis of these financial statements by recipients of the financial statements. Under certain circumstances, these risks are associated with legal sanctions, such as the intervention of banking authorities. In addition to this, investor trust may be unfavorably affected, as can the Bank's reputation. Therefore, the goal of the ICS Ac established by the management of ING-DiBa is to avoid these main risks. Such a system offers reasonable assurance so that discrepancies in financial statements can be avoided to the greatest extent possible.

## General conditions for ICS Ac

In designing the control system, the Bank relies on the framework for internal control systems of the Committee of Sponsoring Organizations of the Treadway Commission, which is intended to help improve the quality of financial reporting through ethical actions, effective internal controls, and good management. In addition, great importance is attached to the ongoing development of the ICS Ac.

Control objectives for accounting are the

- existence and accuracy of assets and liabilities recognized and transactions reported
- completeness of transactions and account balances reported in the financial statements
- measurement at the applicable values for assets, liabilities, and transactions
- consideration only in the case of existing beneficial ownership
- presentation and reporting in accordance with statutory requirements.

The principles of efficiency were considered in establishing the ICS Ac. In particular, this means that the benefits of controls on the one hand and the cost aspect on the other hand were balanced responsibly. As with all processes and systems, by nature, absolute assurance cannot be guaranteed for the identification and avoidance of misstatements in the accounts despite the greatest care.

## Organization of the ICS Ac

In addition to the single-entity financial statements in accordance with HGB, ING-DiBa also prepares consolidated financial statements in accordance with IFRSs. For the consolidated financial statements and Group management report, the Bank takes into account the applicable commercial laws and German Accounting Standards (GAS). The Bank is managed on the basis of the IFRS accounting figures. The full Management Board is responsible for the organization and improvement of the ICS Ac. The Accounting department is responsible for the application of proper accounting in all annual and consolidated financial statements in accordance with national and international accounting standards.

The Accounting department is responsible for reporting to the parent, ING Bank N.V., Amsterdam, Netherlands, and preparing ING-DiBa's consolidated financial statements including all financial information (IFRS notes). In this process, the separate financial statements for the companies are aggregated, and the necessary consolidation steps are executed. Intra-Group transactions are eliminated and the proper implementation and approval of adjusting processes is monitored.

Certain activities in connection with accounting are conducted in other organizational units:

- Market & Integrative Risk Management calculates the risk provision for counterparty default risk in the lending business. It provides relevant information on the default risk for the risk report.
- Operational Risk Management assesses operational risk under the Advanced Measurement Approach (AMA) in accordance with Basel III.
- Market & Liquidity Risk Management provides important information for market risk (interest rate risk) and liquidity risk for presentation in the risk report.
- Management Accounting is responsible for the analysis of the operating result from a management perspective.
- Treasury is responsible for asset/liability management with respect to liquidity management.
- All proprietary trading transactions falling under the scope of MaRisk are processed and monitored by Trade Settlement.
- The Personnel organizational unit provides data necessary for calculating provisions for pensions and other personnel-related provisions.
- The Management Board Secretariat & Legal organizational unit manages pending litigation and determines the claim value for calculating these provisions for the statement of financial position.

The Supervisory Board's Audit Committee is responsible for receiving and processing complaints from employees, shareholders, and third parties. Complaints about accounting and other accounting-related issues can be submitted anonymously. In this way, employees are given the opportunity to report violations of internal guidelines without the fear of repercussions. Consequently, the whistleblower principle applies here.

The ICS Ac includes policies, procedures, and measures aimed at ensuring the effectiveness and efficiency of internal and external accounting in compliance with applicable laws. The processes and organizational tasks, authorities, responsibilities, controls, and communication channels associated with these are clearly defined and coordinated.

The framework for the ICS Ac is documented in the Bank's organizational handbook. This handbook also contains the guidelines and work directives for the entire Company. These are also accessible via the intranet. The guidelines and work directives are regularly reviewed to ensure they are accurate and up to date. Likewise, the controls for compliance with the internal set of regulations and requirements for the segregation of functions are reviewed on a regular basis.

Uniform work directives and guidelines exist for ING-DiBa's Accounting department. In addition, exact job descriptions and authorizations exist for the individual activities. The question of adequate substitutes in the event of employee absences is also addressed. The adherence to accounting standards by employees ensures the proper consideration of transactions. In addition, ING-DiBa's IFRS accounting is aligned with the ING Group Accounting Manual for exercising options. Detailed schedules are published during the preparation of the consolidated financial statements. Changes to the accounting guidelines are communicated in a timely manner. Specialist training prepares the employees for upcoming changes in national and international accounting.

The main features of the internal control system are the principle of dual control, timely plausibility checks, including in coordination with other departments, as well as ongoing reconciliations between the general and subsidiary ledgers. These measures ensure that the various data sources are consistent with national accounting, reporting and Group accounting. The documentation as part of work on the financial statements is transparent at all times.

The process of issuing and administering user access is automated and centrally organized. Applications for access are collected electronically by the system in the functional department and released by the respective manager after review. The IT department is responsible for the technical access calibration and administration. For Accounting, there are different access profiles. In this way, tiered read and write access can be granted for the systems and subsystems needed for accounting.

The Corporate Audit Services organizational unit supports the Management Board by assessing the ICS Ac and providing recommendations. In this way, it contributes to ensuring the compliance of accounting.

# 6. Report on Opportunities and Expected Developments

**Opportunities**

Opportunities are defined as possible future developments or events that may lead to a variance from the forecast or target that is positive for the Company. Such developments may firstly be the result of a business initiative through which the competitive position is actively improved by taking strategic actions. In addition, continuous efficiency increases, achieved by optimizing processes or implementing further cost reduction measures, have the potential to improve business performance. Secondly, changes in the operating environment, for example in customer behavior and associated industry trends, could lead to favorable market conditions.

Opportunities for fiscal year 2017 from ING-DiBa's perspective:

› The low interest rate policy was already putting pressure on the traditional business models of branch banks in previous years. It is unlikely that interest rates will increase significantly in Europe in the medium term, which will further exacerbate the situation for branch banks. The banks are compensating for the lost sources of income by increasing fees or eliminating free-of-charge services. In addition, further branch closures are expected. As a consequence, branch banks are increasingly moving away from the face-to-face contact that they had always emphasized as their added value compared to direct banks without branches. If branch banks are thus forced to increasingly opt out of maintaining a local presence due to cost reasons and simultaneously increase fees or even contemplate introducing negative interest rates, it must be expected that even more branch bank customers will move to ING-DiBa. There are good prospects of a notable increase in new customers as against prior-year periods in 2017.

› Digitization in the banking industry will continue to play a key role in 2017. Mobile banking and mobile payments are expected to continue gaining in importance. Smartphones are increasingly becoming a "replacement" for bank branches, and not just by young customers. ING-DiBa made significant targeted investments in expanding its corresponding business processes in previous years. This has enabled the Bank to secure an advantage over many competitors. Going forward, ING-DiBa will continue to selectively collaborate with the so-called FinTechs provided that this promises adequate solutions to take advantage of sustainable future digital trends.

› Demand for residential property is expected to continue in 2017 despite significant price increases on the German real estate market. Growth is expected to be boosted by the relatively low interest rates for long-term mortgage loans, higher income, and the increasing demand for assets. There are no signs of a nationwide price bubble emerging since real estate prices in Germany vary from region to region. Stagnating or even falling prices in rural regions are offset by sharp price increases in large cities such as Munich, Frankfurt am Main, and Berlin. The "affordability index" of the German Real Estate Association (Immobilienverband Deutschland, IVD) clearly shows that more Germans than ever before can afford home ownership, despite the price increases. In this respect, ING-DiBa assumes further increasing demand for real estate loans.

- In the Wholesale Banking segment, ING-DiBa operates in an intensely competitive market environment. Nevertheless, the Bank intends to push forward with its growth in all areas of this segment in the coming fiscal year. The focus will be on automotive, energy, and media & technology. For the 2017 fiscal year, the Bank has also identified market potential with respect to international businesses that issue corporate notes in Germany.

#### Expected macroeconomic environment

Following robust economic growth in Germany in the fiscal year, economists expect a slight slowdown in 2017. Based on a survey of approximately 27,000 businesses, the Association of German Chambers of Commerce and Industry (Deutscher Industrie- und Handelskammertag, DIHK) forecasts GDP growth of just 1.2 percent in Germany in 2017. This is thus slightly more pessimistic than the announcements made by the German Council of Economic Experts (Sachverständigenrat zur Begutachtung der gesamtwirtschaftlichen Entwicklung), which forecast growth of 1.3 percent for the German economy in the fall. As the key reasons for the anticipated slowdown, the DIHK cites the expected stagnation in exports due to lower demand from states that previously enjoyed high growth rates, such as China and the United States. In addition, the continuing shortage of skilled labor in Germany could have an adverse effect. The global economy is expected to see cautious growth in 2017. In its Economic Outlook, the International Monetary Fund (IMF) forecasts that the global economy will expand by 3.4 percent.

However, all forecasts for the coming years are complicated by uncertainties surrounding the economic and financial policy of new US President Donald Trump. For instance, it is unclear whether and for how long the United States will maintain its low interest rate policy and there is no certainty as to the new administration's approach to trade relationships.

#### Expected industry environment

The financial industry will have to adjust to further challenges in the coming years. There is a high probability that the low interest rate environment will remain a factor for several years to come, and the banks' traditional business models will continue to face pressure.

Added to this is increasing competition from innovative FinTechs on the one hand, as well as global players such as Google, Apple, and PayPal, who are already gaining a growing market share in mobile payments and payment transactions. New technologies such as "blockchain" will also play an ever more significant role and could have a far-reaching impact on the business of financial institutions. It remains important that banks' products and services under the guise of "digitization" do not become more complex, but rather simpler and more convenient.

With regard to growing regulatory requirements, too, banks will need to ensure that they do not cause an increase in bureaucracy and thus higher costs.

Overall, ING-DiBa again expects a demanding environment for the banking industry for 2017, but as before considers itself well positioned in this competition.

**Expected business, earnings and financial situation**

Despite the historically low interest rate levels, in 2017 customers are expected to continue favoring forms of saving that are payable on demand and offer interest rates that at least partly offset the loss of purchasing power in the form of the inflation rate. Bank customers are expected to have little sympathy for the idea of so-called negative interest rates, meaning that they could contemplate other alternatives in the short term. ING-DiBa's Extra account is an uncomplicated product that as far as possible offers a fair interest rate and features daily availability.

For investors planning for the longer term, the securities business remains a possible option, above all in view of the continuing low interest rates. In particular, funds products such as ETFs will remain of interest to many investors. Should the interest rate level increase in 2017 against expectations, the demand for securities could weaken which could lead to a decline in the securities services business.

According to all forecasts, strong demand for real estate as a crisis-proof asset will continue in the next few years. Against this backdrop, continued strong demand for mortgage loans can be anticipated. Such a development would have a positive impact on the Bank's net interest income, even though the low interest rates could well have a negative effect on profit margins in this segment.

The increases in wages and salaries in many areas and the stable employment situation could further stimulate consumer spending and prompt new purchases. This is boosted by the low interest rates. For this reason, demand for consumer loans is expected to be stable overall, providing no external influences worsen the economic situation and thus dent consumer confidence.

In addition, the liquidity, market price, counterparty default, and operational risks (section 3 of the risk report) could also have an impact on the Bank's development, meaning that the following forecasts are made on the assumption of similar risks as in the fiscal year.

ING-DiBa anticipates the positive trend in the Retail Customer Assets segment to continue in fiscal year 2017. Although the competitive situation in this segment remains challenging, the Bank expects the volumes of savings products and current accounts to rise slightly. The current account with direct salary deposit is a particular focus of the Bank in this segment. Against the backdrop of continued uncertainties surrounding the global economic and financial policy of the United States and the persistently tense economic and political situation in Europe, short-term planning in the securities services business is subject to uncertainties. Based on the current market situation, the Bank expects a slight increase in order numbers as against the level in fiscal year 2016. In this context, the increasing trading activity is expected to lead to significant growth in securities account volumes in 2017.

Continuing high demand in the Retail Customer Loans segment is expected due to the stable situation on the labor market and the ongoing healthy consumer confidence in Germany. In addition, the continuing demand for residential property and the Bank's favorable interest rate conditions are expected to have a positive effect on the mortgage loans business in 2017. Overall, this segment is anticipated to see a moderate increase in volume.

The Wholesale Banking segment is making an ever greater contribution to ING-DiBa's business success. This development is based on the comprehensive ING network, which is aimed at further expanding business relationships with major international companies and global investors. The corporate customer business is also dependent on future developments on the capital markets and in the economic environment. The Bank sees further growth potential for 2017 and expects a moderate rise in volume in the Wholesale Banking segment.

A moderate increase in business volume will continue to be assumed in the coming fiscal year as a foundation for the Bank's sustainable growth. On this basis, the Bank expects a moderate increase in net interest income, which however will also be accompanied by moderate growth in administrative expenses. The conservative management of the potential risks from the lending business is accompanied by cautious planning of risk costs, which will increase significantly in 2017 in comparison with the low level seen in fiscal year 2016. In view of these offsetting effects, overall the Bank expects a moderate decrease in the Result before Tax MA and profit before tax as against the high level of fiscal year 2016.

The relative performance figure return on equity is expected to decrease moderately due to the decline in profit and increase in risk-weighted assets connected with the growth in new business.

A moderate rise in the cost-income ratio is expected for fiscal year 2017. This is primarily attributable to the higher administrative expenses on the back of investments in the Bank's digitization.

With respect to the Bank's growth and the increase in regulatory capital requirements, the Bank plans to strengthen its equity base.

The corporate culture and the willingness and commitment of employees to further develop it are instrumental in the business success of ING-DiBa. In this context, the Bank focuses in particular on employee satisfaction as a key performance indicator. For the 2017 fiscal year, the Bank expects a "Great Place to Work" result on the same high level as in the year under review.

Overall, the Bank expects a moderate increase in business volume, which would have a positive effect on net interest income but would also lead to higher administrative expenses. A moderate decline in the Result before Tax MA and profit before tax is expected in this context, which could also lead to a moderate decrease in RoE and a moderate rise in the cost-income ratio.

The Management Board of ING-DiBa continues to pursue its goal of strengthening the Bank's position as an innovative bank with proximity to its customers, despite the tense capital market environment and low interest rates, and use the increasing trend toward digitization to expand this position through robust qualitative as well as quantitative growth in equal measure.

# Consolidated financial statements

## Consolidated statement of financial position

| | Note | 12/31/2016<br>€ m | 12/31/2015<br>€ m |
|---|---|---|---|
| **Assets** | | | |
| Cash reserve | 1 | 1,487 | 1,497 |
| Loans and advances to banks | 2 | 8,881 | 4,904 |
| Loans and advances to customers | 3 | 106,459 | 97,943 |
| Adjustment to portfolio fair value hedges | 4 | 879 | 1,183 |
| Financial investments | 5 | 38,738 | 37,670 |
| Derivatives with positive fair value | 6 | 345 | 68 |
| Investment property | 7 | 12 | 12 |
| Property and equipment and Group-occupied property | 8 | 64 | 54 |
| Intangible assets | 9 | 23 | 11 |
| Income tax assets | 10 | 21 | 8 |
| Deferred tax assets | 11 | 7 | 1 |
| Other assets | 12 | 637 | 626 |
| Total assets | | 157,553 | 143,977 |
| Equity and liabilities | | | |
| EQUITY | | | |
| Subscribed capital | | 100 | 100 |
| Reserves | | 7,590 | 7,106 |
| Non-controlling interests | | 0 | 0 |
| **Equity** | 13 | 7,690 | 7,206 |
| LIABILITIES | | | |
| Securitized liabilities | 14 | 1,272 | 1,283 |
| Deposits from banks | 15 | 16,595 | 12,941 |
| Due to customers | 16 | 130,151 | 121,126 |
| Derivatives with negative fair value | 17 | 336 | 76 |
| Income tax liabilities | 18 | 0 | 4 |
| Deferred tax liabilities | 19 | 164 | 161 |
| Non-current provisions | 20 | 199 | 173 |
| Other liabilities | 21 | 1,146 | 1,007 |
| Total equity and liabilities | | 157,553 | 143,977 |

# Consolidated income statement

| | Note | 2016<br>€ m | 2015<br>€ m |
|---|---|---|---|
| Interest income | | 2,851 | 2,862 |
| Interest expense | | – 879 | – 1,055 |
| Net interest income | 33 | 1,972 | 1,807 |
| Commission income | | 243 | 228 |
| Commission expense | | – 139 | – 136 |
| Net commission income | 34 | 104 | 92 |
| Net gains/losses on measurement of derivatives and hedged items | 35 | 27 | 4 |
| Other net gains/losses on financial investments and investment property | 36 | 48 | 76 |
| Other income and expenses | 37 | – 30 | 13 |
| Total income | | 2,121 | 1,992 |
| | | | |
| Risk provision | 38 | – 31 | – 77 |
| Personnel expenses | 39 | – 342 | – 314 |
| Other administrative expenses | 40 | – 514 | – 486 |
| Total expenses | | – 887 | – 877 |
| | | | |
| Profit before tax | | 1,234 | 1,115 |
| Income tax | 41 | – 375 | – 360 |
| Profit after tax | | 859 | 755 |
| attributable to non-controlling interests | | 0 | 0 |
| attributable to owners of the parent | | 859 | 755 |

## Consolidated statement of comprehensive income

| | Note | 2016<br>Amount before tax<br>€ m | 2016<br>Income tax<br>€ m | 2016<br>Amount after tax<br>€ m |
|---|---|---|---|---|
| Remeasurements of Group-occupied property | 8, 13 | 0 | 0 | 0 |
| Remeasurement gains/losses related to defined benefit plans | 13, 20 | – 20 | – 6 | – 14 |
| Other comprehensive income from items that, in accordance with other IFRSs, will not be reclassified subsequently to profit or loss | | – 20 | – 6 | – 14 |
| Realized gains/losses transferred to profit or loss | 5, 13 | – 20 | – 6 | – 14 |
| Remeasurements of available for sale financial investments | 5, 13 | 11 | 3 | 8 |
| Changes in cash flow hedge reserve | 13, 24 | 6 | 2 | 4 |
| Other comprehensive income from items that are, in accordance with other IFRSs, eligible for subsequent reclassification to profit or loss | | – 3 | – 1 | – 2 |
| Consolidated other comprehensive income | | – 23 | – 7 | – 16 |
| Profit | | 1,234 | 375 | 859 |
| Total comprehensive income | | 1,211 | 368 | 843 |
| attributable to non-controlling interests | | | | 0 |
| attributable to owners of the parent | | | | 843 |

| | Note | 2015 Amount before tax €m | 2015 Income tax €m | 2015 Amount after tax €m |
|---|---|---|---|---|
| Remeasurements of Group-occupied property | 8, 13 | 0 | 0 | 0 |
| Remeasurement gains/losses related to defined benefit plans | 13, 20 | 9 | 3 | 6 |
| Other comprehensive income from items that, in accordance with other IFRSs, will not be reclassified subsequently to profit or loss | | 9 | 3 | 6 |
| Impairment losses | 5, 13 | 0 | 0 | 0 |
| Realized gains/losses transferred to profit or loss | 5, 13 | – 93 | – 28 | – 65 |
| Remeasurements of available for sale financial investments | 5, 13 | – 319 | – 106 | – 213 |
| Changes in cash flow hedge reserve | 13, 24 | – 3 | – 1 | – 2 |
| Other comprehensive income from items that are, in accordance with other IFRSs, eligible for subsequent reclassification to profit or loss | | – 415 | – 135 | – 280 |
| | | | | |
| Consolidated other comprehensive income | | – 406 | – 132 | – 274 |
| Profit | | 1,115 | 360 | 755 |
| Total comprehensive income | | 709 | 228 | 481 |
| attributable to non-controlling interests | | | | 0 |
| attributable to owners of the parent | | | | 481 |

## Consolidated statement of changes in equity

| | 2016<br>Subscribed capital<br>€ m | 2016<br>Other reserves<br>€ m | 2016<br>Total<br>€ m |
|---|---|---|---|
| Consolidated equity as of Jan. 1 | 100 | 7,106 | 7,206 |
| Remeasurement of available for sale financial investments | 0 | 8 | 8 |
| Realized gains/losses transferred to profit or loss | 0 | – 14 | – 14 |
| Changes in the cash flow hedge reserve | 0 | 4 | 4 |
| Remeasurement gains/ losses related to defined benefit plans | 0 | – 13 | – 13 |
| Other remeasurements | 0 | 0 | 0 |
| Consolidated other comprehensive income | 0 | – 15 | – 15 |
| Subtotal | 100 | 7,091 | 7,191 |
| Other changes | 0 | 3 | 3 |
| Contribution of Wholesale Banking Austria | 0 | 8 | 8 |
| Profit transfer | 0 | – 740 | – 740 |
| Contribution from tax group (push-down method) | 0 | 369 | 369 |
| Profit after tax | 0 | 859 | 859 |
| Consolidated equity as of Dec. 31 | 100 | 7,590 | 7,690 |

| | 2015<br>Subscribed capital<br>€ m | 2015<br>Other reserves<br>€ m | 2015<br>Total<br>€ m |
|---|---|---|---|
| Consolidated equity as of Jan. 1 | 100 | 6,921 | 7,021 |
| Remeasurement of available for sale financial investments | 0 | – 213 | – 213 |
| Realized gains/losses transferred to profit or loss | 0 | – 65 | – 65 |
| Changes in the cash flow hedge reserve | 0 | – 2 | – 2 |
| Remeasurement gains/losses related to defined benefit plans | 0 | 6 | 6 |
| Other remeasurements | 0 | 0 | 0 |
| Consolidated other comprehensive income | 0 | – 274 | – 274 |
| Subtotal | 100 | 6,647 | 6,747 |
| Other changes | 0 | 3 | 3 |
| Contribution of Wholesale Banking Austria | 0 | 0 | 0 |
| Profit transfer | 0 | – 644 | – 644 |
| Contribution from tax group (push-down method) | 0 | 345 | 345 |
| Profit after tax | 0 | 755 | 755 |
| Consolidated equity as of Dec. 31 | 100 | 7,106 | 7,206 |

(1) "Contribution of Wholesale Banking Austria" relates to the operations of the former "ING Bank N.V. Vienna Branch". Further information can be found in the section entitled "General information".

Changes in reserves are presented as after-tax amounts.
For detailed disclosures on the equity accounts, refer to note 13.

## Consolidated statement of cash flows

| | 2016<br>€ m | 2015<br>€ m |
|---|---|---|
| Profit before tax | 1,234 | 1,115 |
| Non-cash items included in profit before tax and reconciliation to cash flow from operating activities | | |
| Depreciation and write-downs of property and equipment, write-downs of loans and advances, financial investments and intangible assets, and reversals of impairment losses on these items | 59 | 90 |
| Increase/decrease in provisions | 9 | 38 |
| Gains/losses on disposal of financial investments and property and equipment | – 4 | – 75 |
| Other non-cash items of total comprehensive income | 19 | 182 |
| Subtotal | 1,317 | 1,350 |
| | | |
| Cash changes in operating assets and liabilities | | |
| Loans and advances to banks | – 3,603 | – 1,846 |
| Loans and advances to customers | – 8,752 | – 7,800 |
| Other operating assets | 552 | 600 |
| Deposits from banks | 2,541 | 1,851 |
| Due to customers | 8,941 | 5,860 |
| Other operating liabilities | – 565 | – 682 |
| Cash flows from derivative upfront and closing | 552 | – 330 |
| Net cash flows from operating activities | 983 | – 997 |
| | | |
| Investing activities | | |
| Proceeds from | | |
| Disposal of financial investments and other investments | 154 | 4,401 |
| Maturity of financial investments and other investments | 3,272 | 2,545 |
| Proceeds from | | |
| Disposal of property and equipment | 0 | 0 |
| Payments for investments in | | |
| Financial investments and other investments | – 4,486 | – 6,220 |
| Property and equipment | – 26 | – 17 |
| Intangible assets | – 18 | – 8 |
| Cash and cash equivalents from contribution of Wholesale Banking Austria | 91 | 0 |
| Net cash flows from investing activities | – 1,013 | 701 |

**Continued on next page**

| | 2016<br>€ m | 2015<br>€ m |
|---|---|---|
| Financing activities | | |
| Issuance of securitized liabilities | 493 | 0 |
| Maturity of securitzed liabilities | – 500 | 0 |
| Profit transfer | – 644 | – 621 |
| Net cash flows from financing activities | – 651 | – 621 |
| | | |
| Net cash flow | – 681 | – 917 |
| | | |
| Effects of exchange rate changes | 0 | 0 |
| Cash and cash equivalents at start of period | 1,447 | 2,364 |
| Cash and cash equivalents at end of period | 766 | 1,447 |
| | | |
| The cash flows from operating activities include | | |
| Interest received | 3,279 | 3,260 |
| Interest paid | – 1,011 | – 1,336 |
| | | |
| Cash and cash equivalents include | | |
| Cash reserve | 1,487 | 1,497 |
| Loans and advances to banks, payable on demand | 604 | 256 |
| Deposits from banks, payable on demand | – 1,325 | – 306 |
| Cash and cash equivalents at end of period | 766 | 1,447 |

The statement of cash flows is explained in note 43.

## IFRS notes to the consolidated financial statements

## General information

ING-DiBa AG, Frankfurt am Main, is a German stock corporation (*Aktiengesellschaft*) with activities in the banking sector.

Its business is primarily focused on direct banking with retail customers (retail business) and on financing business customers (Wholesale Banking).

ING-DiBa AG (hereinafter ING-DiBa) is domiciled at Theodor-Heuss-Allee 2, 60486 Frankfurt am Main, Germany. The Company is registered under HRB 7727 in the commercial register at the Local Court of Frankfurt am Main.

The Company operates a branch in Vienna, Austria, The branch trades as ING-DiBa Austria, a branch of ING-DiBa AG (formerly ING-DiBa Direktbank Austria), hereinafter referred to as "ING-DiBa Austria".

An additional branch with its registered office in Frankfurt am Main trades under the name ING Bank, a branch of ING-DiBa AG.

ING-DiBa AG's operation in Germany has offices in Frankfurt am Main, Nuremberg, and Hanover, and a representative office in Berlin.

ING-DiBa AG is the parent company of a subgroup; the subgroup is hereinafter referred to as ING-DiBa. All companies in the subgroup are domiciled in Germany. The activities of the subsidiaries are focused on property and asset management; none of them operates banking business. One company is a special purpose entity created to securitize a portfolio of mortgage loans of ING-DiBa (note 30).

ING-DiBa's share capital was completely held by ING Deutschland GmbH, Frankfurt am Main, at the end of the reporting period. The consolidated financial statements for the largest group of entities in which the Company is included are prepared by ING Groep N.V., Amsterdam, the Netherlands, and published at its website (www.ing.com). The consolidated financial statements for the smallest group of entities in which the Company is included are prepared by ING Bank N.V., Amsterdam, the Netherlands, and published in German in the electronic Federal Gazette (www.bundesanzeiger.de).

The share capital of ING-DiBa is not listed on the stock exchange.

ING-DiBa participates in the deposit protection fund of the Bundesverband deutscher Banken e.V. (Association of German Banks), Berlin, and the restructuring fund of the

Bundesanstalt für Finanzmarktstabilisierung (Federal Agency for Financial Market Stabilization), Frankfurt am Main. In addition, ING-DiBa makes contributions for the single resolution fund (referred to as "bank levy," note 40) to the Federal Agency for Financial Market Stabilization. It also belongs to the Entschädigungseinrichtung deutscher Banken GmbH (Compensation Scheme of German Banks), Berlin.

Since 2011, ING-DiBa AG has been issuing mortgage bonds (*Hypothekenpfandbriefe*, note 14), which are placed on the organized capital market, and has thus acquired the status of a capital-market-oriented company under German commercial law.

The Management Board approved these consolidated financial statements on March 10, 2017, and sent them to the Supervisory Board.

These consolidated financial statements for the fiscal year ended December 31, 2016, were prepared on the basis of Article 4 of Regulation (EC) No. 1606/2002 dated July 19, 2002, in accordance with the International Financial Reporting Standards (IFRSs), as adopted in the European Union. In addition, the commercial law provisions in accordance with section 315 a (1) HGB were also applied.

The consolidated financial statements comprise the consolidated statement of financial position, consolidated income statement, consolidated statement of comprehensive income, consolidated statement of cash flows, and consolidated statement of changes in equity. They also include the notes to the consolidated financial statements.

In addition, this report also contains a report on operating segments and the Group management report required under German commercial law.

The components of the risk report in accordance with IFRS 7.31-41 have essentially been incorporated into the following sections of the Group management report: "Principles of risk management", "Monitoring and management of market price risks", "Monitoring and management of liquidity risks", "Monitoring and management of counterparty default risks", "Monitoring and management of operational risks" as well as section 5 "Additional disclosures under IFRS 7". The disclosures under IFRS 7.39 are contained in note 23 and the collateral as defined in IFRS 7.38 is presented in the explanations of the respective items. Disclosures under IFRS 7.42 are centralized under note 25.

Where the terms "consolidated financial statements" and "Group management report" are used in the following, these refer to those prepared by ING-DiBa AG. This applies accordingly to all parts of the Group's consolidated financial statements and the consolidated Group. The consolidated financial statements of other consolidated groups and other consolidated groups themselves will be identified as such.

The consolidated financial statements are presented in euros. Unless otherwise indicated, all figures are shown in millions of euros (€ m).

Where information is presented in tabular format, negative signs are only used if the caption name does not clearly indicate an amount to be deducted.

The comparative period is the 2015 fiscal year; the comparative reporting date is December 31, 2015.

## Contribution of Wholesale Banking Austria

The undertaking previously trading as "ING Bank N.V. Vienna Branch" was contributed to ING-DiBa with retroactive effect as of January 1, 2016. The business operations were transferred as of August 1, 2016.
The profit of the transferred branch was included in ING-DiBa Group's consolidated financial statements as of August 1, 2016. The assets, liabilities and contingent liabilities acquired were included at Group carrying amounts of ING Bank N.V. The equity transferred was accounted for as a contribution to the distributable capital reserves as of the effective date of the contribution (August 1, 2016), corresponding to the accounting treatment under the German Commercial Code (HGB).

## Significant accounting policies

### a) Consolidation

### Consolidation methods

In accordance with IFRS 10.19, the consolidated financial statements of ING-DiBa have been prepared in accordance with uniform Group accounting policies. The scope of the subsidiaries to be consolidated is reviewed every six months. December 31, 2016, is the reporting date for the financial statements of all entities included in consolidation.

Irrespective of the type of shareholding, the Bank consolidates in the consolidated financial statements all entities that it controls directly or indirectly. Control exists if the investor is exposed to variable returns from the investee and can use its power to affect those returns. Power exists if existing rights give the company the ability to direct the relevant activities of the investee. Power can arise with or without corporate voting rights.

Unless a particular agreement specifies otherwise, control is deemed to exist as soon as ING-DiBa directly or indirectly has more than half of the voting rights.

If it does not hold the majority of the voting rights, control may also arise from the ability to unilaterally direct the relevant activities of the entity. This may, for example, be the case in structured entities, which are always conceived such that voting or similar rights are not the dominant factor when it comes to determining who controls the entity.

Consolidation begins on the date when control is obtained over the entity and ends when control is lost.

Acquisition accounting uses the acquisition method in accordance with IFRS 10.21 in conjunction with IFRS 10.B86 (b) and IFRS 3.4 et seq. The principles of the acquisition method entail the recognition and measurement of the identifiable assets, the liabilities assumed, and all non-controlling interests in the acquiree. If the deduction of the fair value of the share of the equity determined at the acquisition date for the entity to be consolidated from the fair value of the consideration transferred for the acquisition (cost) results in a positive difference, this amount is recognized as goodwill and reported under other assets. Goodwill, if any, is tested for impairment at least annually. If the difference is negative, the resulting amount is recognized in profit or loss at the acquisition date.

If control over subsidiaries is lost, the assets and liabilities as well as the carrying amounts of the non-controlling interests in the former subsidiary are derecognized and any consideration received is recognized at fair value.

Intra-Group balances, transactions, and profits and losses between entities included in consolidation are eliminated as part of consolidation accounting.

Associates are included in the consolidated financial statements using the equity method pursuant to IAS 28.10 et seq. An associate is an entity over which the investor has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control of those policies. Significant influence is assumed at an interest of 20 to 50 percent.

Under the equity method, the interest in the company in question is initially recognized at cost. Subsequently, the carrying amount of the interest is increased or decreased in accordance with the Group's share of the profit or loss of the investee. The investor's share of the investee's profit or loss is recognized in the investor's income statement. Distributions received from the investee reduce the carrying amount of the interest.

If significant influence over the associate is lost, measurement of the shares in accordance with the equity method ends.

## Basis of consolidation

For the subsidiaries in whose capital ING-DiBa holds shares, the consolidation requirement in fiscal year 2016 arises directly from the fact that, without exception, the direct equity investments are wholly owned and convey corresponding unrestricted voting rights. There is no need for judgments due to the clear control relationship.

Consolidation without corporate voting rights arises with regard to one structured entity. The Bank derives variable returns from this entity, which can be affected due to its power: The de facto control of the entity by ING-DiBa arises from the fact that the existing voting rights have no material effects on its returns. Rather, the entity was established solely for purposes of securitizing loans from ING-DiBa AG; its structure is based solely on the Bank's goals. The ongoing business decisions to be made by the management of the structured entity are limited to administrative matters because the rigid contractual structure, which is sharply focused on the special purpose for the Bank, does not grant management any influence beyond administration. Due to the absence of a majority of voting rights, judgment was exercised in this respect to assess the issue of consolidation.

The Bank holds a direct share in one associate amounting to 19.94 percent of the voting rights, the exercise of which is not subject to any restrictions; the Bank's interest in this associate is thus technically below the materiality threshold set out in IAS 28. Nevertheless, in the Bank's estimate and at its discretion, the Bank exercises a material influence over the company's financial and business decisions as defined in IAS 28.

Note 30 contains detailed disclosures on entities included in consolidation.

## b) Basis of presentation

The consolidated financial statements of ING-DiBa have been prepared on a going concern basis. Income and expenses are ratably recognized in the income statement in the period to which they relate (matching principle).

Recognition, measurement, and reporting policies are applied consistently. For information on material estimates and uses of judgment impacting the consolidated financial statements, see subsection h) Material estimates and uses of judgment.

## c) Financial instruments

### Financial assets and financial liabilities

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

In these financial statements, financial instruments are recognized in particular in the following accounts:

- Cash reserve
- Loans and advances to banks
- Loans and advances to customers
- Financial investments
- Derivatives with positive fair value
- Securitized liabilities
- Deposits from banks
- Due to customers
- Derivatives with negative fair value.

## Date of recognition

Financial instruments in the "available-for-sale" and "held-to-maturity" category and derivatives are recognized in the statement of financial position on the trade date. Financial instruments in the "loans and receivables" measurement category and non-derivative financial liabilities are recognized as of the settlement date.

## Derecognition

In principle, a financial asset is derecognized when the right to receive cash flows from the financial asset has expired or substantially all risks and rewards arising from the financial asset have been transferred.

It is also derecognized if the Group no longer has control over the financial asset.

If the Group retains control even after transfer, the financial instrument is recognized to the extent the Group has retained control (recognition in the amount of the continuing involvement; note 25).

A financial liability is only derecognized if the contractual obligations have been met, revoked, or have expired.

## Offsetting

Financial assets and liabilities are offset if a current right to do so exists and if the Bank has the intention to settle on a net basis or to simultaneously realize the relevant asset and settle the associated liability. A condition is that the right must be legally enforceable, both in the normal course of business and in the event of the default or insolvency of the company and all counterparties. In addition, the right of set-off may not be contingent on a future event.

If derivatives, repo, or reverse repo transactions are traded through central clearing houses (central counterparty), legal enforceability of the right of set-off in the respective jurisdiction is also a key criterion.

The Group applies offsetting of financial instruments mainly to those derivative instruments which are settled via a central counterparty and with respect to which the Group has both a right to offset those instruments as well as the intention to settle on a net basis or to simultaneously realize the relevant asset and settle the associated liability.

ING-DiBa reports on offsetting, master netting agreements, and similar agreements in note 26.

## Initial recognition

Financial instruments are initially recognized at their fair values. Fair value is defined as the price at which an orderly transaction to sell the asset or to transfer the liability takes place between market participants at the measurement date. It usually corresponds to the fair value of the consideration upon initial recognition, referred to as the transaction price. In the case of financial instruments that do not belong to the “at fair value through profit or loss” category, transaction costs as defined in IAS 39.AG13 are also included.

## Classification and subsequent measurement of financial assets

The subsequent measurement of financial assets depends on the category to which they have been assigned. IAS 39.9 specifies these as

› Financial assets at fair value through profit or loss (FVTPL)

› Held-to-maturity (HtM) investments

› Loans and receivables (LaR)

› Available-for-sale (AfS) financial assets.

**Financial assets at fair value through profit or loss**
Financial instruments in the “at fair value through profit or loss” category are subsequently measured at their fair values. Any changes in fair value are immediately recognized through profit or loss.

This category has the “held for trading” and “fair value option” subcategories.

At ING-DiBa, the “held for trading” subcategory only contains derivatives not accounted for under the special hedge accounting rules of IAS 39.71 et seq. ING-DiBa does not hold any financial instruments for trading as defined in IAS 39.9, Definition of four categories of financial instruments, letter a items (i) and (ii).

The fair value option possible under IAS 39 was not exercised during the periods under review.

This means that the group of financial instruments measured at fair value through profit or loss is made up exclusively of derivatives not designated as hedging instruments. The resulting measurement gains or losses are included in the “net gains/losses on measurement of derivatives and hedged items” caption (note 35), as is the associated interest income and expense. For foreign currency derivatives, the measurement effects from changes in exchange rates are reported under “other income and expenses” (note 37).

The respective derivatives are reported under “derivatives with positive fair value” (note 6) or “derivatives with negative fair value” (note 17).

### Held-to-maturity investments

Held-to-maturity investments consist entirely of securities with fixed or determinable payments and a fixed term, which the Bank intends and is able to hold to maturity.

They are subsequently measured at amortized cost, calculated using the effective interest method, less any necessary impairment allowances.

These financial assets are presented in the “financial investments” account (note 5).

The interest income is allocated to the period in which it accrues; it is recognized in the Bank’s net interest income (note 33).

### Loans and receivables

ING-DiBa generally assigns non-derivative financial assets that have fixed or determinable claims for payment but are not traded in an active market to the “loans and receivables” category.

They are subsequently measured at amortized cost, calculated using the effective interest method, less any necessary impairment allowances.

The interest income is allocated to the period in which it accrues; it is recognized under net interest income (note 33). The “loans and receivables” category includes in particular balances with central banks under the “cash reserve” (note 1), “loans and advances to banks” (note 2), and “loans and advances to customers” (note 3).

Where the instruments have been allocated to the “available-for-sale” category, which is also possible, this is shown in the notes to the individual accounts.

### Available-for-sale financial assets

The “available-for-sale” category primarily contains debt instruments not assigned to any of the above categories as well as financial instruments reclassified from the “held-to-maturity” category in fiscal year 2012.

These financial assets are presented in the “financial investments” account (note 5).

AfS financial instruments are in all cases initially recognized at fair value and subsequent changes in fair value are taken directly to equity. The measurement gains or losses are recognized in changes in accumulated other comprehensive income until the asset is derecognized or an impairment allowance has to be recognized. Changes in accumulated other comprehensive income are part of equity (note 13).

As soon as AfS financial instruments are derecognized or written down for impairment, the changes in fair value accumulated up to then in changes in accumulated other comprehensive income are assigned to "other gains/losses on financial investments and investment property" (note 36) in the consolidated income statement.

The interest income is allocated to the period in which it accrues; it is recognized in the Bank's net interest income (note 33).

ING-DiBa holds a limited number of equity investments, which are of minor relevance to the net assets, financial position, and results of operations. These equity instruments are treated as financial investments and are allocated to the "available-for-sale" category. The shares are not held for trading. To the extent these equity investments are not listed and it is not possible to reliably measure their fair value, they are recognized and measured at cost (note 5).

Dividends from AfS equity investments are recognized under "other gains/losses on financial investments and investment property" (note 36).

ING-DiBa reports its shares in VISA Inc. (Visa Class C shares) under financial investments in the AfS category. Please refer to the information provided in note 5 "Financial investments," note 13 "Equity," and note 32 "Fair value reporting."

## Reclassifications

No reclassifications were made in the fiscal year under review. Financial instruments reclassified in prior years are subsequently measured in accordance with the provisions of IAS 39.45 et seq. Changes in fair value recognized in equity prior to reclassification are amortized as part of changes in accumulated other comprehensive income over the remaining term using the effective interest method.

## Financial liabilities

After initial recognition at their fair values, ING-DiBa carries all financial liabilities at amortized cost. The fair value option is not exercised.

Liabilities are only measured at their fair values through profit or loss where derivatives are accounted for without using hedge accounting.

In ING-DiBa's consolidated financial statements, the financial liabilities subsequently measured at amortized cost are reported under "securitized liabilities" (note 14), "deposits from banks" (note 15), "due to customers" (note 16), and "other liabilities" (note 21).

## Valuation techniques

### Fair value measurement

IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the primary or most advantageous market at the measurement date.

For the measurement of fair value, prices and relevant observable market inputs are used as much as possible, and unobservable inputs as little as possible.

If a publicly quoted market price is available from an active market for identical assets or liabilities, this is the best objective indication of fair value at the measurement date. If no price can be observed for the identical asset or for the identical liability, fair value is determined either by using quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in inactive markets, or by using other measurement inputs. In the latter case, fair value is determined on the basis of these observable measurement inputs using discounted cash flow techniques based on the income approach. If neither quoted prices nor observable measurement inputs are available, Company-internal assumptions are used to determine fair value.

Please refer to note 32 for commentary on the methods used.

The Bank measures financial instruments in relation to individual transactions and does not measure fair value at portfolio level.

### Amortized cost and effective interest method

Amortized cost is the amount at which a financial asset or financial liability is initially recognized, minus principal repayments and any impairment losses and the cumulative amortization, calculated using the effective interest method of any difference between the initial amount and the maturity amount. The effective interest method is used to allocate interest income and interest expense over the relevant period.

The effective interest rate is the rate that discounts all expected future cash flows to the current net carrying amount of the financial instrument through the expected life of this instrument, taking into account all relevant transaction costs, fees, premiums and discounts.

### Currency translation

ING-DiBa's foreign currency transactions relate primarily to monetary items and to short-term money market transactions in foreign currencies and foreign currency derivatives.

Foreign currency transactions are initially recognized in the functional currency, the euro, by applying to the foreign currency amount the spot exchange rate between the functional currency and the foreign currency at the date of the transaction. The Bank uses the uniform exchange rates of the ING Group for this.

The date of a transaction is the date on which the transaction first qualifies for recognition in accordance with IFRSs (trade or settlement date).

In subsequent periods, foreign currency monetary items are translated using the closing rate. Exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were translated on initial recognition during the period or in previous financial statements are generally recognized in profit or loss in the period in which they arise. The spot exchange rates applicable to the underlying transactions are used to translate foreign currency revenues and expenses.

Currency translation gains and losses are a component of “other income and expenses” (note 37).

## Risk provision and impairment

An impairment is recognized for a financial asset or group of assets if there are objective indications that the contractual cash flows can no longer be generated in the manner agreed. It must be possible to estimate the future impact sufficiently reliably. By contrast, events expected to occur only in the future are no basis for impairment.

Indications of a need to recognize an allowance in relation to individual financial assets or a group of assets may include the following:

- There is an increased probability that the counterparty will become insolvent or start financial recovery proceedings.
- There is already delay or default on interest or principal payments.
- The counterparty is in considerable financial difficulties, which may negatively impact future cash flows.

- Based on experience and current data, there are clear indications that part of a group of financial assets is substantively impaired, although it is too soon for the internal risk management system to capture these impairment triggers with respect to individual assets.

- Under the IFRSs as applied in the EU, forbearance is generally considered an indication of impairment. In such cases, the net present value of the moratorium amount and/or the reduction in debt and/or the reduction in interest payments is taken into account when determining an appropriate risk provision.

Macroeconomic indicators, such as changes in the unemployment rate, economic growth, or developments in the real estate market, are directly and indirectly reflected in credit risk models, ratings, and impairment processes within ING-DiBa.

In the lending business, impairment allowances are recognized if events lead to indications of a threat to the future cash flows from the respective financial instruments.

The amount of the impairment allowance is calculated in a two-step process in which any indications of impairment are first identified and then the amount of the risk provision is determined.

In a first step, individually significant loans are tested for objective indications of impairment.

Impairment tests are carried out at the portfolio level for loans which are individually significant but for which no objective indication of impairment was found and for loans which are not individually significant. To this end, only loans featuring similar risk characteristics are combined in portfolios by product group or business segment. This process takes account of the contractual cash flows and past default rates for loans with similar credit risk characteristics. Past default rates may be adjusted to current conditions on the basis of observable market data. Observable market data may include, for example, the unemployment rate and real estate or commodity prices. In this process, the emerging risk profile provides information on the current counterparty default risk, and thus on the probability with which the contractually agreed cash flows will be able to be generated. The portfolio analysis includes a period analysis of the default probabilities, which takes into account the intervening period that has to be considered between the occurrence of the impairment trigger and its detection by the risk management system. This method ensures that impairment triggers that have already occurred but not yet been identified are adequately reflected in the risk provision. We refer in this context to the information on risk provisions provided in the risk report in the Group management report.

Since the period between the occurrence and the detection of an impairment event is uncertain, ING-DiBa considers for sub-portfolios (large corporations, small and medium-sized enterprises, and retail portfolios) factors such as the frequency with which customers of the sub-portfolio publish credit-risk-sensitive information and how often customers are subject to a review by the ING-DiBa customer advisor. In principle, the frequency of the reviews increases with the size of the customer exposure. The periods between the occurrence and the detection of an impairment event are taken into account within the models using the LIP (loss identification period) factor on the basis of past experience; they are validated through regular backtesting.

The amount of the risk provision for LaR receivables and Htm financial investments is calculated as the difference between the carrying amount and the present value of expected future cash flows, discounted using the original effective interest rate. The basis for determining the amount of the impairment allowance to be recognized is firstly the contractually agreed cash flows and secondly the defaults normally expected, based on experience, for products structured similarly . The amounts determined on the basis of experience are reviewed with the help of observable current data to eliminate the effects of factors and conditions relating to previous periods.

Allowances for losses on loans and advances to customers are deducted from assets. In the case of uncollectible loans and advances, allowances are generally derecognized against the carrying amount of impaired financial assets. Loans and advances are usually deemed uncollectible if no payment has been received in the past twelve months, there is no expectation that there will be a change in solvency, the assets held as collateral have been liquidated and enforcement measures have been taken, the borrower has submitted an affidavit, and a valuation allowance has been recognized in respect of the full loan and/or advance. Consumer loans are generally written off prior to the expiry of twelve months if the borrower is deceased and it was not possible to identify a successor or the successors have relinquished their inheritance.

Debit and credit card receivables are written down directly following a detailed investigation into a loss event. The amount written down is the residual of the loss, less the customer's liability and any potential insurance settlement.

Financial assets are derecognized and the associated allowances reversed in accordance with the general rules of IAS 39 for the derecognition of financial instruments.

Recoveries on loans and advances previously written off are recognized in the income statement under "risk provision" (note 38).

The allowances for losses on loans and advances to customers are discussed in notes 3 and 38.

No material allowances on loans and advances to banks had to be recognized in the periods under review.

Where AfS equity instruments are measured at fair value, an impairment loss is recognized if there is a significant or permanent reduction in fair value. The accumulated losses recognized directly in equity are derecognized from changes in accumulated other comprehensive income and released to profit and loss.

If AfS equity instruments that are not listed on a stock exchange are recognized at cost because it is not possible to reliably measure their fair value, the amount of a necessary impairment is calculated as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows, which are discounted using the current market rate of return of a comparable financial asset. No such impairments were recognized in fiscal years 2015 and 2016.

The two-level impairment process (test for indications of impairment and calculation of required impairment) is also applied to foreign currency assets. The required impairment is calculated as follows: First the asset is measured in the foreign currency. Next, the foreign currency amount is translated into the functional currency. On the one hand, the amount requiring impairment is calculated and on the other, it is verified whether a currency-related impairment has occurred in connection with a permanent devaluation of the currency.

The risk provision also includes changes in other provisions for obligations in the lending business recognized off the statement of financial position.

There were no cases where the terms of financial assets that would otherwise have been overdue or impaired were renegotiated.

## Derivative financial instruments

Derivative financial instruments are used exclusively for risk management and duration control.

The respective derivatives are reported under "derivatives with positive fair value" (note 6) or "derivatives with negative fair value" (note 17). Accrued interest is included in "other assets" (note 12) or "other liabilities" (note 21).

ING-DiBa enters into OTC interest rate swaps and foreign currency swaps, such as FX swaps and FX forwards. As from fiscal year 2016, ING-DiBa also enters into cross-currency swaps.

The changes in fair value of foreign currency derivatives are reported under "net gains/losses on measurement of derivatives and hedged items" (note 35). The effects of currency translation are reported under "other income and expenses" (note 37).

Derivative financial instruments are initially recognized at fair value at the trade date. They are subsequently measured at fair value through profit or loss.

All derivative financial instruments are carried at their fair values and reported as derivatives with positive or negative fair values. Changes in fair value, with the exception of those in relation to the effective portion of cash flow hedges, are immediately recognized in profit or loss.

As OTC transactions, the derivatives are subject to the market-based mark-to-model measurement of Level 2 of the fair value hierarchy described below (note 32).

The resulting measurement gains or losses are included in the "net gains/losses on measurement of derivatives and hedged items" caption (note 35). The net interest income from derivatives used in effective hedges is reported under "other interest income" (note 33), which also includes changes in fair value arising from the pull-to-par effect of derivatives in effective fair value hedges.

The interest income and expense in relation to derivatives not designated as hedges (hereinafter "other derivatives") are reported under "Net gains/losses on measurement of derivatives and hedged items" (note 35).

## Embedded derivatives

An embedded derivative is a component of a structured financial instrument that, in addition to the derivative, also includes a non-derivative host contract. There were no structured financial instruments that had to be recognized separately in the periods under review.

## Hedge accounting

To effectively hedge against interest rate risk, ING-DiBa makes specific use of simply structured interest rate swaps, which hedge changes in the fair value of hedged items and fluctuations in their future cash flows. Since 2016, cross-currency swaps have also been used to reduce currency risks.

The Bank accounts for hedges using hedge accounting for both fair value and cash flow hedges.

The hedging strategy is subject to strict documentation requirements. When designating a hedging relationship, the related hedged items and hedging instruments, the risk to be hedged, and the risk management strategy are documented.

An important part of hedge accounting permitted for use in the financial statements is to successfully measure effectiveness, which is done both ex ante and ex post. The hedges must be highly effective in accordance with the specified hedging strategy. To be permitted for inclusion in the financial statements, hedge effectiveness must be in a range of between 80 and 125 percent.

The hedged items continue to be reported under the respective captions in the statement of financial position, because the nature and function of the hedged item are not affected by the hedging relationship. Note 24 shows the derivatives broken down by type of hedge. Since the hedging derivatives serve to hedge against interest rate risks, the interest expense on the hedging derivatives is reported together with interest income on the hedged items within “interest income” (note 33) to the extent the hedge meets the requirements for effectiveness. In the event the hedge is ineffective, both the fair value change in the derivatives and the related interest are reported in “net gains/losses on measurement of derivatives and hedged items” (note 35).

A hedge has been designated under fair value hedge accounting for the *Pfandbrief* issued in 2016.

Changes in fair value of derivatives (hedges) which relate to the interest rate risk (hedged risk) are reported in the income statement under “net gains/losses on measurement of derivatives and hedged items” (note 35) together with the changes in the market value of the hedged items.

**Fair value hedge accounting**

Through fair value hedging, the Bank hedges (portions of) recognized assets and liabilities against changes in their fair values if they are due to interest rate risk. Hedged items may be individual items (micro fair value hedging) or consist of entire portfolios (portfolio fair value hedging).

ING-DiBa hedges transactions from the following measurement categories (hedged items):

› Financial instruments in the LaR category

› Financial instruments in the AfS category

› Financial instruments in the financial liabilities category.

The hedge in the "financial liabilities" category relates to the *Pfandbrief* issued in fiscal year 2016. The *Pfandbrief* is reported under "securitized liabilities."

Hedging instruments are measured at fair value and any changes in fair value are recognized through profit or loss. The carrying amounts of the hedged items are also adjusted for fair value changes through profit or loss if they are attributable to the hedged risk (hedge adjustments).

For hedges which are 100% effective, the net effect of this process is to offset changes in value attributable to the hedged risk. Effectiveness is measured using both prospective and retrospective regression analyses. The critical term method was applied prospectively for the hedged *Pfandbrief* issued by the Bank.

If only a portion of the risk exposure of the hedged item is hedged, the unhedged portion is accounted for according to the policies that apply to this hedged item. If the hedged item is an AfS financial instrument, the difference between the total change in fair value and the change in fair value attributable to the hedged risk is recognized directly in changes in accumulated other comprehensive income under equity. The AfS financial instrument is reported at full fair value.

Fair value hedging of interest rate risks is performed for both individual items (micro fair value hedging) and for portfolios (portfolio fair value hedging). In the case of the latter, individual items of the portfolio are not designated as items to be hedged. The effectiveness tests are conducted on the basis of assigned maturity bands. The amount to be hedged and the hedging instruments are designated in each case for the duration of a hedging period. Under micro hedging, changes in the fair value of the hedged items which are attributable to the hedged risks are allocated to the individual assets as a fair value adjustment. Under portfolio fair value hedging, fair value adjustments are recognized separately in the statement of financial position under "adjustment to portfolio fair value hedges" (note 4).

If a fair value hedge is terminated before the hedging instrument matures, the risk-related adjustments to fair value included in the carrying amount of the hedged financial instrument are amortized over the remaining maturity of the hedged item. If hedged items are sold, the fair value adjustments are taken into account immediately when determining the net income from the sale. Individual transactions on which impairment allowances have been recognized are no longer included in hedge accounting.

### Cash flow hedge accounting

A cash flow hedge hedges recognized assets and liabilities against future variability in cash flows that affects profit or loss. ING-DiBa uses interest rate swaps for cash flow hedging to convert variable-rate items into fixed-rate items, thus hedging against interest-driven variability in cash flows. In addition, ING-DiBa uses cross-currency swaps to reduce foreign-currency-driven cash flow variability.

As part of this process, the hedged items continue to be measured according to their classification under IAS 39.9.

The hedging instruments are recognized at their fair values. The portion of the fair value changes of the hedged items that is effective in relation to the hedged risk is recognized directly in changes in accumulated other comprehensive income for cash flow hedges under equity (notes 13 and 24). Hedge ineffectiveness is the quantification of the difference between the accumulated changes in the fair value of the hedge derivative used and the changes in the fair value of a hypothetically perfect hedge. If the cash flow hedge is not 100% effective, but falls within the effectiveness range required by IAS 39, the amount recognized in the equity account is the lower of the accumulated changes in the fair value of the hedging instruments and the hedged cash flows.

If a hedged transaction is no longer expected to occur, the amounts are released to the income statement immediately.

If instruments to hedge cash flow variability are terminated early, the amounts recognized in equity are amortized as interest income over the remaining maturity of the original hedge.

For more information on hedge accounting, see notes 24 and 35.

## Repo and reverse repo transactions

Because of the risks and rewards of ownership, securities that are part of repo transactions remain in ING-DiBa's statement of financial position. The corresponding liabilities are reported either as deposits from banks (note 15) or as amounts due to customers (note 16), depending on the counterparty.

Because of the risk distribution, securities purchased under reverse repo transactions are not recognized in the statement of financial position. The receivables from reverse repo transactions are reported under loans and advances to banks (note 2) or under loans and advances to customers (note 3), likewise depending on the counterparty.

For detailed information on repo and reverse repo transactions, refer to note 25.

## Financial guarantees

In accordance with IAS 39.9, a financial guarantee is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. Financial guarantees are initially recognized by the guarantor at fair value. If the financial guarantee was issued to an unrelated party in an arm's length transaction, its fair value at inception is generally equal to the premium received. The subsequent measurement of guarantees by the guarantor must be based on the higher of the amount determined in accordance with IAS 37 and the amount initially recognized less, when appropriate, cumulative amortization recognized in accordance with IAS 18. If the premium is not paid at inception but rather over the term of the guarantee, ING-DiBa presents it on a net basis, with the present value of the premium offset against the present value of the obligation arising from the financial guarantee.

If the probability of a payment under a financial guarantee issued is greater than 50 percent, a provision is recognized, with the expense included in profit or loss from "risk provision" (note 38).

Financial guarantees are both issued and received in the course of corporate customer financing activities. There are usually contingent assets in this event which, in accordance with IAS 37.31, may not be recognized.

## Classes of financial instruments under IFRS 7 and IFRS 13

IFRS 7 and IFRS 13 require certain disclosures to be presented by class of financial instrument. They are related to the nature of the information disclosed, which means that different classes may be formed for the respective disclosures. Financial instruments in the same class have significant characteristics in common.

Financial instruments are classified by caption in the statement of financial position. Where necessary, captions are further subdivided by measurement categories. Wherever appropriate, individual items are aggregated or further broken down under line items in the statement of financial position. The cash reserve, financial guarantees, irrevocable loan commitments, and derivatives used as hedges are presented as classes of their own.

Classification pursuant to IFRS 13 corresponds to classification pursuant to IFRS 7.

### d) Other items

#### Investment property

“Investment property” (note 7) refers to land and buildings leased to third parties. It also includes a bail-out purchase. No property or equipment was reassigned from or to Group-occupied property and equipment in the fiscal years under review.

Investment property is measured at cost plus transaction costs on initial recognition. Subsequent expenditure, incurred at a later date, that increases the potential future economic benefits of the property beyond the original extent is also recognized as part of cost. Refurbishment work, on the other hand, is classified as maintenance expense.

Investment property is subsequently measured at fair value through profit or loss and tested for impairment as of the end of each reporting period. Whenever there are objective indications of a change in value, and at least every three years, fair value is determined by independent external experts.

Given the lack of comparability in the market, the external experts generally use the income capitalization approach, under which the value is determined on the basis of discounted cash flows. In this process, the rental income is estimated and in addition normal expected market rents and costs are taken into account. Moreover, it takes into account possible vacancies and other losses of rental income as well as the annual return on land value. The amounts calculated in this way are discounted using a market interest rate that takes into account the special attributes of the property, such as its type and location. It is assumed that the current use represents the highest and best use.

#### Group-occupied property and property and equipment

“Property and equipment and Group-occupied properties” (note 8) comprises Group-occupied land and buildings as well as operating and office equipment, which includes in particular IT and telecommunication systems and office equipment.

Property and equipment is initially recognized at cost at the date that marks the transfer of beneficial ownership.

Group-occupied land and buildings are measured using the revaluation method in accordance with IAS 16. At regular intervals of up to three years, and when there are objective indications of a change in value, reports are prepared by independent external experts who determine fair value using the income capitalization approach. This method is the same as that explained under “Investment property” above and is therefore also subject to the same type of estimates and management judgment. It is assumed that the current use represents the highest and best use. Group-occupied land and buildings are subsequently measured at fair value through other comprehensive income.

Operating and office equipment is subsequently measured at depreciated cost. Depreciation is recognized on a straight-line basis over the expected useful life. The expense is included in “other administrative expenses” in the consolidated income statement (note 40).

### Intangible assets

“Intangible assets” (note 9) relate almost exclusively to software and software licenses.

They are eligible for recognition in the statement of financial position if they meet all of the following criteria: they are identifiable, they can be measured reliably, they are expected to lead to future economic benefits, and the entity has control over this resource.

ING-DiBa recognizes both purchased and internally generated intangible assets. They are initially recognized at cost and subsequently measured at amortized cost. Useful lives of three years are normally assumed for software. Intangible assets are amortized pro rata temporis on a straight-line basis. The expense is included in “other administrative expenses” in the notes to the consolidated income statement (note 40).

## Impairment of property and equipment and intangible assets

Once each asset has been depreciated or amortized, including a review of the method and useful life applied, it must be tested for impairment as of the end of the respective reporting period. Indications of impairment are, for example, if

- the market value of an asset has declined significantly more than would be expected as a result of normal use;
- significant changes with an adverse effect on the entity have taken place or will take place in the technological, market, economic, or legal environment;
- market interest rates that affect the discount rate used in calculating an asset’s value in use have increased and thus decrease the asset’s recoverable amount materially as defined in the IFRSs;
- there is substantial evidence of obsolescence or physical damage of an asset; or

- as a result of internal restructuring the asset is no longer suitable for generating benefits for the entity in the same way as before or evidence is available that the economic performance of the asset is worse than expected.

If there are indications of impairment, the recoverable amount is determined and compared with the carrying amount. If the carrying amount exceeds the recoverable amount, an impairment loss must be recognized. The recoverable amount is the higher of the asset's fair value less costs to sell and its value in use. Value in use is the present value of the future cash flows expected to be derived from the asset, including disposal proceeds. The future cash flows are discounted using a risk-adequate pre-tax market rate of interest. If the recoverable amount cannot be determined for the individual asset, an impairment test is performed at the level of the next higher cash generating unit.

The disclosures are made in note 7 (Investment property), note 8 (Property and equipment and Group-occupied properties), and note 9 (Intangible assets).

## Tax items

A profit and loss transfer agreement in accordance with section 291 (1) of the German Stock Corporation Act (*Aktiengesetz*, "AktG") is in place between ING-DiBa and ING Deutschland GmbH. This agreement forms the basis for a tax group for corporate income tax and trade tax purposes. Under this arrangement, ING-DiBa is a tax group subsidiary and ING Deutschland GmbH is the tax group parent.

In accordance with the principle of substance over form, both the current and deferred income taxes are disclosed in the IFRS consolidated financial statements by the entity responsible, ING-DiBa. In this area, for which IFRSs do not provide any guidance, ING-DiBa thus follows the interpretation of ASC 740 (US GAAP).

Under the push-down method, corresponding deferred tax assets and liabilities are presented for the deferred income taxes.

The current income taxes paid by the tax group parent are presented as a capital contribution by the tax group parent under other reserves in equity.

As a separate taxable entity, the ING-DiBa Direktbank Austria branch is subject to Austrian tax law.

The "tax assets" (note 10) and "tax liabilities" (note 18) items comprise current tax assets and liabilities for the current and previous fiscal years.

Deferred taxes are reconciliation items for temporary differences between the tax base of assets under national tax law and their carrying amounts in the IFRS financial statements. They are calculated using the tax rates expected to be applicable at the time the differences are settled.

Future, and therefore deferred, tax effects arising from changes in carrying amounts are reported under “deferred tax assets” (note 11) and “deferred tax liabilities” (note 19).

Depending on the treatment of the underlying item, deferred taxes are taken directly to the respective equity account or recognized in profit or loss. If they are recognized in profit or loss, they are reported under “income tax” (note 41) in the income statement.

Deferred tax assets on tax loss carryforwards and unused tax deductions are recognized only up to the amount in which realization of the respective tax benefit is probable. Developments in future fiscal years may have an impact on the assessment of realizability. Imponderables in determining whether tax losses and tax deductions will remain usable are taken into account when calculating deferred tax assets.

Deferred tax assets and deferred tax liabilities are netted if the Bank has a legally enforceable right to offset current tax assets against current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same tax authority for the same taxable entity or if they relate to different taxable entities which have the intention, for every future period in which they expect to settle or realize considerable amounts of deferred tax liabilities and deferred tax assets, to either settle the current tax liability and refund claims on a net basis or to simultaneously settle the obligations and realize the refund claims.

## Other assets

The “other assets” item (note 12) contains accrued interest, accruals, and the insignificant investment in an associate.

Accrued interest relates primarily to the presentation of interest on financial investments and derivatives as well as on loans and advances to customers in the period to which it relates. It is determined on the basis of the effective interest method.

The other trade receivables and accruals included in this item are normally reported at their nominal values, which correspond to their fair values because they fall due in the short term.

The interest in the associate is accounted for using the equity method (note 30).

## Provisions

Pension provisions (note 20) are recognized according to the projected unit credit method for defined benefit pension plans.

Some of the pension plans are backed by plan assets.

Fair value changes resulting from actuarial gains or losses and from differences between the actual return on plan assets and the previously expected return on plan assets are recognized immediately in other comprehensive income.

The interest rate used for calculating the pension provisions and the expected return on plan assets is based on the interest rate for prime-rated corporate bonds with matching currencies and maturities.

Actuarial reports are used to measure pension provisions as well as provisions for long-service bonuses and partial retirement (note 20).

The partial retirement commitments are essentially individual arrangements. ING-DiBa accounts for these on a “first in-first out” basis. The aggregate top-up benefits constitute a related benefit component and the provision is reduced as these top-up benefits are paid out. This benefit component is allocated on a straight-line basis to the individual periods of the accrual period. The liability is determined at the end of each reporting period in the accrual period by adding to the provision the top-up benefits which are to be paid out first. Accrued but not yet vested liabilities are deemed to be vested by a certain reporting date for accounting purposes.

The transitional benefits granted by the Bank prior to the start of the disability or old-age pension is a component of the non-current personnel provisions. In contrast to defined benefit pension plans, all additions to the provision are recognized through profit and loss; there are no arrangements for an adjustment through other comprehensive income.

In addition to personnel provisions, there is a small amount of other non-current provisions (note 20).

Provisions for litigation risks are recognized if they are judged to result in a present obligation, if the possibility of an outflow of economic benefits from them is judged to be probable, and if a reliable estimate of the amount is judged to be possible. Litigation risks are generally assumed to be the result of past events. Provisions have been made for legal risks from an unexpectedly customer-friendly court ruling.

Other provisions for obligations from the lending business not recognized in the statement of financial position account for the standard level of uncertainties within the industry. The underlying assumptions and estimates include past experience as well as expectations and forecasts with respect to future development.

The amount provided for is based on the best estimate of the settlement amount. Provisions are only discounted, using interest rates for items with matching maturities applicable as of the end of the reporting period, if the interest effect is material. Interest cost from the unwinding of the discount is in such cases reported under net interest income (note 33). The interest effect is immaterial in the periods under review, which means that no discounting of the other non-current provisions was recognized.

## Other liabilities

"Other liabilities" (note 21) include primarily accrued interest on deposits from banks, amounts due to customers, derivatives and other financial liabilities, allocated over the relevant periods.

Other components of this item are primarily short-term deferred income and accrued administrative expenses. Since the interest effect is immaterial, these items are generally recognized at their nominal values.

## e) Contingent liabilities

Contingent liabilities within the meaning of IAS 37 are reported off the statement of financial position, in the notes to the IFRS financial statements (note 27). They arise on the one hand as possible obligations whose existence has not yet been confirmed, for which the likelihood of realization is estimated to be below 50 percent or for which the amount cannot be estimated with sufficient reliability. The estimated settlement amounts are disclosed in the notes. They normally correspond to the nominal amounts. Contingent liabilities relate primarily to irrevocable loan commitments, guarantees and letters of credit.

Contingent liabilities may in principle also include such litigation risks whose occurrence, and thus related outflow of economic resources, is not improbable, but not sufficiently probable to recognize a provision.

## f) Items in the consolidated income statement

### Net interest income

Interest income and expense (note 33) is recognized in profit or loss for the period on an accrual basis. For loans and advances on which impairment allowances have been recognized, the discount applied to arrive at the present value as of the end of the subsequent reporting period is unwound through interest income.

Other interest income and expense also includes net interest income from derivatives in effective hedging relationships.

Net interest income also includes amortization of the fair value adjustments related to the hedged risk, which are included in the carrying amount of the hedged items, over the remaining term of the hedged items in fair value hedge relationships. Fair value changes related to pull-to-par effects of hedging derivatives are also reported under net interest income.

Negative interest in relation to the investment and borrowing of funds is recognized under net interest income and discussed in note 33. Given the immateriality of the amounts, these are not presented in a separate line item of the income statement.

### Net commission income

Fee and commission income is generally recognized at the time the service is provided. Net commission income is explained in note 34.

Fees and commissions are paid for the use of brokerage and other services in connection with the Group's products. They are usually expensed upon receipt of the service.

Brokerage payments similar to interest are allocated over the (minimum) term of the contracts and presented in net interest income (note 33).

Fees for payment transaction services between banks are recognized as commission income and expense.

## Net gains/losses on measurement of derivatives and hedged items

The net gains/losses on measurement of derivatives and hedged items (note 35) include the changes in fair value from the measurement of derivatives (whether or not they are designated as hedges) as well as of hedged items, to the extent this is not attributable to pull-to-par effects from hedging derivatives. In addition, this item includes interest income and expense related to derivatives not used in hedging relationships.

In fair value hedges, the interest-driven changes in the fair values of the hedging instruments and the interest-driven changes in the fair values of the hedged items that relate to the hedged risk are recognized in profit or loss, respectively.

In the case of derivatives used in cash flow hedges, the ineffective portion of the amount of change is recognized in profit or loss.

Income is recognized in the period in which it is earned.

## g) Additional information

## Leasing obligations

A lease is an agreement under which the lessor conveys to the lessee, in return for a payment or series of payments, the right to use an asset for an agreed period of time. The determination as to whether an arrangement is or includes a lease must be based on the substance of the arrangement, and requires an assessment as to whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and whether the arrangement conveys a right to use the asset. The assessment of whether an arrangement contains a lease has to be made at the inception of the arrangement, being the earlier of the date of the arrangement and the date of commitment by the parties to the principal terms of the arrangement, on the basis of all of the facts and circumstances. In the event of a change in the contractual terms of an arrangement which goes beyond a renewal or extension of the arrangement, the lease must be reassessed. The same applies whenever there is a change in the determination of whether fulfillment is dependent on a specified asset or if there is a substantial change to the asset. A reassessment must also be made if a renewal option is exercised or an extension is agreed to by the parties to the arrangement, unless the term of the renewal or extension had initially been included in the lease term. A renewal or extension of the arrangement that does not include modification of any of the terms in the original arrangement before the end of the term of the original arrangement must be evaluated in accordance with IFRIC 4.6–9 only with respect to the renewal or extension period.

A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset. Legal title may or may not eventually be transferred. An operating lease is a lease other than a finance lease.

ING-DiBa AG generally only operates as a lessee. All leases are classified as operating leases. The useful lives of the leased assets, market price assumptions, and discount rates are subject to management judgment. Lease installments are recognized under other administrative expenses. Lease installments due for payment are reported as financial liabilities under "other liabilities" (note 21). Note 29 provides a summary of expected future lease obligations.

## h) Material estimates and uses of judgment

These financial statements contain carrying amounts determined on the basis of estimates and assumptions. In accordance with IFRSs, these estimates and assumptions are based on past experience, plans, and forecasts of future events. Management judgment is sometimes required to determine the underlying inputs, assumptions, or models.

**Estimates** are required in particular for:

- Determining the fair values of financial assets and financial liabilities in cases where there are no active market prices and this necessitates the application of measurement techniques using significant inputs that are not observable in the market (see note 32 – "Fair value reporting – Measurement techniques").

- Determining pension obligations under defined benefit plans, where in particular actuarial assumptions, such as the discount rate, expected future salary and pension increases, the mortality rate, and changes in plan assets, are subject to estimates (see note 20 – "Non-current provisions").

- Impairment allowances for the risk provision in the lending business, for which estimates are made about, among other factors, the overall portfolio risk and current market developments. Over time, these estimates are subject to change and may require adjustments to be made to the allowance (see note 38 – "Risk provision" in the notes to the financial statements and the section entitled "Monitoring and management of counterparty default risks" in the Group Management Report).

- Measuring intangible assets in relation to the useful lives, amortization, and cost of intangible assets (see note 9 – "Intangible assets" and the section entitled "Significant accounting policies – d) Other items – Intangible assets").

- Determining the useful lives and method of depreciation for Group-occupied property as well as property and equipment, where changes have an impact on the income statement, as well as impairment of Group-occupied property, property and equipment, and intangible assets (see the section entitled "Significant accounting policies – d) Other items – Group-occupied property and property and equipment" and "Impairment of property and equipment and intangible assets").

- Measuring "investment property," especially in relation to the discount rate and measurement technique used (see note 7 – "Investment property" and the section entitled "Significant accounting policies – d) Other items – Investment property").

- Determining potentially applicable probabilities and settlement amounts when recognizing other provisions as well as estimating contingent liabilities not recognized in the statement of financial position (see note 20 – "Non-current provisions" and note 27 – "Contingent liabilities").

- Measuring financial guarantees issued (see the section entitled "Significant accounting policies – c) Financial instruments – Financial guarantees").

**Judgment** has to be exercised primarily for:

- Estimating the deferred tax effect on the basis of temporary differences between the tax base and the carrying amount in the IFRS statement of financial position, to which the operation's particular average tax rate is applied (see note 11 – "Deferred tax assets," note 19 – "Deferred tax liabilities," note 41 – "Disclosures relating to income tax expenses," and the section entitled "Significant accounting policies – d) Other items – Tax items").

## i) Disclosures relating to changes in reporting standards

Amendments to the IFRSs adopted by the EU entered into force in 2016. All standards and amendments to standards whose first-time application is mandatory as from the effective date January 1, 2016 have been applied in these financial statements. The implementation of the amendments had no material impact on the statement of financial position, profit or loss, other comprehensive income, or on the associated disclosures in the notes to the consolidated financial statements. No interpretations, amendments, or standards have been applied voluntarily prior to the mandatory effective date for the EU.

**Future amendments to standards (not yet adopted into EU law)**
The following amendments to standards were published in 2016 and are expected to be relevant for the coming reporting period (in the case of the 2014 – 2016 cycle, for the 2018 reporting period). The amendments have not yet been adopted into applicable EU law and have also not been subject to voluntary early application. The amendments will not have any material effects on ING-DiBa's consolidated financial statements.

Future amendments to standards relevant to the consolidated financial statements of ING-DiBa which have not yet been adopted into applicable EU law:

› Amendments to IAS 12 – "Income Taxes: Recognition of deferred tax assets for unrealized losses"

› Amendments to IAS 7 – "Cash Flow Statements: Disclosure Initiative"

› Annual Improvements to IFRSs – “2014 - 2016 cycle”

The following section presents the changes in relation to IFRS 9, IFRS 15 and IFRS 16, which have already been adopted into EU law.

**IFRS 9 – Financial Instruments**
On July 24, 2014, the International Accounting Standards Board (IASB) issued the final version of IFRS 9 “Financial Instruments,” which replaces Standard IAS 39 “Financial Instruments: Recognition and Measurement.” The standard contains rules on classifying and measuring financial assets and financial liabilities, on impairment of financial assets, and on hedge accounting. IFRS 9 was adopted into EU law in November 2016 and is applicable to reporting periods beginning on or after January 1, 2018. ING-DiBa will apply the standard retrospectively as from the date of initial application. Prior-year figures will not be restated. The opening statement of financial position and equity as of January 1, 2018 will be adjusted. In addition, IFRS 9 allows changes in the fair values of financial liabilities designated as at fair value to be recognized in other comprehensive income, if the changes are

attributable to changes in the credit risk of the liability. ING-DiBa will not make use of this option early.

### IFRS 9 – project structure and status

The IFRS 9 project program was launched at the level of ING Groep N.V. (Group level) and of ING-DiBa on the basis of the three pillars of IFRS 9: classification and measurement, impairment, and hedge accounting. Experts from accounting, risk management, treasury, settlement, and the business segments are involved in the components of the project. The Technical Board, which has been established at the Group level of the project, supports the IFRS 9 Steering Committee by reviewing central guidance and instructions as well as interpretations of IFRS 9 created by the central working groups. The Technical Board comprises senior employees in the Accounting and Risk Management departments. The Technical Board is also relevant for the local project conducted within ING-DiBa. The Steering Committee is the highest decision-making body at Group level. It consists of members of senior management from Group Finance, Finance Operations, Retail Banking, Credit & Trading Risk, Risk Operations, Bank Treasury, Balance Sheet Risk Management, and Wholesale Banking Lending Services. An international IFRS 9 network has been established within the Group, which provides a link between the individual countries and the central team and ensures consistent implementation. The Management Board Banking and the Audit Committee receive regular updates about the progress of the IFRS 9 project and will be actively included in future decisions.

To improve transparency and comparability within the banking sector, the Enhanced Disclosure Task Force (EDTF) in November 2015 published recommendations for notes disclosures in accordance with IFRS 9 intended to enhance the understanding of the effects of the expected credit loss (ECL) approach in the market. Given that the date of initial application is January 1, 2018, the EDTF recommends disclosures in the financial statements before that date in order to ensure that the figures published are consistent and comparable among international banks.

The IFRS 9 working program is being implemented across functions, business segments, and countries of ING Groep N.V. The accounting principles issued by the Group have been modified to comply with the requirements of IFRS 9. What is more, various parallel runs in 2017 shall ensure that the transition to IFRS 9 can be properly implemented as of January 1, 2018.

### IFRS 9 – classification and measurement

IFRS 9 is based on a consistent approach for classifying and measuring financial assets on the basis of the business model in which the financial assets are held as well as their cash flow characteristics. Financial assets are not broken down, but classified as a single unit.

The classification and measurement are determined on the basis of two criteria. These criteria are used to determine whether the instruments are measured at amortized cost, at fair value through other comprehensive income (FVTOCI), or at fair value through profit or loss (FVTPL).

1. The business model is examined to assess how a portfolio of financial instruments is managed overall in order to make a classification into the appropriate business model (to hold, to hold and sell, or not to hold).
2. The contractual cash flows of the financial instruments in each business model are analyzed in order to determine whether they consist solely of payments of principal and interest (SPPI).

In 2016, a business model blueprint was created on the basis of the organizational structure and all subsidiaries of ING Groep N.V., as well as by holding discussions with the business segments, accounting, and risk management. In the business model blueprint, the central team identified the business models and documented them in business model templates. In a second step, the local project teams adapted these templates to the local business organization and structure.

In addition, the central team specified the approach to conducting the SPPI test for testing the cash flow conditions. The local project teams received training and implementation support from the central team in order to ensure the requirements of IFRS 9 are implemented consistently. The SPPI test is conducted for groups of financial assets with similar characteristics in order to obtain a homogeneous population.

In 2017, the focus will be on concluding the SPPI test and on the development of formal requirements in connection with IFRS 9 (governance) in order to ensure that the changes required under IFRS 9 are implemented on an ongoing basis in the day-to-day business and in financial reporting.

Impact

At present, the results of the SPPI test and the review of the business models in the central and local projects indicate that the classification and measurement of the majority of the Group’s portfolio will be the same as under the rules of IAS 39. Changes are only expected for sub-portfolios. The share of AfS financial instruments in Treasury will transition to measurement at amortized cost in a “to hold” business model.

The classification and measurement of financial liabilities will remain largely unchanged compared with IAS 39.

### IFRS 9 – impairment

Unlike the impairment model of IAS 39, IFRS 9 has a forward-looking impairment model rooted in the premise of reporting expected credit losses (ECL). Pursuant to IFRS 9, the expected credit losses in the ECL model represent an unbiased amount, which is calculated by including information about past events, current conditions, and forecasts of future economic developments. The ECL also incorporates probability-weighted multiple macroeconomic scenarios and the time value of money. The scope of the new impairment requirements covers all financial assets measured at amortized cost or at fair value through other comprehensive income (FVTOCI), such as receivables and bonds, as well as financial assets not recognized in the statement of financial position, such as certain loan commitments, and financial guarantees.

#### 3-stage model

The 3-stage model for determining expected credit losses specified by IFRS 9 is being implemented throughout ING Groep N.V.

- Stage 1: 12-month expected credit loss (12-month ECL) – performing
  If at the reporting date the credit risk of financial instruments has not increased significantly since initial recognition, the impairment to be recognized for this financial instrument is determined in the amount of the 12-month expected credit loss (*12-month ECL*).

- Stage 2: Lifetime expected credit loss (lifetime ECL) – underperforming
  If the credit risk has increased significantly since the financial instrument was first recognized, the total loss expected over the remaining maturity of the instrument is recognized in the amount of the present value of the expected credit losses. In this process, all potential default events over the remaining maturity of the financial instrument (lifetime ECL) are taken into account.

- Stage 3: Lifetime expected credit loss (lifetime ECL) - non-performing
  If there is objective evidence of impairment, the financial instrument must be allocated to stage 3 and the expected credit loss must be determined for the remaining maturity (lifetime ECL).

#### Key concepts

Within ING Groep N.V., the definition of impairment under IFRS 9 is to be coordinated with the definition used for regulatory purposes. A financial instrument is considered impaired, if one or more events have occurred that have an adverse effect on the expected future cash flows of this financial instrument.

ING Groep N.V. has established a framework for identifying a significant increase in credit risk. Each financial instrument is to be tested as of the reporting date for indications of a significant deterioration in the credit risk. The Group assesses the deterioration by conducting a delta analysis of the default probability over the entire term, the forbearance and watchlist status, assessments by the department responsible, arrears, and the "*more than 30 days overdue*" backstop. The 3-stage model will be implemented in the central credit risk systems. The transfers between the individual stages of the impairment model will be analyzed in 2017.

Modifications will not lead to derecognition, if according to ING Groep N.V.'s definition they do not entail a significant contract amendment that impacts on the existence or distribution of the contractual cash flows over time. If there is a significant change in the contractual cash flows, the financial instrument is derecognized.

### Measuring impairment

ECL is determined on the basis of existing models for determining expected losses (PD, EAD, LGD), which are already used to calculate regulatory capital, economic capital, and the risk provision under the existing IAS 39 framework. The IFRS 9 ECL models are derived from existing IRB models. In this process, conservative assumptions required for regulatory reasons are removed and replaced with forward-looking information by taking into account macroeconomic inputs such as the unemployment rate or growth in gross domestic product. The inputs for determining the expected loss are specified using historical statistical relationships and macroeconomic projections. For portfolios to which the IRB approach is not applied, the existing framework for calculating the impairment is used to determine the inputs for measuring credit risk. The risk is determined over the term of the instrument (lifetime ECL) on the basis of historical data, supplemented with future-oriented information, although the data series will be shorter than for the assets treated in the IRB model.

In the entire Group, ECL is determined on the basis of PD x EAD x LGD, where PD stands for probability of default, EAD exposure at default and LGD loss given default. For financial instruments assigned to stage 2 of the impairment model, the underlying inputs are considered over the entire term of the asset. Lifetime ECL is the discounted total of the losses in relation to single default events within a 12-month window. For financial instruments assigned to stage 3 of the impairment model, PD equals 100%. LGD and EAD represent the characteristics of the defaulted exposure over the entire lifetime of the exposure.

Since 2016, there has been extended data collection from the source systems of the subsidiaries around the world. Also, the implementation of the IFRS 9 requirements in the central risk management system has progressed as planned.

Impact

Because of the macroeconomic projections it contains, the IFRS 9 ECL model is expected to result in greater volatility in the impairment allowances that will have to be recognized. The greatest impact is expected on financial instruments that are exposed to high risk combined with a medium to long maturity.

For all financial instruments in the scope of the ECL model, the 12-month ECL is the minimum requirement. If the credit risk has increased significantly since the financial instrument was first recognized, but there is no evidence of impairment as of the reporting date, the lifetime ECL must be determined (stage 2). Since IAS 39 does not have this stage, an increase in the impairment loss is considered likely for the Group and hence also for ING-DiBa. The increase results on the one hand from the modified impairment period for stage 1 of the impairment model. On the other hand, a lifetime ECL is calculated in stage 2 of the impairment model, in contrast to current regulations, and therefore a longer period applies for the calculation of the expected losses.

As of December 31, 2016, no reliable statements can yet be made as to the quantitative impacts of switching to IFRS 9. The ING Group plans to present a quantitative analysis of the impacts of IFRS 9 by no later than in the annual report for fiscal year 2017.

#### IFRS 9 – hedge accounting

According to a central decision taken at ING Group level, hedge accounting will be continued in accordance with the existing guidance of IAS 39 by applying the EU "carve out." The revised hedge accounting disclosure requirements of IFRS 7 Financial Instruments: Disclosures will be implemented with effect from January 1, 2018. A technical review of the impact of the IFRS 9 hedge accounting rules was conducted at the level of ING Groep N.V.

#### IFRS 15 – Revenue from Contracts with Customers

IFRS 15 "Revenue from Contracts with Customers" was adopted into EU law in September 2016 and according to the IASB is applicable to reporting periods beginning on or after January 1, 2018. IFRS 15 introduces a five-step model framework for recognizing revenue, with revenue being recognized in relation to the agreed performance obligation being satisfied. Agreed performance obligations are individual promises to the customer that provide benefits to the customer. Revenue is recognized either at a point in time or over time, depending on how the performance obligation is satisfied. IFRS 15 must initially be applied retrospectively. Transition relief is available, although the Group has yet to make any definitive decisions.

Commission income is a key source of revenue to be considered in accordance with IFRS 15. No change in accounting treatment is expected for normal transaction-based fees. Fees that are part of the effective interest rate of a loan or fees charged in connection with bank guarantees do not fall within the scope of IFRS 15. At present, the revenue sources within net commission income are being further analyzed.

**IFRS 16 – Leases**

IFRS 16 "Leases" was published in January 2016 and according to the IASB is to be applicable to reporting periods beginning on or after January 1, 2019. It is to replace the current IAS 17 "Leases" as well as IFRIC 4. IFRS 16 has not yet been adopted into EU law. Under IFRS 16, lessees no longer classify leases as operating or finance leases. In future, lessees will have to recognize assets and liabilities for all leases, unless the lease is a short-term lease of less than 12 months or the underlying asset has a low value. At the same time, the lessee recognizes a right to use the leased asset in its statement of financial position. IFRS 16 will also lead to a change in the recognition of the expense in comparison to IAS 17. The recognition of expenses under operating leases – generally on a straight-line basis in accordance with IAS 17 – will be replaced by amortization of the right-of-use asset and interest expenses for the lease liability. The new approach is intended to make visible the lessee's assets and liabilities and to improve comparability between companies; together with the expanded disclosure requirements, it is also aimed at creating transparency with regard to the financial leverage of leases and the capital employed.

Under IFRS 16, lessees will be able to choose between a full and a modified retrospective approach; transition relief is available under the modified approach. In addition, the standard contains options and relief provisions to help minimize the cost of initial application. The accounting treatment of leases by the lessor will remain largely unchanged from IAS 17.

ING Groep N.V. will apply the standard as from its effective date, i.e., for fiscal years beginning on or after January 1, 2019. A Group-level project group is analyzing the future impact of IFRS 16 on the Group. The recognition of right-of-use assets and lease liabilities in the statement of financial position and the different approach to recognition of expenses than under IAS 17 will give rise to changes for ING-DiBa. Due to the insignificance of operating leases with respect to the statement of financial position and income statement, no material effects are expected in the future. The Group has not yet made any conclusive decisions with respect to exercising options and relief provisions.

## j) Events after the end of the reporting period

On February 23, 2017, it was announced that the Chairman of the Management Board, Roland Boekhout, intended to leave ING-DiBa as of June 1, 2017 to take on other responsibilities within the ING Group. Subject to the approval of the Federal Financial Supervisory Authority (*Bundesanstalt für Finanzdienstleistungsaufsicht*, BaFin), the current CEO of ING Domestic Bank Netherlands (DBNL), Nicolaas Cornelis Jue, will be appointed to serve as the new Chairman of the Management Board of ING-DiBa.

## Notes to the consolidated statement of financial position

### (1) Cash reserve

| | 12/31/2016 €m | 12/31/2015 €m |
|---|---|---|
| Cash balance | 103 | 95 |
| Balances with central banks | 1,384 | 1,402 |
| Total | 1,487 | 1,497 |

This item comprises balances with central banks in the European Central Bank System and all cash in the ATM network.

### (2) Loans and advances to banks

| | 12/31/2016 €m | 12/31/2015 €m |
|---|---|---|
| Payable on demand | 604 | 256 |
| Other loans and advances | 8,277 | 4,648 |
| Total | 8,881 | 4,904 |

All loans and advances to banks are classified as loans and receivables as defined in IAS 39.9.

No material impairment allowances on loans and advances to banks had to be recognized in the fiscal years under review.

The year-on-year change resulted from the increase, to EUR 425 million EUR (December 31, 2015: EUR 24 million), in cash collateral for derivatives provided to the Group parent ING Bank N.V., the EUR 402 million increase in reverse repo transactions to EUR 514 million, as well as the increase in cash-collateralized loans and advances to the Group parent ING Bank N.V. to EUR 6,575 million (December 31, 2015: EUR 4,149 million).

Note 25 provides a summary of the collateral provided.

The accrued interest on this item is reported under other assets (note 12).

### Receivables from reverse repo transactions

Loans and advances to banks also include receivables from reverse repo transactions. They are in each case related to securities accepted as collateral and amounted to EUR 514 million as of the reporting date (December 31, 2015: EUR 112 million). For more information on repo transactions with banks, refer to notes 5 and 15.

## (3) Loans and advances to customers

| | 12/31/2016 €m | 12/31/2015 €m |
|---|---|---|
| Mortgages | 68,029 | 65,047 |
| Consumer loans | 6,769 | 5,945 |
| Public sector loans | 3,481 | 4,752 |
| Corporate loans | 25,628 | 15,183 |
| Asset-backed securities (ABS)/ mortgage-backed securities (MBS) | 2,270 | 6,731 |
| other | 835 | 829 |
| Loans and advances to customers before risk provision | 107,012 | 98,487 |
| Portfolio-based impairment allowances | – 181 | – 161 |
| Specific impairment allowances including those calculated on a portfolio basis | – 372 | – 383 |
| Loans and advances to customers after risk provision | 106,459 | 97,943 |

All loans and advances to customers are classified as loans and receivables as defined in IAS 39.9.

Note 25 provides a summary of the collateral provided.

The accrued interest on these items is reported under other assets (note 12).

## Receivables from reverse repo transactions

In the previous year, receivables from reverse repo transactions were presented under loans to corporate customers. They were in each case related to securities accepted as collateral. At the end of the 2016 fiscal year, they amounted to EUR 0 million (December 31, 2015: EUR 74 million).

## Allowances for losses on loans and advances to customers

| | 12/31/2016<br>€ m | 12/31/2015<br>€ m |
|---|---|---|
| Mortgages | – 299 | – 348 |
| Consumer loans | – 212 | – 184 |
| Corporate loans | – 41 | – 12 |
| Asset-backed securities/ mortgage-backed securities | – 1 | 0 |
| Total | – 553 | – 544 |
| | | |
| Loans and advances to customers before risk provision | 107,012 | 98,487 |
| Risk provision | – 553 | – 544 |
| Loans and advances to customers after risk provision | 106,459 | 97,943 |

In addition, provisions for off-balance sheet risks from the lending business amounted to EUR 14 million (December 31, 2015: EUR 20 million). Please refer to non-current provisions (note 20). As of December 31, 2016, the total risk provision in the lending business amounted to EUR 567 million (December 31, 2015: EUR 564 million).

## Changes in allowances for losses on loans and advances to customers

| | 2016<br>Portfolio-based impairment allowances<br>€ m | 2016<br>Specific impairment allowances including those calculated on a portfolio basis<br>€ m | 2016<br>Total<br>€ m |
|---|---|---|---|
| Balance on Jan. 1 | – 161 | – 383 | – 544 |
| Utilization of existing impairment allowances | 0 | 51 | 51 |
| Additions to/ reversals of risk provision | – 21 | – 40 | – 61 |
| Other changes | 1 | 0 | 1 |
| Balance on Dec. 31 | – 181 | – 372 | – 553 |

| | 2015 Portfolio-based impairment allowances €m | 2015 Specific impairment allowances including those calculated on a portfolio basis €m | 2015 Total €m |
|---|---|---|---|
| Balance on Jan. 1 | – 154 | – 383 | – 537 |
| Utilization of existing impairment allowances | 0 | 61 | 61 |
| Additions to/ reversals of risk provision | – 7 | – 61 | – 68 |
| Other changes | 0 | 0 | 0 |
| Balance on Dec. 31 | – 161 | – 383 | – 544 |

Expenses of EUR 31 million arising from risk provisions were recognized in the income statement (December 31, 2015: EUR 77 million), see note 38.

## Subordinated loans and advances

Subordinated loans and advances to customers amounted to EUR 0 million as of December 31, 2016 (December 31, 2015: EUR 0 million).

## (4) Adjustment to portfolio fair value hedges

| | 12/31/2016 €m | 12/31/2015 €m |
|---|---|---|
| Adjustment to portfolio fair value hedges | 879 | 1,183 |
| Total | 879 | 1,183 |

This item represents the adjustment to the present value of loans and advances to customers included in portfolio fair value hedge accounting on the basis of the hedged risk.

The hedged items are reported under note 3 “Loans and advances to customers.” Further information can be found under note 24 “Hedge accounting,” note 6 “Derivatives with positive fair value,” note 17 “Derivatives with negative fair value,” note 33 “Net interest income,” and note 35 “Net gains/losses on measurement of derivatives and hedged items.”

## (5) Financial investments

This caption is used primarily to report bonds and other fixed-income securities.

### Financial investments

| | 12/31/2016 €m | 12/31/2015 €m |
|---|---|---|
| **Available for sale** | | |
| Bonds and other fixed-income securities | 37,491 | 36,364 |
| Equity investments | 19 | 51 |
| Total AfS | 37,510 | 36,415 |
| **Held to maturity** | | |
| Bonds and other fixed-income securities | 1,228 | 1,255 |
| Total HtM | 1,228 | 1,255 |
| Total | 38,738 | 37,670 |

In the fiscal years under review, financial investments included equity investments that are of minor importance to the Group's economic position. To the extent these equity investments are not listed and it is not possible to reliably measure their fair value, they are recognized at cost.

There were no allocations to the trading book.

The accrued interest on financial investments is reported under "other assets" (note 12).

## Changes in financial investments

| | 2016 AfS securities €m | 2016 AfS equity investments €m | 2016 HtM securities €m | 2016 Total €m |
|---|---|---|---|---|
| Balance on Jan. 1 | 36,364 | 51 | 1,255 | 37,670 |
| Additions | 4,478 | 8 | 0 | 4,486 |
| Amortization | – 129 | 0 | – 27 | – 156 |
| Reclassifications | 0 | 0 | 0 | 0 |
| Other changes in fair value | 159 | 2 | 0 | 161 |
| Impairments and reversals | 0 | 0 | 0 | 0 |
| Disposals | – 109 | – 42 | 0 | – 151 |
| Maturities | – 3,272 | 0 | 0 | – 3,272 |
| Balance on Dec. 31 | 37,491 | 19 | 1,228 | 38,738 |

| | 2015 AfS securities €m | 2015 AfS equity investments €m | 2015 HtM securities €m | 2015 Total €m |
|---|---|---|---|---|
| Balance on Jan. 1 | 38,943 | 7 | 0 | 38,950 |
| Additions | 6,220 | 0 | 0 | 6,220 |
| Amortization | – 143 | 0 | – 22 | – 165 |
| Reclassifications | – 1,277 | 0 | 1,277 | 0 |
| Other changes in fair value | – 433 | 44 | 0 | – 389 |
| Impairments and reversals | 0 | 0 | 0 | 0 |
| Disposals | – 4,401 | 0 | 0 | – 4,401 |
| Maturities | – 2,545 | 0 | 0 | – 2,545 |
| Balance on Dec. 31 | 36,364 | 51 | 1,255 | 37,670 |

Information on the net gains or losses on available-for sale securities is disclosed separately in the consolidated statement of comprehensive income and the consolidated statement of changes in equity.
ING-DiBa continues to hold the securities transferred as part of repo and reverse repo transactions in its statement of financial position. Since dated return and repurchase agreements are in place for the transferred assets, ING-DiBa continues to bear the associated risks and rewards. The risks are described in the Group management report. Note 25 contains information relating to financial instruments transferred and pledged as collateral and the corresponding liabilities.

## Collateral held

| | 2016<br>€ m | 2015<br>€ m |
|---|---|---|
| Reverse repo transactions | 514 | 186 |

Securities accepted as collateral as part of reverse repo transactions are not recognized in the statement of financial position under IFRSs. The liquidation options are similar to those of standard international repo transactions. As in the previous year, there were no securities lending transactions as of December 31, 2016. No collateral held had been sold or pledged.

The fair value of collateral held is disclosed in accordance with IFRS 7.15.

## (6) Derivatives with positive fair value

| | 12/31/2016<br>€ m | 12/31/2015<br>€ m |
|---|---|---|
| **Derivatives** | | |
| Micro fair value hedges | 0 | 0 |
| Portfolio fair value hedges | 0 | 0 |
| Used in cash flow hedges | 0 | 0 |
| Other derivatives | 345 | 68 |
| Total | 345 | 68 |

This item includes derivative financial instruments designated as hedges and instruments not designated as hedges with a positive fair value of EUR 345 million (December 31, 2015: EUR 68 million).
ING-DiBa generally only uses simply structured interest rate swaps. In accordance with IAS 39.9, they are allocated to the “at fair value through profit or loss” category. In addition, foreign currency derivatives have also been entered into, particularly to procure foreign currencies.
Furthermore, other derivatives also include derivatives outside hedge accounting, which serve to hedge interest rate and other market price risks and for duration management. Derivatives in ineffective hedge relationships are also reported under this item.

The carrying amount represents only foreign currency derivatives and other un-netted derivatives due to a large number of netting arrangements with a central counterparty. Please refer to note 26 for further information on the volume of derivatives and offsetting.

All derivative financial instruments are carried at their fair values and reported as derivatives with positive or negative fair values. Changes in fair value, with the exception of those in relation to the effective portion of fair value changes in cash flow hedges, are immediately recognized in profit or loss.

Further information on derivatives and hedge accounting can be found in note 17 “Derivatives with negative fair value,” note 24 “Hedge accounting,” note 33 “Net interest income,” and note 35 “Net gains/losses on measurement of derivatives and hedged items.”

The accrued interest on derivatives is reported under “other assets” (note 12) and under “other liabilities” (note 21).

## (7) Investment property

ING-DiBa holds a small portfolio of properties that it does not use itself. If they generate rental income, this is recognized under other net gains/losses on financial investments and investment property (note 36).

Comments on the valuation techniques can be found in section d) of the chapter on “Significant accounting policies” and note 32 in this report.

### Changes in investment properties

All investment property is measured at fair value. The change in value recorded in fiscal year 2016 was immaterial.

| | 12/31/2016 €m | 12/31/2015 €m |
|---|---|---|
| Balance on Jan. 1 | 12 | 12 |
| Additions | 0 | 0 |
| Changes in fair value | 0 | 0 |
| Disposal | 0 | 0 |
| Balance on Dec. 31 | 12 | 12 |

## Status of external property valuation reports

| | Percentage of the total fair value of investment property |
|---|---:|
| The most recent valuation report was prepared during the year | |
| 2016 | 100 |
| 2015 | 0 |
| 2014 | 0 |
| Not appraised by external appraisers | 0 |
| Total | 100 |

## (8) Property and equipment and Group-occupied properties

| | 12/31/2016 €m | 12/31/2015 €m |
|---|---:|---:|
| IT facilities | 30 | 21 |
| Owner-occupied properties | 16 | 16 |
| Other property and equipment | 18 | 17 |
| Total | 64 | 54 |

## Changes in property and equipment and Group-occupied properties

| | 2016 IT facilities €m | 2016 Group-occupied properties €m | 2016 Other property and equipment €m | 2016 Total €m |
|---|---:|---:|---:|---:|
| Carrying amount on Jan.1 | 21 | 16 | 17 | 54 |
| Additions | 21 | 0 | 5 | 26 |
| Disposals | 0 | 0 | 0 | 0 |
| Depreciation | – 12 | 0 | – 4 | – 16 |
| Changes in fair value due to remeasurement | 0 | 0 | 0 | 0 |
| Reclassifications and other changes | 0 | 0 | 0 | 0 |
| Carrying amount on Dec. 31 | 30 | 16 | 18 | 64 |
| Gross carrying amount on Dec. 31 | 90 | 17 | 48 | 155 |
| Accumulated depreciation as of Dec. 31 | – 60 | – 4 | – 30 | – 94 |
| Cumulative changes in fair value as of Dec. 31 | 0 | 3 | 0 | 3 |
| Carrying amount on Dec. 31 | 30 | 16 | 18 | 64 |

| | 2015 IT facilities €m | 2015 Group-occupied properties €m | 2015 Other property and equipment €m | 2015 Total €m |
|---|---|---|---|---|
| Carrying amount on Jan.1 | 22 | 17 | 14 | 53 |
| Additions | 10 | 0 | 7 | 17 |
| Disposals | 0 | 0 | 0 | 0 |
| Depreciation | – 11 | – 1 | – 4 | – 16 |
| Changes in fair value due to remeasurement | 0 | 0 | 0 | 0 |
| Reclassifications and other changes | 0 | 0 | 0 | 0 |
| Carrying amount on Dec. 31 | 21 | 16 | 17 | 54 |
| Gross carrying amount on Dec. 31 | 71 | 17 | 44 | 132 |
| Accumulated depreciation as of Dec. 31 | – 50 | – 4 | – 27 | – 81 |
| Cumulative changes in fair value as of Dec. 31 | 0 | 3 | 0 | 3 |
| Carrying amount on Dec. 31 | 21 | 16 | 17 | 54 |

IT facilities and other property and equipment are measured using the cost method under IAS 16.30. The assets are depreciated pro rata temporis on a straight-line basis. The depreciation periods applied correspond to the expected useful lives. Depreciation expenses are recognized under “other administrative expenses” (note 40) in the income statement.

The revaluation method is used to measure Group-occupied properties. Further information can be found in section e) of the chapter on “Significant accounting policies” and note 32.

The following depreciation periods have been applied:

## Overview of depreciation periods

| | Depreciation periods in years |
|---|---|
| IT facilities | 2-6 |
| Group-occupied properties | 50 |
| Other property and equipment | 3-23 |

Their fair values are determined in the same way as those of investment properties, using the income capitalization approach. The latest external report for Group-occupied properties was issued on August 16, 2016. It resulted in one adjustment of EUR 0 million due to remeasurement in the 2016 fiscal year (December 31, 2015: EUR 0 million).

| | 12/31/2016<br>€ m | 12/31/2015<br>€ m |
|---|---|---|
| Fair value after remeasurement | 16 | 17 |
| Notional carrying amount under cost method | 11 | 12 |

## (9) Intangible assets

| | 12/31/2016<br>€ m | 12/31/2015<br>€ m |
|---|---|---|
| Software | 23 | 11 |
| Goodwill | 0 | 0 |
| Total | 23 | 11 |

No impairment losses on software were recognized in the periods under review.

Software is subject to finite useful lives; it is measured according to the cost method and reduced pro rata temporis by straight-line amortization. The useful life is normally three years.

Amortization expenses are recognized under “other administrative expenses” (note 40) in the income statement.

## Changes in intangible assets

| | 2016<br>Purchased software<br>€ m | 2016<br>Internally generated software<br>€ m | 2016<br>Total<br>€ m |
|---|---|---|---|
| Carrying amount on Jan. 1 | 11 | 0 | 11 |
| Additions | 9 | 9 | 18 |
| Amortization | – 6 | 0 | – 6 |
| Carrying amount on Dec. 31 | 14 | 9 | 23 |
| Gross carrying amount on Dec. 31 | 66 | 25 | 91 |
| Accumulated amortization as of Dec. 31 | – 52 | – 16 | – 68 |
| Carrying amount on Dec. 31 | 14 | 9 | 23 |

| | 2015 Purchased software €m | 2015 Internally generated software €m | 2015 Total €m |
|---|---|---|---|
| Carrying amount on Jan. 1 | 9 | 0 | 9 |
| Additions | 8 | 0 | 8 |
| Amortization | – 6 | 0 | – 6 |
| Carrying amount on Dec. 31 | 11 | 0 | 11 |
| Gross carrying amount on Dec. 31 | 60 | 30 | 90 |
| Accumulated amortization as of Dec. 31 | – 49 | – 30 | – 79 |
| Carrying amount on Dec. 31 | 11 | 0 | 11 |

## (10) Income tax assets

| | 12/31/2016 €m | 12/31/2015 €m |
|---|---|---|
| Income tax assets | 21 | 8 |

## (11) Deferred tax assets

| | 12/31/2016 €m | 12/31/2015 €m |
|---|---|---|
| Deferred tax assets | 7 | 1 |

Deferred taxes are explained further in notes 19 and 41.

## (12) Other assets

| | 12/31/2016 €m | 12/31/2015 €m |
|---|---|---|
| Accrued interest on loans and advances to banks | 4 | 1 |
| Accrued interest on loans and advances to customers | 77 | 64 |
| Accrued interest on AfS financial investments | 414 | 452 |
| Accrued interest on HtM financial investments | 15 | 14 |
| Accrued interest on hedging derivatives | 0 | 0 |
| Accrued interest on other derivatives | 1 | 1 |
| Prepaid expenses | 36 | 32 |
| Miscellaneous assets | 90 | 62 |
| Total | 637 | 626 |

The other assets include an immaterial investment in an associate of EUR 2 million (December 31, 2015: EUR 2 million) (note 30).

Information on offsetting may be found in note 26.

## (13) Equity

| | 12/31/2016 €m | 12/31/2015 €m |
|---|---|---|
| Subscribed capital | 100 | 100 |
| Reserves | 7,590 | 7,106 |
| Accumulated other comprehensive income | 729 | 731 |
| Other reserves | 6,861 | 6,375 |
| Total | 7,690 | 7,206 |

ING-DiBa's subscribed capital was unchanged at EUR 100 million as of the end of the reporting period. It is fully paid up and divided into 100,000,000 no-par value shares, all of which are held by ING Deutschland GmbH, Frankfurt am Main. No profit participation certificates have been issued.

This item includes non-controlling interests of EUR 25 thousand (December 31, 2015: EUR 25 thousand). These are related to the consolidated structured entity described in greater detail under note 30.

In accordance with IFRSs, gains or losses from the fair value measurement of AfS securities are recognized directly in changes in accumulated other comprehensive income, net of deferred taxes. The gains or losses are only recognized in profit or loss when the asset has been sold or derecognized. In addition, the reserve for cash flow hedges is part of the changes in accumulated other comprehensive income.

"Other reserves" contains the legal reserve, retained earnings, capital contributions from the parent, and the share-based payments granted by ING Groep N.V. with settlement using equity instruments. In addition, the remeasurement of defined benefit pension plans is a component of other reserves. Note 20 contains disclosures on pension provisions.

The profit after tax for 2016, determined in accordance with HGB, of EUR 740 million (2015: EUR 644 million) will be transferred to the sole shareholder, ING Deutschland GmbH, Frankfurt am Main, on the basis of a profit and loss transfer agreement.

## Development of changes in accumulated other comprehensive income

| | 2016 Revaluation reserve Real Estate €m | 2016 Available for sale financial investments €m | 2016 Cash flow hedge reserve €m | 2016 Total €m |
|---|---|---|---|---|
| Value as of Jan. 1 | 2 | 713 | 16 | 731 |
| Remeasurement of property and equipment and Group-occupied properties | 0 | 0 | 0 | 0 |
| Remeasurement of available for sale financial investments | 0 | 8 | 0 | 8 |
| Realized gains/ losses transferred to profit or loss | 0 | – 14 | 0 | – 14 |
| Changes in cash flow hedge reserve | 0 | 0 | 4 | 4 |
| Value on Dec. 31 | 2 | 707 | 20 | 729 |

| | 2015 Revaluation reserve Real Estate €m | 2015 Available for sale financial investments €m | 2015 Cash flow hedge reserve €m | 2015 Total €m |
|---|---|---|---|---|
| Value as of Jan. 1 | 2 | 991 | 18 | 1,011 |
| Remeasurement of property and equipment and Group-occupied properties | 0 | 0 | 0 | 0 |
| Remeasurement of available for sale financial investments | 0 | – 213 | 0 | – 213 |
| Realized gains/ losses transferred to profit or loss | 0 | – 65 | 0 | – 65 |
| Changes in cash flow hedge reserve | 0 | 0 | – 2 | – 2 |
| Value on Dec. 31 | 2 | 713 | 16 | 731 |

Available-for-sale financial investments are explained under note 5 and the fair value measurement method is described under note 32.

Disclosures relating to cash flow hedges can be found in note 24.

The changes in accumulated other comprehensive income include EUR 21 million (December 31, 2015: EUR 32 million) resulting from AfS securities that were reclassified as HtM in 2015. This amount is amortized through profit or loss over the remaining term of the HtM securities.

## (14) Securitized liabilities

Since 2011, ING-DiBa AG has been issuing mortgage bonds (*Hypothekenpfandbriefe*), which are placed on the capital market. Each issue has been given a minimum denomination of EUR 100,000.

As of December 31, 2016, the mortgage bonds were securitized solely through land charges on German residential properties (note 25).

These properties have been entered into the funding register (*Refinanzierungsregister*).

### Changes in securitized liabilities

| | 12/31/2016 €m | 12/31/2015 €m |
|---|---|---|
| Balance as of Jan. 1 | 1,283 | 1,282 |
| Additions | 493 | 0 |
| Amortization | 1 | 1 |
| Fair value hedge adjustment | – 5 | 0 |
| Final maturity | – 500 | 0 |
| Balance as of Dec. 31 | 1,272 | 1,283 |

The fair value hedge adjustment resulted from a hedge for a *Pfandbrief* issued in the 2016 fiscal year. Further disclosures on hedge accounting can be found under note 24 "Hedge accounting".

### Securitized liabilities by remaining contractual maturity

| | 12/31/2016 less than 1 year €m | 12/31/2016 1 to 2 years €m | 12/31/2016 2 to 3 years €m |
|---|---|---|---|
| Variable-interest securitized liabilities | 50 | 0 | 0 |
| Fixed-interest securitized liabilities | 0 | 20 | 509 |
| Total | 50 | 20 | 509 |

| | 12/31/2016 3 to 4 years €m | 12/31/2016 4 to 5 years €m | 12/31/2016 more than 5 years €m | 12/31/2016 Total €m |
|---|---|---|---|---|
| Variable-interest securitized liabilities | 0 | 0 | 100 | 150 |
| Fixed-interest securitized liabilities | 10 | 10 | 573 | 1,122 |
| Total | 10 | 10 | 673 | 1,272 |

| | 12/31/2015<br>less than 1 year<br>€ m | 12/31/2015<br>1 to 2 years<br>€ m | 12/31/2015<br>2 to 3 years<br>€ m |
|---|---|---|---|
| Variable-interest securitized liabilities | 0 | 50 | 0 |
| Fixed-interest securitized liabilities | 499 | 0 | 20 |
| Total | 499 | 50 | 20 |

| | 12/31/2015<br>3 to 4 years<br>€ m | 12/31/2015<br>4 to 5 years<br>€ m | 12/31/2015<br>more than 5 years<br>€ m | 12/31/2015<br>Total<br>€ m |
|---|---|---|---|---|
| Variable-interest securitized liabilities | 0 | 0 | 100 | 150 |
| Fixed-interest securitized liabilities | 509 | 10 | 95 | 1,133 |
| Total | 509 | 10 | 195 | 1,283 |

## (15) Deposits from banks

| | 12/31/2016<br>€ m | 12/31/2015<br>€ m |
|---|---|---|
| Payable on demand | 1,325 | 306 |
| With an agreed maturity or period of notice | 15,270 | 12,635 |
| Total | 16,595 | 12,941 |

As of December 31, 2016, there were no open market transactions with the European Central Bank System (December 31, 2015: EUR 0 million).

Further information regarding financial instruments transferred and pledged as collateral is contained in note 25.

The deposits from banks include cash collateral accepted for reverse repo transactions of EUR 1 million (December 31, 2015: EUR 0 million) and for derivatives (note 6) of EUR 59 million (December 31, 2015: EUR 21 million). The contractual bases are the German master agreement and the International Swaps and Derivatives Association (ISDA) agreement.

In addition, cash collateral for receivables from the Group parent amounted to EUR 7,715 million (December 31, 2015: EUR 4,715 million).

The accrued interest on deposits from banks is reported under “other liabilities” (note 21).

## (16) Due to customers

| | 12/31/2016 €m | 12/31/2015 €m |
|---|---|---|
| Savings deposits | 2,825 | 2,698 |
| Call money and fixed deposits | 118,044 | 111,105 |
| Current account balances | 6,888 | 4,825 |
| Other deposits | 2,394 | 2,498 |
| Total | 130,151 | 121,126 |

Note 25 provides information on financial instruments transferred and pledged as collateral. The contractual basis for derivatives are the German master agreement and the International Swaps and Derivatives Association (ISDA) agreement.

The deposits from customers include cash collateral accepted for derivatives (note 6) of EUR 0 million (December 31, 2015: EUR 13 million) and cash collateral in connection with guarantee loans assumed of EUR 5 million (December 31, 2015: EUR 9 million).

The accrued interest on amounts due to customers is reported under “other liabilities” (note 21).

## (17) Derivatives with negative fair value

| | 12/31/2016 €m | 12/31/2015 €m |
|---|---|---|
| **Derivatives** | | |
| Micro fair value hedges | 0 | 0 |
| Portfolio fair value hedges | 0 | 0 |
| Used in cash flow hedges | 4 | 0 |
| Other derivatives | 332 | 76 |
| Total | 336 | 76 |

This item includes derivative financial instruments designated as hedges and instruments not designated as hedges with a negative fair value (after offsetting) of EUR 336 million (December 31, 2015: EUR 76 million).

ING-DiBa generally only uses simply structured interest rate swaps. In accordance with IAS 39.9, they are allocated to the “at fair value through profit or loss” category. In addition, foreign currency derivatives have also been entered into, particularly to procure foreign currencies.

Other derivatives include derivatives outside hedge accounting which are used to hedge interest rate and other market price risks and for duration management. Derivatives in ineffective hedge relationships are also reported under this item.

The carrying amount virtually represents only foreign currency derivatives due to a large number of netting arrangements with a central counterparty. Please refer to note 26 for further details on derivatives and offsetting.

All derivative financial instruments are carried at their fair values and reported as derivatives with positive or negative fair values. Changes in fair value, with the exception of those in relation to the effective portion of fair value changes in cash flow hedges, are immediately recognized in profit or loss.

Further information on derivatives and hedge accounting can be found in note 6 "Derivatives with positive fair value," note 24 "Hedge accounting," note 33 "Net interest income," and note 35 "net gains/losses on measurement of derivatives and hedged items."

The accrued interest on derivatives is reported under "other assets" (note 12) and under "other liabilities" (note 21).

## (18) Income tax liabilities

| | 12/31/2016<br>€ m | 12/31/2015<br>€ m |
|---|---|---|
| Income tax liabilities | 0 | 4 |

There were no income tax payment obligations to the tax authorities as of December 31, 2016.

The tax reconciliation can be found under note 41.

## (19) Deferred tax liabilities

| | 12/31/2016<br>€ m | 12/31/2015<br>€ m |
|---|---|---|
| Deferred tax liabilities | 164 | 161 |

The tax reconciliation and explanations of income tax expense can be found in note 41.

## Changes in deferred tax assets and liabilities

| | 01/01/2016 Net deferred taxes €m | Changes recognized in equity €m | Changes recognized in profit or loss €m | 12/31/2016 Net deferred taxes €m |
|---|---|---|---|---|
| Financial investments | – 486 | 3 | – 81 | – 564 |
| Derivatives with positive and negative fair value | 677 | 0 | – 82 | 595 |
| Loans and advances to banks and customers | – 386 | 0 | 145 | – 241 |
| Cash flow hedges | – 7 | – 2 | 0 | – 9 |
| Pension and personnel provisions | 33 | 6 | 0 | 39 |
| Tax loss carryforwards | 0 | 0 | 6 | 6 |
| Other items | 9 | 0 | 8 | 17 |
| Subtotal | – 160 | 7 | – 4 | – 157 |
| | | | | |
| Net deferred taxes | – 160 | 7 | – 4 | – 157 |
| Deferred tax assets | 1 | 0 | 6 | 7 |
| Deferred tax liabilities | – 161 | 7 | – 10 | – 164 |
| Total | – 160 | 7 | – 4 | – 157 |

| | 01/01/2015 Net deferred taxes €m | Changes recognized in equity €m | Changes recognized in profit or loss €m | 12/31/2015 Net deferred taxes €m |
|---|---|---|---|---|
| Financial investments | – 755 | 134 | 135 | – 486 |
| Derivatives with positive and negative fair value | 979 | 0 | – 302 | 677 |
| Loans and advances to banks and customers | – 554 | 0 | 168 | – 386 |
| Cash flow hedges | – 7 | 1 | – 1 | – 7 |
| Pension and personnel provisions | 36 | – 3 | 0 | 33 |
| Tax loss carryforwards | 0 | 0 | 0 | 0 |
| Other items | 15 | 0 | – 6 | 9 |
| Subtotal | – 286 | 132 | – 6 | – 160 |
| | | | | |
| Net deferred taxes | – 286 | 132 | – 6 | – 160 |
| Deferred tax assets | 1 | 0 | 0 | 1 |
| Deferred tax liabilities | – 287 | 132 | – 6 | – 161 |
| Total | – 286 | 132 | – 6 | – 160 |

Because of amounts taken directly to equity, the change in the difference between deferred tax assets and deferred tax liabilities does not correspond to net deferred taxes.

Deferred taxes on the measurement of AfS securities of EUR 3 million (December 31, 2015: EUR 134 million) were taken directly to equity, and relate to the total result recognized in changes in accumulated other comprehensive income of EUR –8 million (December 31, 2015: EUR –412 million).

This led to a net result of EUR –5 million (December 31, 2015: EUR –278 million).

## Deferred taxes due to unused tax loss carryforwards

| | 12/31/2016 €m | 12/31/2015 €m |
|---|---|---|
| Total unused tax loss carryforwards | 49 | 1 |
| of which not resulting in deferred tax assets | 23 | 1 |
| of which resulting in deferred tax assets | 26 | 0 |

The average tax rate on which the calculation of the unused tax loss carryforwards was based was 25 percent in fiscal year 2016 (December 31, 2015: 16 percent). As of December 31, 2016, this resulted in deferred tax assets amounting to EUR 6 million (December 31, 2015: EUR 0 million).

As of December 31, 2016, and the prior-year date, there were no temporary differences in connection with investments in subsidiaries and foreign branches, for which no deferred taxes had as yet been recognized.

## (20) Non-current provisions

| | 12/31/2016 € m | 12/31/2015 € m |
|---|---|---|
| Pension provisions | 148 | 126 |
| Other personnel provisions | 12 | 10 |
| Provision for restructuring measures | 0 | 0 |
| Other provisions | 39 | 37 |
| Total | 199 | 173 |

Other personnel provisions include provisions for transitional benefits, early retirement benefits, anniversary bonuses, and similar items.
Other provisions of EUR 22 million (December 31, 2015: EUR 15 million) were recognized in respect of litigation risks (arising from the cancellation instruction, among other things) and EUR 14 million (December 31, 2015: EUR 20 million) for risk provisions for obligations from the lending business not recognized in the statement of financial position.

There is uncertainty with regard to the amount and timing of utilization. The likelihood of a utilization and thus an outflow of economic resources is continually reviewed (see section d) in “Significant accounting policies”).

## Changes in non-current provisions

| | 2016<br>Pension provisions<br>€ m | 2016<br>Other personnel provisions<br>€ m | 2016<br>Provision for restructuring measures and other provisions<br>€ m | 2016<br>Total<br>€ m |
|---|---|---|---|---|
| Carrying amount as of Jan. 1 | 126 | 10 | 37 | 173 |
| Additions | 4 | 2 | 21 | 27 |
| Reversals | 0 | 0 | – 15 | – 15 |
| Actuarial gains/losses | 20 | 0 | 0 | 20 |
| Utilizations | – 2 | 0 | – 4 | – 6 |
| Other | 0 | 0 | 0 | 0 |
| Carrying amount as of Dec. 31 | 148 | 12 | 39 | 199 |

| | 2015<br>Pension provisions<br>€ m | 2015<br>Other personnel provisions<br>€ m | 2015<br>Provision for restructuring measures and other provisions<br>€ m | 2015<br>Total<br>€ m |
|---|---|---|---|---|
| Carrying amount as of Jan. 1 | 132 | 10 | 7 | 149 |
| Additions | 5 | 0 | 35 | 40 |
| Reversals | 0 | 0 | – 3 | – 3 |
| Actuarial gains/losses | – 9 | 0 | 0 | – 9 |
| Utilizations | – 2 | 0 | – 2 | – 4 |
| Other | 0 | 0 | 0 | 0 |
| Carrying amount as of Dec. 31 | 126 | 10 | 37 | 173 |

## Pension provisions

## Pension plans

ING-DiBa grants its employees post-employment benefits on the basis of bank agreements and individual contractual commitments. In addition to the payment of retirement pensions, they also include disability benefits and bereaved benefits.

Occupational pensions are governed by defined benefit plans and defined contribution plans. Expenses for defined contribution plans, including employer contributions to the statutory pension insurance scheme, amounted to EUR 26 million (December 31, 2015: EUR 24 million).

For the German operations, the regulatory framework for the defined benefit pension plans comprises in particular the German Company Pension Plans Act (*Gesetz zur betrieblichen Altersversorgung* (BetrAVG)) and pension agreements entered into as individual pension promises on the basis of works agreements.

The benefits paid on the basis of defined benefit plans depend on individual arrangements, are calculated on the basis of final salary and the average salary for the last three service years or are based on a system of pension points by salary class.

Pension plans are protected against insolvency through the German Pension Guarantee Association (Pensionssicherungsverein), a contractual trust agreement (CTA), and a pension fund. The CTA is a guarantee and trust agreement, under which funds can only be used to finance the promised post-employment benefits and which is separate from the employer's other assets.

The plan assets in the CTA and pension fund consist exclusively of units in a special fund, which invests in cash, fixed income securities and various equity strategies are invested. ING-DiBa has an obligation to make additional payments to this fund in defined circumstances of insufficient cover. In fiscal year 2016, additional funding of EUR 1 million (previous year: EUR 0 million) was contributed to plan assets.

A contribution of EUR 2 million to the pension plan is expected for the next reporting period (2017).

The Bank carries the risk of maintaining, and generating returns on, the plan assets. ING-DiBa is represented on the investment committee of the special fund. The fund is managed in accordance with the German Pension Fund Capital Investment Regulation (*Pensionsfondskapitalanlageverordnung* (PFKapAV)), with target performance and composition being specified whereas the primary objective is preservation of capital.

Other risks from defined benefit pension plans arise from unforeseeable changes in actuarial assumptions.

There were no changes to existing plans in fiscal year 2016. There were no curtailments or plan settlements in the periods under review.

Note 31 contains disclosures on pension provisions for former members of executive bodies and their bereaved.

## Reconciliation to pension provisions/other assets

| | 12/31/2016<br>€ m | 12/31/2015<br>€ m |
|---|---|---|
| Defined benefit obligation (unfunded plans) | 92 | 78 |
| Defined benefit obligation (funded plans) | 145 | 145 |
| Less fair value of plan assets | 89 | 97 |
| | | |
| Funding status | 148 | 126 |
| | | |
| Pension provision | 148 | 126 |
| | | |
| Other assets | 0 | 0 |

## Change in defined benefit obligation (DBO) – total

| | 2016<br>€ m | 2015<br>€ m |
|---|---|---|
| DBO as of Jan. 1 | 223 | 236 |
| Current service cost | 2 | 2 |
| Past service cost | 0 | 0 |
| Interest cost | 4 | 4 |
| Changes in fair value: actuarial gains and losses from financial assumptions | 19 | – 9 |
| Changes in fair value: actuarial gains and losses from experience-based adjustments | – 1 | 0 |
| Benefits paid | – 10 | – 10 |
| DBO as of Dec. 31 | 237 | 223 |

## Change in defined benefit obligation (DBO) – unfunded plans

| | 2016<br>€ m | 2015<br>€ m |
|---|---|---|
| DBO as of Jan. 1 | 78 | 82 |
| Current service cost | 2 | 2 |
| Past service cost | 0 | 0 |
| Interest cost | 1 | 1 |
| Changes in fair value: actuarial gains and losses from financial assumptions | 9 | – 4 |
| Changes in fair value: actuarial gains and losses from experience-based adjustments | 4 | – 1 |
| Benefits paid | – 2 | – 2 |
| DBO as of Dec. 31 | 92 | 78 |

## Change in defined benefit obligation (DBO) – funded plans

| | 2016<br>€ m | 2015<br>€ m |
|---|---|---|
| DBO as of Jan. 1 | 145 | 154 |
| Current service cost | 0 | 0 |
| Past service cost | 0 | 0 |
| Interest cost | 3 | 3 |
| Changes in fair value: actuarial gains and losses from financial assumptions | 10 | – 5 |
| Changes in fair value: actuarial gains and losses from experience-based adjustments | – 5 | 1 |
| Benefits paid | – 8 | – 8 |
| DBO as of Dec. 31 | 145 | 145 |

## Change in plan assets

| | 2016<br>€ m | 2015<br>€ m |
|---|---|---|
| Fair value of plan assets as of Jan. 1 | 97 | 104 |
| Interest income from plan assets | 2 | 2 |
| Changes in fair value: actual return on plan assets excluding interest income | – 2 | – 1 |
| Contributions | 0 | 0 |
| Benefits paid | – 8 | – 8 |
| Fair value of plan assets as of Dec. 31 | 89 | 97 |

There were no plan surpluses in the periods under review.

## Composition of plan assets

The composition of the investment fund assets was as follows:

| | 12/31/2016 Fair-Value | | 12/31/2015 Fair-Value | |
|---|---|---|---|---|
| | Quoted on an active market €m | Not quoted on an active market €m | Quoted on an active market €m | Not quoted on an active market €m |
| Shares | 0 | 0 | 36 | 0 |
| of which: eurozone countries | 0 | 0 | 19 | 0 |
| of which: non-eurozone countries | 0 | 0 | 17 | 0 |
| Bonds and debentures | 64 | 0 | 59 | 0 |
| of which: in euros | 64 | 0 | 59 | 0 |
| of which: not in euros | 0 | 0 | 0 | 0 |
| Investment funds | 23 | 0 | 0 | 0 |
| Other securities, options, other assets | 0 | 0 | 0 | 0 |
| Bank balances/ fixed-term deposits | 0 | 2 | 0 | 2 |
| Total | 87 | 2 | 95 | 2 |

## Actuarial assumptions

| | 12/31/2016 Percent | 12/31/2015 Percent |
|---|---|---|
| Interest rate | 1.4 | 2.0 |
| Salary growth | 2.75 | 2.75 |
| Inflation | 1.75 | 1.75 |

The interest rate is based on prime-rated government bonds with matching currencies and maturities. The basic biometric probabilities are based on the mortality tables normally used in the respective country (Germany: Heubeck 2005G; Austria: AVÖ2008-P). Salary growth, turnover, and retirement patterns were estimated specifically for each company.

## Sensitivity analysis

The impact of material changes in actuarial assumptions on the defined benefit obligation (DBO) was as follows:

| | 12/31/2016 Financial impact in case of increase €m | 12/31/2016 Financial impact in case of decrease €m | 12/31/2015 Financial impact in case of increase €m | 12/31/2015 Financial impact in case of decrease €m |
|---|---|---|---|---|
| Interest rate +/- 1 percent | -30 | 37 | -27 | 34 |
| Mortality rate +/- 10 percent | -8 | 10 | -8 | 9 |
| Salary growth +/- 0.25 percent | 1 | -1 | 1 | -1 |
| Inflation +/- 0.25 percent | 7 | -7 | 6 | -6 |

The sensitivity analysis is performed using notional assumptions only. There is no minimum funding obligation for funded pension plans.

## Average duration of the defined benefit obligation

| | Defined benefit obligation Years |
|---|---|
| Total average duration | 14 |

## Pension benefits to be paid in the future

| | Pension benefits €m |
|---|---|
| Within the next year | 13 |
| Year 2 | 10 |
| Year 3 | 12 |
| Year 4 | 11 |
| Year 5 | 10 |
| Next 5 years | 52 |

## Other non-current personnel provisions

| | 12/31/2016 €m | 12/31/2015 €m |
|---|---|---|
| Anniversaries | 4 | 4 |
| Partial retirement (liability) | 8 | 6 |
| Total | 12 | 10 |

Partial retirement provisions are accounted for in accordance with the first-in, first-out method (for more information, please refer to section d) contained in the section entitled "Significant accounting policies").

## (21) Other liabilities

| | 12/31/2016<br>€ m | 12/31/2015<br>€ m |
|---|---|---|
| Accrued interest on deposits from banks | 15 | 2 |
| Accrued interest on amounts due to customers | 28 | 32 |
| Accrued interest on securitized liabilities | 10 | 17 |
| Accrued interest on hedging derivatives | 0 | 0 |
| Accrued interest on other derivatives | 9 | 0 |
| Miscellaneous liabilities | 1,084 | 956 |
| Total | 1,146 | 1,007 |

"Other liabilities" relates primarily to withholding taxes payable on behalf of our customers as well as the net profit for the year in accordance with HGB to be transferred to the parent, ING Deutschland GmbH.

Information on offsetting may be found in note 26.

## Other disclosures relating to the consolidated statement of financial position

## (22) Contractual maturities

### Assets by remaining contractual maturity on the basis of undiscounted cash flows

| | 12/31/2016<br>on demand<br>€ m | 12/31/2016<br>less than 1 month<br>€ m | 12/31/2016<br>1 to 3 months<br>€ m | 12/31/2016<br>3 to 12 months<br>€ m |
|---|---|---|---|---|
| Cash reserve | 1,487 | 0 | 0 | 0 |
| Loans and advances to banks | 604 | 118 | 905 | 1,369 |
| Loans and advances to customers | 1,842 | 2,299 | 4,074 | 11,116 |
| Financial investments | | | | |
| - Available for sale | 19 | 618 | 2,215 | 3,466 |
| - Held to maturity | 0 | 1 | 123 | 422 |
| Derivatives with positive fair value | 0 | 48 | 5 | – 19 |
| Other assets | 0 | 193 | 203 | 230 |
| Total | 3,952 | 3,277 | 7,525 | 16,584 |

| | 12/31/2016 1 to 5 years €m | 12/31/2016 more than 5 years €m | 12/31/2016 indefinite €m | 12/31/2016 Total €m |
|---|---|---|---|---|
| Cash reserve | 0 | 0 | 0 | 1,487 |
| Loans and advances to banks | 4,178 | 1,798 | 0 | 8,972 |
| Loans and advances to customers | 49,043 | 48,503 | 0 | 116,877 |
| Financial investments | | | | |
| - Available for sale | 14,754 | 17,017 | 0 | 38,089 |
| - Held to maturity | 655 | 44 | 0 | 1,245 |
| Derivatives with positive fair value | 84 | 248 | 0 | 366 |
| Other assets | 12 | 25 | 14 | 677 |
| Total | 68,726 | 67,635 | 14 | 167,713 |

| | 12/31/2015 on demand €m | 12/31/2015 less than 1 month €m | 12/31/2015 1 to 3 months €m | 12/31/2015 3 to 12 months €m |
|---|---|---|---|---|
| Cash reserve | 1,497 | 0 | 0 | 0 |
| Loans and advances to banks | 256 | 161 | 25 | 816 |
| Loans and advances to customers | 2,540 | 3,297 | 9,030 | 8,493 |
| Financial investments | | | | |
| - Available for sale | 51 | 340 | 569 | 2,932 |
| - Held to maturity | 0 | 1 | 3 | 23 |
| Derivatives with positive fair value | 0 | 13 | 3 | 49 |
| Other assets | 0 | 227 | 164 | 242 |
| Total | 4,344 | 4,039 | 9,794 | 12,555 |

| | 12/31/2015 1 to 5 years €m | 12/31/2015 more than 5 years €m | 12/31/2015 indefinite €m | 12/31/2015 Total €m |
|---|---|---|---|---|
| Cash reserve | 0 | 0 | 0 | 1,497 |
| Loans and advances to banks | 2,789 | 928 | 0 | 4,975 |
| Loans and advances to customers | 41,198 | 43,203 | 0 | 107,761 |
| Financial investments | | | | |
| - Available for sale | 16,016 | 17,412 | 0 | 37,320 |
| - Held to maturity | 1,027 | 205 | 0 | 1,259 |
| Derivatives with positive fair value | 0 | 0 | 0 | 65 |
| Other assets | 0 | 2 | 12 | 647 |
| Total | 61,030 | 61,750 | 12 | 153,524 |

## Liabilities and items not recognized in the statement of financial position by remaining contractual maturity on the basis of undiscounted cash flows

| | 12/31/2016 on demand €m | 12/31/2016 less than 1 month €m | 12/31/2016 1 to 3 months €m |
|---|---|---|---|
| Securitized liabilities | 0 | 0 | 36 |
| Deposits from banks | 1,325 | 104 | 579 |
| Due to customers | 117,555 | 1,440 | 2,374 |
| Derivatives with negative fair value | 0 | 78 | 36 |
| Other liabilities | 14 | 825 | 62 |
| Subtotal | 118,894 | 2,447 | 3,087 |
| | | | |
| Financial guarantees | 191 | 2 | 28 |
| Irrevocable loan commitments | 0 | 4,303 | 374 |
| Total | 119,085 | 6,752 | 3,489 |

| | 12/31/2016 3 to 12 months €m | 12/31/2016 1 to 5 years €m | 12/31/2016 more than 5 years €m | 12/31/2016 Total €m |
|---|---|---|---|---|
| Securitized liabilities | 27 | 583 | 694 | 1,340 |
| Deposits from banks | 2,439 | 8,138 | 5,091 | 17,676 |
| Due to customers | 5,148 | 4,094 | 78 | 130,689 |
| Derivatives with negative fair value | 271 | 43 | 3 | 431 |
| Other liabilities | 275 | 4 | 331 | 1,511 |
| Subtotal | 8,160 | 12,862 | 6,197 | 151,647 |
| | | | | |
| Financial guarantees | 106 | 104 | 27 | 458 |
| Irrevocable loan commitments | 2,425 | 7,002 | 375 | 14,479 |
| Total | 10,691 | 19,968 | 6,599 | 166,584 |

| | 12/31/2015 on demand €m | 12/31/2015 less than 1 month €m | 12/31/2015 1 to 3 months €m |
|---|---|---|---|
| Securitized liabilities | 0 | 0 | 11 |
| Deposits from banks | 118 | 22 | 187 |
| Due to customers | 107,749 | 1,802 | 2,881 |
| Derivatives with negative fair value | 0 | 9 | 24 |
| Other liabilities | 20 | 702 | 51 |
| Subtotal | 107,887 | 2,535 | 3,154 |
| | | | |
| Financial guarantees | 198 | 6 | 38 |
| Irrevocable loan commitments | 34 | 3,824 | 204 |
| Total | 108,119 | 6,365 | 3,396 |

| | 12/31/2015 3 to 12 months €m | 12/31/2015 1 to 5 years €m | 12/31/2015 more than 5 years €m | 12/31/2015 Total €m |
|---|---|---|---|---|
| Securitized liabilities | 515 | 629 | 200 | 1,355 |
| Deposits from banks | 1,716 | 6,741 | 5,299 | 14,083 |
| Due to customers | 5,700 | 4,270 | 82 | 122,484 |
| Derivatives with negative fair value | 55 | 0 | 0 | 88 |
| Other liabilities | 270 | 5 | 297 | 1,345 |
| Subtotal | 8,256 | 11,645 | 5,878 | 139,355 |
| | | | | |
| Financial guarantees | 73 | 78 | 6 | 399 |
| Irrevocable loan commitments | 1,142 | 7,406 | 389 | 12,999 |
| Total | 9,471 | 19,129 | 6,273 | 152,753 |

## (23) Expected periods of realization

The table below shows for each asset and liability position those amounts that, based on their contractual maturities, are expected to be realized or settled within twelve months of the reporting date (current) and later than twelve months after the reporting date (non-current). Asset and liability items without contractual maturities are classified as current items. This includes the “cash reserve” and “income tax assets/liabilities” line items in the statement of financial position. The following line items in the statement of financial position are classified as non-current: investment property, property and equipment, intangible assets, and deferred tax assets and liabilities. “Other assets” and “other liabilities” are classified on the basis of estimates for the significant items contained therein.

| | 12/31/2016<br>Current<br>€ m | 12/31/2016<br>Non-current<br>€ m | 12/31/2016<br>Total<br>€ m |
|---|---|---|---|
| **Assets** | | | |
| Cash reserve | 1,487 | 0 | 1,487 |
| Loans and advances to banks | 2,990 | 5,891 | 8,881 |
| Loans and advances to customers | 18,052 | 88,407 | 106,459 |
| Adjustment to portfolio fair value hedges | 52 | 827 | 879 |
| Financial investments | 6,215 | 32,523 | 38,738 |
| Derivatives with positive fair value | 66 | 279 | 345 |
| Investment property | 0 | 12 | 12 |
| Property and equipment | 0 | 64 | 64 |
| Intangible assets | 0 | 23 | 23 |
| Income tax assets | 21 | 0 | 21 |
| Deferred tax assets | 0 | 7 | 7 |
| Other assets | 605 | 32 | 637 |
| Total assets | 29,488 | 128,065 | 157,553 |
| | | | |
| **Liabilities** | | | |
| Securitized liabilities | 50 | 1,222 | 1,272 |
| Deposits from banks | 4,267 | 12,328 | 16,595 |
| Due to customers | 126,065 | 4,086 | 130,151 |
| Derivatives with negative fair value | 332 | 4 | 336 |
| Income tax liabilities | 0 | 0 | 0 |
| Deferred tax liabilities | 0 | 164 | 164 |
| Non-current provisions | 41 | 158 | 199 |
| Other liabilities | 1,134 | 12 | 1,146 |
| Total liabilities | 131,889 | 17,974 | 149,863 |

| | 12/31/2015 Current €m | 12/31/2015 Non-current €m | 12/31/2015 Total €m |
|---|---|---|---|
| **Assets** | | | |
| Cash reserve | 1,497 | 0 | 1,497 |
| Loans and advances to banks | 1,247 | 3,657 | 4,904 |
| Loans and advances to customers | 22,054 | 75,889 | 97,943 |
| Adjustment to portfolio fair value hedges | 69 | 1,114 | 1,183 |
| Financial investments | 3,257 | 34,413 | 37,670 |
| Derivatives with positive fair value | 68 | 0 | 68 |
| Investment property | 0 | 12 | 12 |
| Property and equipment | 0 | 54 | 54 |
| Intangible assets | 0 | 11 | 11 |
| Income tax assets | 8 | 0 | 8 |
| Deferred tax assets | 1 | 0 | 1 |
| Other assets | 624 | 2 | 626 |
| Total assets | 28,825 | 115,152 | 143,977 |
| | | | |
| **Liabilities** | | | |
| Securitized liabilities | 499 | 784 | 1,283 |
| Deposits from banks | 1,853 | 11,088 | 12,941 |
| Due to customers | 116,896 | 4,230 | 121,126 |
| Derivatives with negative fair value | 76 | 0 | 76 |
| Income tax liabilities | 4 | 0 | 4 |
| Deferred tax liabilities | 0 | 161 | 161 |
| Non-current provisions | 22 | 151 | 173 |
| Other liabilities | 1,007 | 0 | 1,007 |
| Total liabilities | 120,357 | 16,414 | 136,771 |

IAS 1.60 *et seq.* in conjunction with IFRS 7.39 results in a worst-case analysis for the "amounts due to customers" item. Customer deposits payable on demand are classified as payable at short notice due to their contractual maturity. The contractual maturity of demand deposits does not adequately reflect the liquidity risk exposure. In order to determine the expected repayment date, modeling assumptions must therefore be made. These assumptions form an integral part of the liquidity risk management concept. Further information on liquidity risk can be found in the Group management report (risk report).

Information on offsetting may be found in note 26.

## (24) Hedge accounting

Hedge accounting is discussed in section d) of the section entitled “Significant accounting policies.”

The accrued interest on hedging derivatives is reported under “other assets” (note 12) or under “other liabilities” (note 21).

Information on the allocation of the hedging derivatives to micro and portfolio hedges is provided in note 6 “Derivatives with positive fair value” and note 17 “Derivatives with negative fair value.”

### Fair value hedges

The following table shows the fair values of derivatives held as part of fair value hedges.

| | 12/31/2016 Assets €m | 12/31/2016 Equity and liabilities €m | 12/31/2015 Assets €m | 12/31/2015 Equity and liabilities €m |
|---|---|---|---|---|
| Derivatives used as fair value hedges | 0 | 0 | 0 | 0 |

Net gains/losses on measurement of derivatives and hedged items are described in note 35.

The full fair value of derivatives, including accrued interest, amounted to EUR 0 million as of December 31, 2016, on the assets side (December 31, 2015: EUR 0 million) and to EUR 0 million as of December 31, 2016, on the liabilities side (December 31, 2015: EUR 0 million).

In 2016 all derivatives designated as fair value hedges, including collateral provided, were offset due to the clearing of the derivatives via a CCP. Please refer to note 26 “Offsetting, master netting and similar agreements” for further information.

The changes in fair value of hedged items in portfolio hedge accounting which are attributable to the hedged risk are presented in a separate item in the statement of financial position. These are explained under “adjustment to portfolio fair value hedges” (note 4).

## Cash flow hedges

The following table shows the fair values of derivatives held as part of cash flow hedges.

| | 12/31/2016 Assets €m | 12/31/2016 Equity and liabilities €m | 12/31/2015 Assets €m | 12/31/2015 Equity and liabilities €m |
|---|---|---|---|---|
| Derivatives used as cash flow hedges | 0 | 4 | 0 | 0 |

The full fair value of derivatives, including accrued interest, amounted to EUR 0 million as of December 31, 2016, on the assets side (December 31, 2015: EUR 0 million) and to EUR 4 million on the liabilities side (December 31, 2015: EUR 0 million).

## Hedged cash flows

The following table shows the periods in which hedged cash flows are expected to occur and when these are expected to affect profit or loss.

| | 2016 less than 1 month €m | 2016 1 to 3 months €m | 2016 3 to 12 months €m | 2016 1 to 2 years €m |
|---|---|---|---|---|
| Inflow | 4 | 3 | 0 | 5 |
| Outflow | 0 | 0 | – 1 | 0 |
| Net cash flow | 4 | 3 | – 1 | 5 |

| | 2016 2 to 3 years €m | 2016 3 to 4 years €m | 2016 4 to 5 years €m | 2016 more than 5 years €m |
|---|---|---|---|---|
| Inflow | 5 | 6 | 6 | 3 |
| Outflow | 0 | 0 | 0 | 0 |
| Net cash flow | 5 | 6 | 6 | 3 |

| | 2015 less than 1 month €m | 2015 1 to 3 months €m | 2015 3 to 12 months €m | 2015 1 to 2 years €m |
|---|---|---|---|---|
| Inflow | 4 | 4 | 2 | 10 |
| Outflow | 0 | 0 | 0 | 0 |
| Net cash flow | 4 | 4 | 2 | 10 |

| | 2015<br>2 to 3 years<br>€ m | 2015<br>3 to 4 years<br>€ m | 2015<br>4 to 5 years<br>€ m | 2015<br>more than 5 years<br>€ m |
|---|---|---|---|---|
| Inflow | 9 | 9 | 8 | 10 |
| Outflow | 0 | 0 | 0 | 0 |
| Net cash flow | 9 | 9 | 8 | 10 |

### Cash flow hedge reserve

The following table shows the cash flow hedge reserve under equity. Note 13 provides information on the development of changes in accumulated other comprehensive income.

| | 12/31/2016<br>€ m | 12/31/2015<br>€ m |
|---|---|---|
| Cash flow hedge reserve in equity | 20 | 16 |

In fiscal year 2016 no securities were disposed of that had an impact on the cash flow hedge reserve and led to the early termination of hedges.

### Cash flow hedge ineffectiveness

Cash flow hedge ineffectiveness impacted profit or loss as follows:

| | 12/31/2016<br>€ m | 12/31/2015<br>€ m |
|---|---|---|
| Cash flow hedge ineffectiveness | 0 | 0 |

## (25) Financial instruments transferred and pledged as collateral

### Financial instruments transferred yet not derecognized

ING-DiBa continues to hold the securities transferred as part of repo and securities lending transactions in its statement of financial position. Since dated return and repurchase agreements are in place for the transferred assets, ING-DiBa continues to bear the associated risks and rewards. The risks are described in the Group management report.

| | 12/31/2016 Fair value €m | 12/31/2016 Carrying amount €m |
|---|---|---|
| Repo transactions | | |
| - Assets transferred (available for sale) | 120 | 120 |
| - Assets transferred (other assets - AfS financial investments)[1] | 2 | 2 |
| - Corresponding deposits from banks | 122 | 122 |
| - Corresponding amounts due to customers | 0 | 0 |
| Available for sale[2] | 0 | 0 |
| | | |
| - Assets transferred (held to maturity) | 3 | 3 |
| - Assets transferred (other assets - HtM financial investments)[1] | 0 | 0 |
| - Corresponding deposits from banks | 3 | 3 |
| - Corresponding amounts due to customers | 0 | 0 |
| Held to maturity[2] | 0 | 0 |
| | | |
| Total assets transferred | 125 | 125 |
| Total corresponding liabilities | 125 | 125 |

(1) Relates to accrued interest reported separately under other assets.
(2) The totals are shown on a net basis.

| | 12/31/2015 Fair Value €m | 12/31/2015 Carrying amount €m |
|---|---|---|
| Repo transactions | | |
| - Assets transferred (available for sale) | 938 | 938 |
| - Assets transferred (other assets - AfS financial investments)[1] | 20 | 20 |
| - Corresponding deposits from banks | 657 | 657 |
| - Corresponding amounts due to customers | 301 | 301 |
| Available for sale[2] | 0 | 0 |
| | | |
| - Assets transferred (held to maturity) | 21 | 20 |
| - Assets transferred (other assets - HtM financial investments)[1] | 1 | 1 |
| - Corresponding deposits from banks | 21 | 21 |
| - Corresponding amounts due to customers | 0 | 0 |
| Held to maturity[2] | 1 | 0 |
| | | |
| Total assets transferred | 980 | 979 |
| Total corresponding liabilities | 979 | 979 |

(1) Relates to accrued interest reported separately under other assets.
(2) The totals are shown on a net basis.

The AfS and HtM instruments reported here are recognized under “financial investments” in the statement of financial position (note 5).

As in the previous year, there were no securities lending transactions as of December 31, 2016.

The transactions with the European Central Bank System do not deviate from the procedure commonly used in the market.

Further information on repo transactions can be found in note 15 "Deposits from banks" and note 16 "Due to customers".

## Recognition in the amount of the continuing involvement

As part of a sub-participation agreement relating to the Wholesale Banking business, the Bank transferred EUR 66 million in receivables (December 31, 2015: EUR 70 million), resulting in a continuing involvement of EUR 0 million (December 31, 2015: EUR 0 million), which continues to be recognized under “loans and advances to customers” (note 3). This is offset by EUR 0 million (December 31, 2015: EUR 0 million), which is reported under “deposits from banks” (note 15).

## Financial instruments pledged as collateral

| | 12/31/2016 Carrying amount € m | 12/31/2015 Carrying amount € m |
|---|---|---|
| Total AfS financial investments | 37,510 | 36,415 |
| of which pledged as collateral | 1,288 | 5,326 |
| Other assets - AfS financial investments total | 414 | 452 |
| of which pledged as collateral | 20 | 106 |
| Total HtM financial investments | 1,228 | 1,255 |
| of which pledged as collateral | 81 | 90 |
| Other assets - HtM financial investments total | 15 | 14 |
| of which pledged as collateral | 1 | 2 |
| Loans and advances to banks | 8,881 | 4,904 |
| of which pledged as collateral | 441 | 56 |
| Loans and advances to customers | 106,459 | 97,943 |
| of which pledged as collateral | 16,496 | 12,601 |
| Total transferred | 18,327 | 18,181 |

All financial instruments pledged as collateral by ING-DiBa can be sold or pledged by the recipient of the collateral regardless of whether or not ING-DiBa defaults.

“Loans and advances to banks” (note 2) includes cash collateral for derivatives as well as cash collateral provided to the Group parent ING Bank N.V. in an amount of EUR 425 million (December 31, 2015: EUR 24 million). As in the prior year, no cash collateral was pledged for repo transactions. EUR 16 million in cash collateral was provided in the context of transactions settled via central counterparties (December 31, 2015: EUR 32 million).

“Loans and advances to customers” (note 3) included a volume of EUR 7,301 million (December 31, 2015: EUR 7,172 million) pledged as collateral as part of transactions with the KfW development bank (Kreditanstalt für Wiederaufbau).

Residential mortgage-backed securities (RMBSs) in the amount of EUR 4,638 million (December 31, 2015: EUR 200 million) are pledged as collateral with the European Central Bank System. This is disclosed in accordance with IFRS 7.14 and complements the disclosures relating to the collateral furnished. Note 30 contains further information on these RMBSs.

Private mortgage loans serve as collateral cover for the mortgage bonds (*Hypothekenpfandbriefe*) issued. The carrying amount of the private mortgage loans entered into the funding register was EUR 4,554 million as of December 31, 2016 (December 31, 2015: EUR 5,229 million).

The loans of the cover pool comprise part of the “loans and advances to customers” item (note 3). In addition, EUR 81 million in AfS and Htm financial instruments (December 31, 2015: EUR 582 million) was provided as collateral.

In relation to the collateral listed, there are no clauses or conditions that are of material importance when considered separately.

## (26) Offsetting, master netting, and similar agreements

Since fiscal year 2013, derivatives have increasingly been settled via a central counterparty. This has resulted in an offsetting requirement in the statement of financial position.

Agreements relating to derivatives transactions which were not conducted through the central counterparty as well as repo and reverse repo transactions are master netting agreements (MNA) and similar agreements, which result in the positions concerned being offset under certain conditions. The settlement of these transactions relates solely to technical settlement and not to accounting presentation in accordance with IFRSs. MNAs are deemed to be legally enforceable if this is confirmed by applicable legal opinions.

For more information, please refer to note 6 “Derivatives with positive fair value,” and note 17 “Derivatives with negative fair value.”

| | | 12/31/2016 | 12/31/2016 | 12/31/2016 | 12/31/2016 Amounts subject to a legally enforceable MNA or similar agreement | | 12/31/2016 |
|---|---|---|---|---|---|---|---|
| | | Gross amounts of financial assets before offsetting | Amounts offset in the statement of financial position | Net amounts of financial assets after offsetting | Financial instruments | Financial instruments pledged as collateral including cash | Net amount |
| | | m € | m € | m € | m € | m € | m € |
| **Statement of financial position item** | **Financial assets** | | | | | | |
| Loans and advances to banks | Reverse repo and similar contracts | 514 | 0 | 514 | 14 | 500 | 0 |
| Loans and advances to banks | Cash collateral[1] | 2,505 | 2,483 | 22 | 0 | 0 | 22 |
| Loans and advances to customers | Reverse repo and similar contracts | 0 | 0 | 0 | 0 | 0 | 0 |
| Derivatives with positive fair value | Derivatives | 793 | 448 | 345 | 63 | 38 | 244 |
| Other assets | Accrued interest on loans and advances to banks | 0 | 0 | 0 | 0 | 0 | 0 |
| Other assets | Accrued interest on derivatives | 65 | 64 | 1 | 0 | 0 | 1 |
| Total | | 3,877 | 2,995 | 882 | 77 | 538 | 267 |

(1) The cash collateral reported here relates in full to the transactions settled via a central counterparty (CCP).

| | | 12/31/2015 | 12/31/2015 | 12/31/2015 | 12/31/2015 Amounts subject to a legally enforceable MNA or similar agreement | | 12/31/2015 |
|---|---|---|---|---|---|---|---|
| | | Gross amounts of financial assets before offsetting | Amounts offset in the statement of financial position | Net amounts of financial assets after offsetting | Financial instruments | Financial instruments pledged as collateral including cash | Net amount |
| | | m € | m € | m € | m € | m € | m € |
| **Statement of financial position item** | **Financial assets** | | | | | | |
| Loans and advances to banks | Reverse repo and similar contracts | 112 | 0 | 112 | 0 | 112 | 0 |
| Loans and advances to banks | Cash collateral[1] | 2,519 | 2,517 | 2 | 0 | 0 | 2 |
| Loans and advances to customers | Reverse repo and similar contracts | 74 | 0 | 74 | 74 | 0 | 0 |
| Derivatives with positive fair value | Derivatives | 442 | 373 | 69 | 30 | 7 | 32 |
| Other assets | Accrued interest on loans and advances to banks | 0 | 0 | 0 | 0 | 0 | 0 |
| Other assets | Accrued interest on derivatives | 47 | 46 | 1 | 0 | 0 | 1 |
| Total | | 3,194 | 2,936 | 258 | 104 | 119 | 35 |

(1) The cash collateral reported here relates in full to the transactions settled via a central counterparty (CCP).

| Statement of financial position item | Financial liabilities | 12/31/2016<br>Gross amounts of financial liabilities before offsetting<br>m € | 12/31/2016<br>Amounts offset in the statement of financial position<br>m € | 12/31/2016<br>Net amounts of financial liabilities after offsetting<br>m € | 12/31/2016<br>Amounts subject to a legally enforceable MNA or similar agreement<br>Financial instruments<br>m € | 12/31/2016<br>Amounts subject to a legally enforceable MNA or similar agreement<br>Financial instruments pledged as collateral including cash<br>m € | 12/31/2016<br>Net amount<br>m € |
|---|---|---|---|---|---|---|---|
| Deposits from banks | Repo transactions | 124 | 0 | 124 | 13 | 111 | 0 |
| Due to customers | Repo transactions | 0 | 0 | 0 | 0 | 0 | 0 |
| Derivatives with negative fair value | Derivatives | 2,951 | 2,615 | 336 | 63 | 35 | 238 |
| Other liabilities | Accrued interest on derivatives | 392 | 382 | 10 | 0 | 0 | 10 |
| Total | | 3,467 | 2,997 | 470 | 76 | 146 | 248 |

| | | 12/31/2015 | 12/31/2015 | 12/31/2015 | 12/31/2015 Amounts subject to a legally enforceable MNA or similar agreement | | 12/31/2015 |
|---|---|---|---|---|---|---|---|
| | | Gross amounts of financial liabilities before offsetting | Amounts offset in the statement of financial position | Net amounts of financial liabilities after offsetting | Financial instruments | Financial instruments pledged as collateral including cash | Net amount |
| | | m € | m € | m € | m € | m € | m € |
| **Statement of financial position item** | **Financial liabilities** | | | | | | |
| Deposits from banks | Repo transactions | 678 | 0 | 678 | 0 | 677 | 1 |
| Due to customers | Repo transactions | 301 | 0 | 301 | 74 | 227 | 0 |
| Derivatives with negative fair value | Derivatives | 2,591 | 2,515 | 76 | 30 | 24 | 22 |
| Other liabilities | Accrued interest on derivatives | 421 | 421 | 0 | 0 | 0 | 0 |
| Total | | 3,991 | 2,936 | 1,055 | 104 | 928 | 23 |

## (27) Contingent liabilities

Contingent liabilities are items not recognized in the statement of financial position, as specified in IAS 37 (see section e) of "Significant accounting policies").

These include irrevocable loan commitments, guarantees, and letters of credit.

Contingent liabilities relate primarily to irrevocable loan commitments to customers in the mortgage area (forward loans) and in Wholesale Banking.

The expected disbursements for irrevocable loan commitments and letters of credit are presented below. These correspond to the contractually stipulated maximum amounts. For guarantees, the maximum amount that can be drawn down is shown.

As part of the spin-off of the former Frankfurt branch of ING Bank N.V. from ING Bank N.V., Amsterdam, to Conifer B.V., and the subsequent merger with ING-DiBa, ING-DiBa assumed Conifer B.V.'s secondary liability obligations existing by operation of the law for the protection of ING Bank N.V.'s creditors. This secondary liability obligation is anchored in article

2:334t of the Dutch Civil Code and applies to certain obligations on the part of ING Bank N.V. existing as of the effective date of the spin-off (August 31, 2011).

With regard to the scope of liability, a distinction must be drawn between joint and several obligations. Joint obligations of ING Bank N.V. are subject to the joint liability of ING DiBa and ING Bank N.V. The secondary liability in respect of the several obligations is limited to the value of the net asset s of the Frankfurt branch of ING Bank N.V. as of the date of the spin-off to Conifer B.V

The term of this liability is unlimited and expires only upon the extinguishment of the relevant obligation. In this context, it is not practical to make the disclosures required in accordance with IAS 37.86.

## Contingent liabilities

| | 12/31/2016 on demand €m | 12/31/2016 less than 1 month €m | 12/31/2016 1 to 3 months €m |
|---|---|---|---|
| Irrevocable loan commitments | 0 | 4,303 | 374 |
| Guarantees and letters of credit | 417 | 171 | 94 |
| Total | 417 | 4,474 | 468 |

| | 12/31/2016 3 to 12 months €m | 12/31/2016 1 to 5 years €m | 12/31/2016 more than 5 years €m | 12/31/2016 Total €m |
|---|---|---|---|---|
| Irrevocable loan commitments | 2,425 | 7,002 | 375 | 14,479 |
| Guarantees and letters of credit | 231 | 144 | 79 | 1,136 |
| Total | 2,656 | 7,146 | 454 | 15,615 |

| | 12/31/2015 on demand €m | 12/31/2015 less than 1 month €m | 12/31/2015 1 to 3 months €m |
|---|---|---|---|
| Irrevocable loan commitments | 34 | 3,824 | 204 |
| Guarantees and letters of credit | 368 | 30 | 44 |
| Total | 402 | 3,854 | 248 |

| | 12/31/2015 3 to 12 months €m | 12/31/2015 1 to 5 years €m | 12/31/2015 more than 5 years €m | 12/31/2015 Total €m |
|---|---|---|---|---|
| Irrevocable loan commitments | 1,142 | 7,406 | 389 | 12,999 |
| Guarantees and letters of credit | 141 | 145 | 255 | 983 |
| Total | 1,283 | 7,551 | 644 | 13,982 |

## (28) Pending litigation

The outcomes of pending litigation are not expected to have any material adverse effect on the net assets, financial position, and results of operations in excess of the amounts already recognized for litigation risks under non-current provisions (see "Significant accounting policies," sections d) and e)).

## (29) Future lease obligations

| | Future minimum lease payments €m |
|---|---|
| 2017 | 21 |
| 2018 | 19 |
| 2019 | 18 |
| 2020 | 16 |
| 2021 | 15 |
| in years following 2021 | 56 |

Total lease expenses amounted to EUR 25 million in fiscal year 2016 (2015: EUR 25 million). Of that amount, EUR 22 million (2015: EUR 22 million) was attributable to minimum lease payments and EUR 3 million (2015: EUR 3 million) was attributable to contingent lease payments.

As of the end of the reporting period, leasing obligations of EUR 0 million are reported due (2015: EUR 0 million).

Operationally, lease agreements for business premises or office buildings are considered material. Most of the agreements in question specify fixed terms or minimum lease terms for which fixed lease amounts have to be paid. Some of the rentals for buildings used for business operations are linked to consumer price indices.

Some of the leases for office buildings are for fixed terms, often granting renewal options, also for a fixed term. Other leases are for indefinite terms. They do not normally include a sale option.

The building leases do not impose restrictions that could impact the capital structure, profit or loss, or other lease agreements of the Company.

## (30) Disclosures relating to equity investments

All subsidiaries and the structured entity included in the consolidated financial statements were consolidated.

As before, there were no equity investments that involved joint control in the fiscal year just ended.

Restrictions on the ability to obtain access to assets or to use them may arise from statutory or regulatory requirements. There are no recognizable significant restrictions on the ability to satisfy liabilities of consolidated companies.

The basis of consolidation in the reporting and comparison period was as follows:

| | 12/31/2016 Equity interest held directly Percent | 12/31/2016 Equity interest held indirectly Percent | 12/31/2015 Equity interest held directly Percent | 12/31/2015 Equity interest held indirectly Percent |
|---|---|---|---|---|
| GGV Gesellschaft für Grundstücks- und Vermögensverwaltung mbH, Frankfurt am Main | 100 | 0 | 100 | 0 |
| ING-DiBa Service GmbH, Frankfurt am Main | 100 | 0 | 100 | 0 |
| Pure German Lion RMBS 2008 GmbH, Frankfurt am Main | 0 | 0 | 0 | 0 |
| Ingredit Verwaltungs GmbH, Frankfurt am Main | 100 | 0 | 100 | 0 |
| Rahmhof Grundbesitz GmbH i.L., Frankfurt am Main | 100 | 0 | 100 | 0 |

### Control on the basis of voting rights

ING-DiBa AG holds all of the shares in GGV Gesellschaft für Grundstücks- und Vermögensverwaltung mbH, ING-DiBa Service GmbH, Ingredit Verwaltungs-GmbH and Rahmhof Grundbesitz GmbH i.L. The operating activities of the subsidiaries are primarily related to property and asset management.

### Control without voting rights

On December 1, 2008, ING-DiBa AG transferred a portfolio of mortgage loans with a nominal volume of EUR 4.7 billion to a structured entity, Pure German Lion RMBS 2008 GmbH to let this entity securitize them in the form of residential mortgage-backed securities (RMBSs).

The structured entity is consolidated based on IFRS 10. ING-DiBa does not hold any equity interest in the entity. Nevertheless, the entity is controlled by the Bank, in particular through its limited purpose and the special economic relationships against the backdrop of corresponding contractual provisions.

All securities under this securitization transaction are held by ING-DiBa and fully eliminated in consolidation.

The consolidation results in the presentation of non-controlling interests in ING-DiBa's equity in the amount of EUR 25 thousand. The non-controlling interest does not represent any influence on the Group's activities or cash flows.

ING-DiBa granted a liquidity facility to Pure German Lion RMBS 2008 GmbH; however this does not represent either a guarantee or an additional payment obligation.

### Associates

To the extent there is significant influence only insofar as there is the power to participate in financial and operating policy decision-making processes, but without the ability to control these decision-making processes alone, the long-term equity investments in question are reported by the Group as associates using the equity method. In fiscal year 2016, this applied to paydirekt Beteiligungsgesellschaft privater Banken mbH, Berlin, in which the Bank holds 19.94% of voting rights. The purpose of the company's business is to hold and manage interests in a joint venture of institutions of the German Banking Industry Committee. The joint venture was set up for the purpose of establishing, operating and enhancing an innovative electronic payment system. The interest in the sole associate is insignificant in relation to the Group's business volume. The investment is presented under other assets (note 12) at a carrying amount of EUR 2 million (December 31, 2015: EUR 2 million).
The income and expenses generated in the past and previous years by the company were immaterial.

### Other equity investments

Other equity investments that are insignificant to the Group's economic position are presented under financial investments. Equity investments that are not listed and whose fair value cannot be reliably determined are recognized at cost (note 5).

### Disclosures on non-consolidated structured entities

In the reporting periods under review, ING-DiBa did not maintain any relations with structured entities that are not included in the consolidated financial statements.

## (31) Related parties

### Related persons

### Total compensation paid to members of executive bodies active during the reporting period (key management personnel)

| | 12/31/2016 €m | 12/31/2015 €m |
|---|---|---|
| Current compensation | 4 | 4 |
| Pensions | 1 | 0 |
| Other long-term remuneration | 0 | 2 |
| Severance packages | 0 | 0 |
| Share-based payments | 1 | 1 |
| Total compensation | 6 | 7 |

Key management personnel as defined by IFRSs comprises the active members of the Management Board and Supervisory Board.

Total compensation paid to the Management Board and Supervisory Board amounted to EUR 6.0 million in fiscal year 2016 (2015: EUR 6.5 million).

EUR 5.0 million of the total compensation paid related to the executive activities of Management Board members (2015: EUR 4.9 million) and EUR 0.8 million related to the executive activities of Supervisory Board members (2015: EUR 0.8 million).

The current compensation includes all fixed and variable components, provided they were paid in the twelve-month period.

### Share-based payments to the Management Board and Supervisory Board

In the periods under review, the members of the Management Board and Supervisory Board received share-based payments in the amounts presented below. The weighted average of the fair values was determined as of the date of the legally binding commitment. No subsequent changes in value were recognized, because the exercise terms and conditions had not been changed. A more detailed description can be found under note 39.

## Share-based payments to members of executive bodies active during the reporting period

| | 2016<br>Amount | 2016<br>Fair value at grant date<br>€ | 2015<br>Amount | 2015<br>Fair value at grant date<br>€ |
|---|---|---|---|---|
| Performance shares, deferred shares | 34,720 | 340,021 | 34,111 | 432,409 |

## Total compensation paid to former members of executive bodies

Total compensation paid to former members of executive bodies amounted to EUR 1.6 million in fiscal year 2016 (2015: EUR 1.9 million). A provision of EUR 21.0 million (December 31, 2015: EUR 19.4 million) was recognized for current pensions and pension entitlements of former members of the Management Board and their dependents.

Note 20 contains disclosures on pension provisions in accordance with IAS 19.

## Other related party disclosures

As at December 31, 2015, the Group had granted loans amounting to EUR 0.3 million to members of the Management Board and Supervisory Board (December 31, 2015: EUR 1.1 million). Deposits from members of the Management Board and Supervisory Board totaled EUR 5.4 million as of December 31, 2016 (December 31, 2015: EUR 5.4 million).

These are the Bank's products and were granted at standard market terms and conditions. No contingent liabilities had been entered into in connection with key management personnel, neither as of December 31, 2016, nor at the end of the previous year's reporting period.

## Related companies

## Business relationships with parent companies

In addition to the companies included in the group, ING-DiBa AG also has business relationships with parent and sister companies of ING Groep N.V.

ING-DiBa's immediate parent is ING Deutschland GmbH, Frankfurt am Main, which holds a 100% interest. The ultimate parent company of the entire ING Group is ING Groep N.V., Amsterdam (Netherlands).

In addition to the companies named, the following companies are parent companies to ING-DiBa:

- ING Bank N.V., Amsterdam (Netherlands)
- ING Holding Deutschland GmbH, Frankfurt am Main

| | 12/31/2016<br>€ m | 12/31/2015<br>€ m |
|---|---|---|
| ING Groep N.V. | | |
| ING Bank N.V. | | |
| Loans and advances | 18,998 | 11,270 |
| Deposits and amounts due | 8,379 | 5,160 |
| Loan commitments | 0 | 0 |
| Income | 353 | 60 |
| Expenses | 193 | 10 |
| ING Holding Deutschland GmbH | | |
| Loans and advances | 0 | 0 |
| Deposits and amounts due | 177 | 195 |
| Loan commitments | 0 | 0 |
| Income | 0 | 0 |
| Expenses | 0 | 0 |
| ING Deutschland GmbH | | |
| Loans and advances | 0 | 0 |
| Deposits and amounts due | 767 | 688 |
| Loan commitments | 0 | 0 |
| Income | 0 | 0 |
| Expenses | 0 | 0 |

In fiscal year 2016, EUR 142 million (2015: EUR 261 million) in existing loan transactions were acquired from ING Bank N.V. They relate exclusively to corporate customers.

Some of the loans and advances to ING Bank N.V., Amsterdam (Netherlands) are collateralized. Note 2 contains further information.

The amounts due to ING Deutschland GmbH relate primarily to the profit transfer to be made. The transfer of the profit determined under German commercial law is explained in section d) of “Significant accounting policies.”

## Associates

Business relationships with associates were not material.

## Business relationships with other group companies not included in the basis of consolidation

In the 2016 fiscal year, there were business relationships primarily with the following companies included in the consolidated financial statements of ING Groep N.V.:

- Stichting Orange Lion RMBS, Amsterdam (Netherlands)
- BSO TWO B.V. (Netherlands)
- ING Capital LLC, New York (United States of America)
- Interhyp AG, Munich
- ING Belgium N.V., Brussels (Belgium)

| | 12/31/2016<br>€ m | 12/31/2015<br>€ m |
|---|---|---|
| Loans and advances | 3,553 | 6,796 |
| Deposits and amounts due | 782 | 333 |
| Loan commitments and guarantees | 33 | 199 |
| Income | 39 | 175 |
| Expenses | 77 | 109 |

Transactions with Stichting Orange Lion RMBS in fiscal year 2016 resulted in receivables of EUR 1,723 million (December 31, 2015: EUR 5,870 million) and accrued interest of EUR 3 million (December 31, 2015: EUR 8 million). EUR 19 million (2015: EUR 115 million) was recognized in net interest income in the income statement.

In 2016, ING-DiBa acquired risk sub-participations resulting from structured finance amounting to approximately EUR 3,600 million (2015: EUR 2,310 million) from ING Capital LLC, New York. They were acquired at arm's length conditions. Individual transactions amounting to EUR 604 million were sold back in the 2016 fiscal year. Of the resulting EUR 4 million net loss, EUR 2 million was recognized in interest income and EUR 6 million in other income and expenses.

Transactions entered into with BSO TWO B.V. in fiscal year 2016 resulted in the recognition of receivables of EUR 1,002 million and income of EUR 6 million.

Loans granted by ING Belgium N.V. in the amount of EUR 781 million (2015: EUR 760 million) were recognized as financial investments. Accrued interest amounted to EUR 2 million

(2015: EUR 2 million), and net interest income amounting to EUR 8 million was generated (2015: EUR 7 million).

A significant proportion of transactions with Interhyp AG consists of commission expenses for brokering mortgage loans and installment loans.

No allowances or provisions for doubtful accounts were necessary.

## Business relationships with related parties not included in the group or the basis of consolidation

ING-DiBa has pension plans protected against insolvency through a contractual trust agreement (CTA) and a pension fund (note 20). In fiscal year 2016, additional funding of EUR 1 million (2015: EUR 0 million) was contributed to plan assets via the multi-employer trustee.

## (32) Fair value reporting

## Disclosures in accordance with IFRS 7.8, IFRS 7.25, and IFRS 13

The following table provides an overview of the carrying amounts and fair values of financial instruments included in the individual items of the statement of financial position.

| | 12/31/2016 Fair value €m | 12/31/2016 Carrying amount €m |
|---|---|---|
| Financial assets | | |
| Available for sale financial investments | 37,510 | 37,510 |
| of which equity investments | 19 | 19 |
| Other assets - available for sale financial investments[1] | 414 | 414 |
| Available for sale | 37,924 | 37,924 |
| Held to maturity financial investments | 1,236 | 1,228 |
| Other assets - held to maturity financial investments[1] | 15 | 15 |
| Held to maturity | 1,251 | 1,243 |
| Other derivatives with positive fair value | 345 | 345 |
| Other assets – other derivatives[1] | 1 | 1 |
| Fair value through profit or loss | 346 | 346 |
| Cash balance | 103 | 103 |
| Hedging derivatives | 0 | 0 |
| Other assets - other hedging derivatives[1] | 0 | 0 |
| Adjustment to portfolio fair value hedges | 0 | 879 |
| Financial instruments not categorized under IAS 39 | 103 | 982 |
| Balances with central banks | 1,384 | 1,384 |
| Loans and advances to banks | 9,015 | 8,881 |
| Other assets – loans and advances to banks[1] | 4 | 4 |
| Loans and advances to customers | 111,578 | 106,459 |
| Other assets – loans and advances to customers[1] | 77 | 77 |
| Loans and receivables | 122,058 | 116,805 |
| Total financial assets | 161,682 | 157,300 |
| | | |
| Financial liabilities | | |
| Other derivatives with negative fair value | 332 | 332 |
| Other liabilities – other derivatives[1] | 9 | 9 |
| Fair value through profit or loss | 341 | 341 |
| Hedging derivatives | 4 | 4 |
| Other liabilities - hedging derivatives[1] | 0 | 0 |
| Financial instruments not categorized under IAS 39 | 4 | 4 |
| Securitized liabilities | 1,306 | 1,272 |
| Other liabilities - securitized liabilities[1] | 10 | 10 |
| Deposits from banks | 17,179 | 16,595 |
| Other liabilities – deposits from banks[1] | 15 | 15 |
| Due to customers | 130,544 | 130,151 |
| Other liabilities – due to customers[1] | 28 | 28 |
| Financial liabilities | 149,082 | 148,071 |
| Total financial liabilities | 149,427 | 148,416 |

(1) Relates to accrued interest disclosed separately under other assets or other liabilities.

| | 12/31/2015 Fair value €m | 12/31/2015 Carrying amount €m |
|---|---|---|
| Financial assets | | |
| Available for sale financial investments | 36,415 | 36,415 |
| of which equity investments | 51 | 51 |
| Other assets - available for sale financial investments[1] | 452 | 452 |
| Available for sale | 36,867 | 36,867 |
| Held to maturity financial investments | 1,255 | 1,255 |
| Other assets - held to maturity financial investments[1] | 14 | 14 |
| Held to maturity | 1,269 | 1,269 |
| Other derivatives with positive fair value | 68 | 68 |
| Other assets – other derivatives[1] | 1 | 1 |
| Fair value through profit or loss | 69 | 69 |
| Cash balance | 95 | 95 |
| Hedging derivatives | 0 | 0 |
| Other assets - hedging derivatives[1] | 0 | 0 |
| Adjustment to portfolio fair value hedges | 0 | 1,183 |
| Financial instruments not categorized under IAS 39 | 95 | 1,278 |
| Balances with central banks | 1,402 | 1,402 |
| Loans and advances to banks | 4,905 | 4,904 |
| Other assets – loans and advances to banks[1] | 1 | 1 |
| Loans and advances to customers | 103,504 | 97,943 |
| Other assets – loans and advances to customers[1] | 64 | 64 |
| Loans and receivables | 109,876 | 104,314 |
| Total financial assets | 148,176 | 143,797 |
| | | |
| Financial liabilities | | |
| Other derivatives with negative fair value | 76 | 76 |
| Other liabilities – other derivatives[1] | 0 | 0 |
| Fair value through profit or loss | 76 | 76 |
| Hedging derivatives | 0 | 0 |
| Other liabilities - hedging derivatives[1] | 0 | 0 |
| Financial instruments not categorized under IAS 39 | 0 | 0 |
| Securitized liabilities | 1,336 | 1,283 |
| Other liabilities - securitized liabilities[1] | 17 | 17 |
| Deposits from banks | 13,485 | 12,941 |
| Other liabilities – deposits from banks | 2 | 2 |
| Due to customers | 121,366 | 121,126 |
| Other liabilities- due to customers[1] | 32 | 32 |
| Financial liabilities | 136,238 | 135,401 |
| Total financial liabilities | 136,314 | 135,477 |

(1) Relates to accrued interest disclosed separately under other assets or other liabilities.

## Fair value hierarchy

With regard to their fair values, which have to be reported in the statement of financial position or in the notes, financial and non-financial assets and liabilities are allocated to one of three levels, depending on the valuation techniques used to determine them:

**Level 1:** (Unadjusted) prices for identical assets or liabilities quoted on active markets to which the Company has access on the measurement date.

**Level 2:** Market prices, other than those included in Level 1, that can be observed either directly or indirectly for the assets or liabilities. This includes quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in inactive markets, or other significant observable inputs, such as interest rates, volatilities, or risk premiums.

**Level 3:** Significant inputs that are not observable for assets or liabilities. Here, the determination of fair values is based on prices modeled for the asset or liability that are not based on observable market data.

The table below shows the levels used to measure those financial and non-financial assets and liabilities which are recognized at fair value in the statement of financial position.

| | 12/31/2016 Level 1 €m | 12/31/2016 Level 2 €m | 12/31/2016 Level 3 €m | 12/31/2016 Total €m |
|---|---|---|---|---|
| Assets | | | | |
| Other derivatives with positive fair value | 0 | 345 | 0 | 345 |
| Other assets – other derivatives[1] | 0 | 1 | 0 | 1 |
| Hedging derivatives | 0 | 0 | 0 | 0 |
| Other assets - hedging derivatives[1] | 0 | 0 | 0 | 0 |
| AfS financial investments | 23,843 | 13,581 | 86 | 37,510 |
| of which equity instruments | 9 | 0 | 10 | 19 |
| Other assets - AfS financial investments[1] | 350 | 64 | 0 | 414 |
| Investment property | 0 | 0 | 12 | 12 |
| Group-occupied properties | 0 | 0 | 16 | 16 |
| Total | 24,193 | 13,991 | 114 | 38,298 |
| | | | | |
| Equity and liabilities | | | | |
| Other derivatives with negative fair value | 0 | 332 | 0 | 332 |
| Other liabilities – other derivatives[1] | 0 | 9 | 0 | 9 |
| Hedging derivatives | 0 | 4 | 0 | 4 |
| Other liabilities - hedging derivatives[1] | 0 | 0 | 0 | 0 |
| Total | 0 | 345 | 0 | 345 |

(1) Relates to accrued interest disclosed separately under other assets or other liabilities.

| | 12/31/2015 Level 1 €m | 12/31/2015 Level 2 €m | 12/31/2015 Level 3 €m | 12/31/2015 Total €m |
|---|---|---|---|---|
| Assets | | | | |
| Other derivatives with positive fair value | 0 | 68 | 0 | 68 |
| Other assets – other derivatives[1] | 0 | 1 | 0 | 1 |
| Hedging derivatives | 0 | 0 | 0 | 0 |
| Other assets - hedging derivatives[1] | 0 | 0 | 0 | 0 |
| AfS financial investments | 26,944 | 9,354 | 117 | 36,415 |
| of which equity instruments | 9 | 0 | 42 | 51 |
| Other assets - AfS financial investments[1] | 393 | 59 | 0 | 452 |
| Investment property | 0 | 0 | 12 | 12 |
| Group-occupied properties | 0 | 0 | 16 | 16 |
| Total | 27,337 | 9,482 | 145 | 36,964 |
| | | | | |
| Equity and liabilities | | | | |
| Other derivatives with negative fair value | 0 | 76 | 0 | 76 |
| Other liabilities – other derivatives[1] | 0 | 0 | 0 | 0 |
| Hedging derivatives | 0 | 0 | 0 | 0 |
| Other liabilities - hedging derivatives[1] | 0 | 0 | 0 | 0 |
| Total | 0 | 76 | 0 | 76 |

(1) Relates to accrued interest disclosed separately under other assets or other liabilities.

## Transfers between levels

By default, available-for-sale financial investments, derivatives with positive and negative fair values, investment property, and Group-occupied property are recognized at fair value in the statement of financial position.

If market prices are available and Level 1 allocation is therefore applied, the instruments have to be transferred to Level 2 if the quality of the prices quoted on the respective principal or most advantageous market deteriorates. If the market activity falls below a specified threshold, measurement is made based on observable parameters as defined for Level 2. Accordingly, instruments are transferred from Level 2 to Level 1 if market activity increases. An assignment is made to Level 3 if a significant amount of inputs that are not observable flow into the models for the fair value measurement. Consequently, transfers are made into or out of Level 3 if significant inputs are no longer observable or are again observable.

In fiscal year 2016 changes in market conditions or observable parameters caused the following shifts in the fair value measurement of AfS financial investments:

- There were 7 (2015: 0) reclassifications from level 2 to level 1 amounting to EUR 75 million (December 31, 2015: EUR 0 million). Accordingly, accrued interest recognized under other assets amounting to EUR 0 million (December 31, 2015: EUR 0 million) was reclassified from level 2 to level 1.
- There were 10 (2015: 3) shifts from Level 1 to Level 2, with a total volume of EUR 114 million (December 31, 2015: EUR 56 million) and related accrued interest in the amount of EUR 0 million (December 31, 2015: EUR 1 million).

The table below shows the levels used to measure those financial and non-financial assets and liabilities which are not recognized at fair value in the statement of financial position but for which the fair value has to be disclosed.

| | 12/31/2016 Level 1 € m | 12/31/2016 Level 2 € m | 12/31/2016 Level 3 € m | 12/31/2016 Total € m |
|---|---|---|---|---|
| Assets | | | | |
| Cash balance | 103 | 0 | 0 | 103 |
| Balances with central banks | 0 | 1,384 | 0 | 1,384 |
| Loans and advances to banks | 0 | 7,857 | 1,158 | 9,015 |
| Other assets – loans and advances to banks[1] | 0 | 2 | 2 | 4 |
| Loans and advances to customers | 0 | 5,895 | 105,683 | 111,578 |
| Other assets – loans and advances to customers[1] | 0 | 25 | 52 | 77 |
| HtM financial investments | 1,236 | 0 | 0 | 1,236 |
| Other assets - HtM financial investments[1] | 15 | 0 | 0 | 15 |
| Total | 1,354 | 15,163 | 106,895 | 123,412 |
| | | | | |
| Equity and liabilities | | | | |
| Securitized liabilities | 1,008 | 298 | 0 | 1,306 |
| Other liabilities - securitized liabilities[1] | 8 | 2 | 0 | 10 |
| Deposits from banks | 0 | 9,535 | 7,644 | 17,179 |
| Other liabilities – deposits from banks[1] | 0 | 15 | 0 | 15 |
| Due to customers | 0 | 125,317 | 5,227 | 130,544 |
| Other liabilities – due to customers[1] | 0 | 10 | 18 | 28 |
| Total | 1,016 | 135,177 | 12,889 | 149,082 |

(1) Relates to accrued interest disclosed separately under other assets or other liabilities.

| | 12/31/2015 Level 1 €m | 12/31/2015 Level 2 €m | 12/31/2015 Level 3 €m | 12/31/2015 Total €m |
|---|---|---|---|---|
| Assets | | | | |
| Cash balance | 95 | 0 | 0 | 95 |
| Balances with central banks | 0 | 1,402 | 0 | 1,402 |
| Loans and advances to banks | 0 | 4,905 | 0 | 4,905 |
| Other assets – loans and advances to banks[1] | 0 | 1 | 0 | 1 |
| Loans and advances to customers | 0 | 4,538 | 98,966 | 103,504 |
| Other assets – loans and advances to customers[1] | 0 | 31 | 33 | 64 |
| HtM financial investments | 1,255 | 0 | 0 | 1,255 |
| Other assets - HtM financial investments[1] | 14 | 0 | 0 | 14 |
| Total | 1,364 | 10,877 | 98,999 | 111,240 |
| | | | | |
| Equity and liabilities | | | | |
| Securitized liabilities | 1,040 | 296 | 0 | 1,336 |
| Other liabilities - securitized liabilities[1] | 15 | 2 | 0 | 17 |
| Deposits from banks | 0 | 5,938 | 7,547 | 13,485 |
| Other liabilities – deposits from banks[1] | 0 | 2 | 0 | 2 |
| Due to customers | 0 | 116,558 | 4,808 | 121,366 |
| Other liabilities – due to customers[1] | 0 | 32 | 0 | 32 |
| Total | 1,055 | 122,828 | 12,355 | 136,238 |

(1) Relates to accrued interest disclosed separately under other assets or other liabilities.

## Valuation techniques

### Fair values of financial and non-financial assets and liabilities normally measured and recognized at fair value

Some of the financial and non-financial assets and liabilities are measured in the statement of financial position at fair value at the reporting date. The table below shows the valuation techniques and the inputs used.

| | Fair value hierarchy level | Valuation techniques and significant inputs | Significant unobservable inputs | 12/31/2016 Fair value<br>€ m |
|---|---|---|---|---|
| Financial assets | | | | |
| Available for sale financial investments | | | | 37,510 |
| based on unadjusted observable prices | 1 | 1) | | 23,843 |
| based on valuation models with observable inputs | 2 | 1) | | 13,581 |
| based on valuation models with unobservable inputs | 3 | 2) | 2) | 86 |
| Other assets - AfS financial investments[1] | | | | 414 |
| based on unadjusted observable prices | 1 | 1) | | 350 |
| based on valuation models with observable inputs | 2 | 1) | | 64 |
| based on valuation models with unobservable inputs | 3 | 2) | 2) | 0 |
| Available for sale | | | | 37,924 |
| Other derivatives with positive fair value | 2 | 3) | | 345 |
| Other assets - other derivatives[1] | 2 | 3) | | 1 |
| Fair value through profit or loss | | | | 346 |
| Hedging derivatives | 2 | 3) | | 0 |
| Other assets - hedging derivatives[1] | 2 | 3) | | 0 |
| Financial instruments not categorized under IAS 39 | | | | 0 |
| Investment property | 3 | 4) | 4) | 12 |
| Group-occupied properties | 3 | 4) | 4) | 16 |
| Non-financial assets | | | | 28 |
| Total assets | | | | 38,298 |
| | | | | |
| Financial liabilities | | | | |
| Other derivatives with negative fair value | 2 | 3) | | 332 |
| Other liabilities – other derivatives[1] | 2 | 3) | | 9 |
| Fair value through profit or loss | | | | 341 |
| Hedging derivatives | 2 | 3) | | 4 |
| Other liabilities - hedging derivatives[1] | 2 | 3) | | 0 |
| Financial instruments not categorized under IAS 39 | | | | 4 |
| Total liabilities | | | | 345 |

[(1)] Relates to accrued interest disclosed separately under other assets or other liabilities.

| | Fair value hierarchy level | Valuation techniques and significant inputs | Significant unobservable inputs | 12/31/2015 Fair value € m |
|---|---|---|---|---|
| Financial assets | | | | |
| Available for sale financial investments | | | | 36,415 |
| based on unadjusted observable prices | 1 | 1) | | 26,944 |
| based on valuation models with observable inputs | 2 | 1), 2) | | 9,354 |
| based on valuation models with unobservable inputs | 3 | 2) | 2) | 117 |
| Other assets - AfS financial investments[1] | | | | 452 |
| based on unadjusted observable prices | 1 | 1) | | 393 |
| based on valuation models with observable inputs | 2 | 1), 2) | | 59 |
| based on valuation models with unobservable inputs | 3 | 2) | 2) | 0 |
| Available for sale | | | | 36,867 |
| Other derivatives with positive fair value | 2 | 3) | | 68 |
| Other assets – other derivatives[1] | 2 | 3) | | 1 |
| Fair value through profit or loss | | | | 69 |
| Hedging derivatives | 2 | 3) | | 0 |
| Other assets - hedging derivatives[1] | 2 | 3) | | 0 |
| Financial instruments not categorized under IAS 39 | | | | 0 |
| Investment property | 3 | 4) | 4) | 12 |
| Group-occupied properties | 3 | 4) | 4) | 16 |
| Non-financial assets | | | | 28 |
| Total assets | | | | 36,964 |
| | | | | |
| Financial liabilities | | | | |
| Other derivatives with negative fair value | 2 | 3) | | 76 |
| Other liabilities – other derivatives[1] | 2 | 3) | | 0 |
| Fair value through profit or loss | | | | 76 |
| Hedging derivatives | 2 | 3) | | 0 |
| Other liabilities - hedging derivatives[1] | 2 | 3) | | 0 |
| Financial instruments not categorized under IAS 39 | | | | 0 |
| Total liabilities | | | | 76 |

(1) Relates to accrued interest disclosed separately under other assets or other liabilities.

The following presents a description of the valuation techniques used to determine the fair values of assets and liabilities:

1) Available-for-sale bonds of local authorities and private issuers and equity instruments are recognized at fair value. For financial instruments listed on active markets, the unadjusted price at the defined principal market or the most advantageous market is used for measurement (Level 1). If market activity is insufficient, either existing prices for similar instruments are used instead or the future cash flows expected to be derived from

the respective financial instruments are discounted to present value using current interest rates, applying the relevant yield or swap curve. Product-specific spreads or credit spreads are taken into account. Only inputs observable on the market are included in the measurement systems (Level 2).

2) Asset-backed securities (ABSs) and mortgage-backed securities (MBSs) allocated to the available-for-sale category are recognized at fair value in the statement of financial position. For these instruments, no prices are quoted on active markets. Either indicative quotes or estimates from market makers are used to determine the fair values (Level 2). In that event ING-DiBa does not generate any quantitative, non-observable inputs. If no plausible fair values can be derived from the estimated values provided by third parties, the securities concerned are modeled as bullet bonds and measured using the discounted cash flow method (Level 3). In this process, the remaining maturity corresponds to a conservatively estimated date of full redemption. The coupon corresponds to the actual interest rate of 0.24 percent, with a spread of 55 basis points modeled on the basis of non-observable inputs.

   The value of the Visa Inc. Class C shares has been derived from the purchase price offering issued by VISA Inc. on November 2, 2015 (8-K filing) (Level 3). The valuation is based on the current price of VISA Inc. Class A shares, less certain discounts due to restricted liquidity (20.7%) and taking into account the EUR/USD exchange rate and the term of the exchange agreement (4 – 12 years).

3) Standardized swaps (OTC derivatives) are measured using standard industry models, which incorporate inputs observed by providers of financial information, such as interest rates in particular (Level 2). Almost all transactions (interest rate, cross currency and FX swaps) are fully collateralized with cash or by settling them via a central counterparty, so that it is not necessary to take credit risk adjustments into account. Individual OTC derivatives are measured on the basis of the multi-curve valuation.

4) Investment property and Group-occupied property (notes 7 and 8) are regularly (once a year, and by an external expert at least every three years) measured at fair value in the statement of financial position. Because of the inputs it uses, the underlying income capitalization approach is categorized as a Level 3 method. Unobservable inputs are in particular the estimated rental income of the properties and the annual return on land value, which has to be deducted from annual net income. For the measurement of Group-occupied property, rental income in a range between EUR 4.50 to EUR 10.50 with a weighted average of EUR 10.21 is assumed per square meter per month, while rental income in a range between EUR 6.00 to EUR 16.79 with a weighted average of EUR 9.83 to EUR 12.33 per square meter per month is assumed for investment property. For annual returns on land value, interest rates in a range between 5.0% p.a. and 8.0% p.a. with a weighted interest rate of 5.25% p.a. are estimated for Group-occupied property, and

interest rates in a range between 0.8% p.a. and 6.5% p.a. with a weighted interest rate of between 3.7% p.a. and 4.75% p.a. respectively for investment property. If ING-DiBa had based the valuation on inputs at the extreme ends of the ranges shown, the fair values as of December 31, 2016, would have been up to EUR 341 thousand (December 31, 2015: up to EUR 331 thousand) higher or up to EUR 658 thousand (December 31, 2015: up to EUR 331 thousand) lower.

### Reconciliation to Level 3

The table below shows a reconciliation of the financial instruments and property normally measured within Level 3:

| | 2016 Available for sale investments € m | 2016 Investment property € m | 2016 Group-occupied properties € m | 2016 Total € m |
|---|---|---|---|---|
| Balance on Jan. 1 | 117 | 12 | 16 | 145 |
| Gains or losses recognized in profit or loss during the period | 0 | 0 | 0 | 0 |
| thereof unrealized gains or losses | 0 | 0 | 0 | 0 |
| Gains or losses recognized in other comprehensive income during the period | 2 | 0 | 0 | 2 |
| Additions | 8 | 0 | 0 | 8 |
| Disposals | – 41 | 0 | 0 | – 41 |
| Maturity/settlement | 0 | 0 | 0 | 0 |
| Transfers into level 3 | 0 | 0 | 0 | 0 |
| Transfers out of level 3 | 0 | 0 | 0 | 0 |
| Exchange rate differences | 0 | 0 | 0 | 0 |
| Balance on Dec. 31 | 86 | 12 | 16 | 114 |

| | 2015<br>Available for sale investments<br>€ m | 2015<br>Investment property<br>€ m | 2015<br>Group-occupied properties<br>€ m | 2015<br>Total<br>€ m |
|---|---|---|---|---|
| Balance on Jan. 1 | 82 | 12 | 17 | 111 |
| Gains or losses recognized in profit or loss during the period | 0 | 0 | – 1 | – 1 |
| thereof unrealized gains or losses | 0 | 0 | 0 | 0 |
| Gains or losses recognized in other comprehensive income during the period | 35 | 0 | 0 | 35 |
| Additions | 0 | 0 | 0 | 0 |
| Disposals | 0 | 0 | 0 | 0 |
| Maturity/settlement | 0 | 0 | 0 | 0 |
| Transfers into level 3 | 0 | 0 | 0 | 0 |
| Transfers out of level 3 | 0 | 0 | 0 | 0 |
| Exchange rate differences | 0 | 0 | 0 | 0 |
| Balance on Dec. 31 | 117 | 12 | 16 | 145 |

The change in the portfolio is primarily attributable to the disposal of shares in Visa Europe and the simultaneous addition of Visa Inc. Class C shares.

Unrealized gains or losses due to changes in the fair values of investment properties are presented in “other net gains/losses on financial investments and investment properties” (note 36).

## Fair values of financial assets and non-financial assets and liabilities not measured at fair value, but for which fair value has to be disclosed

The table below references valuation techniques and the input parameters used for assets and liabilities not measured at fair value but for which fair value has to be disclosed.

| | 12/31/2016 Fair value hierarchy level | 12/31/2016 Valuation techniques and significant inputs | 12/31/2016 Fair value<br>€ m |
|---|---|---|---|
| Financial assets | | | |
| Cash balance | 1 | 9) | 103 |
| Balances with central banks | 2 | 9) | 1,384 |
| Loans and advances to banks | 2 | 5), 8), 9) | 9,015 |
| Other assets – loans and advances to banks[1] | 2 | 5), 8), 9) | 4 |
| Loans and advances to customers | | | 111,578 |
| Loans and other receivables | 2, 3 | 5), 7), 9) | 108,509 |
| Asset-backed securities (ABS)/mortgage-backed securities (MBS) | 2, 3 | 6) | 3,069 |
| Other assets – loans and advances to customers[1] | | | 77 |
| Loans and other receivables from customers | 2, 3 | 5), 7), 9) | 74 |
| Other ABS/MBS | 2, 3 | 6) | 3 |
| HtM financial investments | 1 | 10) | 1,236 |
| Other assets - HtM financial investments[1] | 1 | 10) | 15 |
| Total | | | 123,412 |
| | | | |
| Financial liabilities | | | |
| Securitized liabilities | | | 1,306 |
| based on unadjusted observable prices | 1 | 11) | 1,008 |
| based on valuation models with observable inputs | 2 | 11) | 298 |
| Other liabilities - securitized liabilities[1] | | | 10 |
| based on unadjusted observable prices | 1 | 11) | 8 |
| based on valuation models with observable inputs | 2 | 11) | 2 |
| Deposits from banks | | | 17,179 |
| based on valuation models with observable inputs | 2 | 9), 13) | 9,535 |
| based on valuation models with unobservable inputs | 3 | 13) | 7,644 |
| Other liabilities - deposits from banks[1] | | | 15 |
| based on valuation models with observable inputs | 2 | 9), 13) | 15 |
| based on valuation models with unobservable inputs | 3 | 13) | 0 |
| Due to customers | | | 130,544 |
| based on valuation models with observable inputs | 2 | 9) | 125,317 |
| based on valuation models with unobservable inputs | 3 | 12) | 5,227 |
| Other liabilities – due to customers[1] | | | 28 |
| based on valuation models with observable inputs | 2 | 9) | 10 |
| based on valuation models with unobservable inputs | 3 | 12) | 18 |
| Total | | | 149,082 |

(1) Relates to accrued interest disclosed separately under other assets or other liabilities.

| | 12/31/2015 Fair value hierarchy level | 12/31/2015 Valuation techniques and significant inputs | 12/31/2015 Fair value<br>€ m |
|---|---|---|---|
| Financial assets | | | |
| Cash balance | 1 | 9) | 95 |
| Balances with central banks | 2 | 9) | 1,402 |
| Loans and advances to banks | 2 | 5), 8), 9) | 4,905 |
| Other assets – loans and advances to banks[1] | 2 | 5), 8), 9) | 1 |
| Loans and advances to customers | | | 103,504 |
| Loans and other receivables | 2, 3 | 5), 7), 9) | 95,988 |
| Asset-backed securities (ABS)/mortgage-backed securities (MBS) | 2, 3 | 6) | 7,516 |
| Other assets – loans and advances to customers[1] | | | 64 |
| Loans and other receivables from customers | 2, 3 | 5), 7), 9) | 56 |
| Other ABS/MBS | 2, 3 | 6) | 8 |
| HtM financial investments | 1 | 10) | 1,255 |
| Other assets - HtM financial investments[1] | 1 | 10) | 14 |
| Total | | | 111,240 |
| | | | |
| Financial liabilities | | | |
| Securitized liabilities | | | 1,336 |
| based on unadjusted quotes prices | 1 | 11) | 1,040 |
| based on valuation models | 2 | 11) | 296 |
| Other liabilities - securitized liabilities[1] | | | 17 |
| based on unadjusted quotes prices | 1 | 11) | 15 |
| based on valuation models | 2 | 11) | 2 |
| Deposits from banks | | | 13,485 |
| based on valuation models with observable inputs | 2 | 9), 13) | 5,938 |
| based on valuation models with unobservable inputs | 3 | 13) | 7,547 |
| Other liabilities - deposits from banks[1] | | | 2 |
| based on valuation models with observable inputs | 2 | 9), 13) | 2 |
| based on valuation models with unobservable inputs | 3 | 13) | 0 |
| Due to customers | | | 121,366 |
| based on valuation models with significant observable inputs | 2 | 9) | 116,558 |
| based on valuation models with significant unobservable inputs | 3 | 12) | 4,808 |
| Other liabilities - due to customers[1] | | | 32 |
| based on valuation models with significant observable inputs | 2 | 9) | 32 |
| based on valuation models with significant unobservable inputs | 3 | 12) | 0 |
| | | | 136,238 |

(1) Relates to accrued interest disclosed separately under other assets or other liabilities.

5) The fair value of loans against borrower's notes is generally determined by applying a discounted cash flow method, taking into consideration the issuer-specific sector

curves. If the sector curve spread is not suitable, a spread is derived from observable market inputs (Level 2) or modeled on the basis of internal assumptions (Level 3).

6) Asset-backed securities (ABSs) and mortgage-backed securities (MBSs) allocated to the loans-and-receivables category are measured at fair value for disclosure purposes under loans and advances to customers. The valuation technique is the same as the one described in the preceding section on ABSs and MBSs allocated to the available-for-sale category. ABSs and MBSs are allocated to Level 3. In addition to ABSs and MBSs, this item also includes covered bond securities allocated to the loans and receivables category. These securities are not quoted on an active market and were acquired exclusively by companies of ING Bank N.V. Covered bond securities classified as loans and receivables are allocated to Level 2. The valuation technique is the same as the one described in the section on fixed-income securities allocated to the available-for-sale category.

7) To determine the fair values of retail and corporate loans, the expected cash flows are discounted using product or customer-specific spreads. The underlying parameter is the six-month euro swap curve. In addition, Company-internal estimates relating to risks and administrative expenses are also incorporated into the measurement systems (Level 3).

8) The fair value of loans and advances to banks is determined by applying a discounted cash flow method, taking into consideration the issuer-specific sector curves. If the sector curve spread is not suitable, a spread is derived from observable market inputs (Level 2).

9) The carrying amount of current financial instruments represents an appropriate estimate of fair value. If prices for identical assets or liabilities are quoted on active markets, these are used for valuation purposes (Level 1). Otherwise, the instruments are usually transferred at their repayment amounts if the prices for identical or similar assets and liabilities are quoted on inactive markets; these are therefore classified under Level 2.

10) For financial instruments listed on active markets, the fair values for HtM financial investments were used directly as the unadjusted price in the defined principal market or the most advantageous market (Level 1). If market activity is insufficient, either existing prices for similar instruments are used instead or the future cash flows expected to be derived from the respective financial instruments are discounted to present value using current interest rates, applying the relevant yield or swap curve. Product-specific spreads or credit spreads are taken into account. Only inputs observable on the market are included in the measurement systems (Level 2).

    No prices are quoted on active markets for asset-backed securities (ABS) and mortgage-backed securities (MBS) allocated to the held-to-maturity category. Either indicative quotes or estimates from market makers are used to determine the fair values (Level 3). In that event, ING-DiBa does not generate any quantitative, non-observable inputs. If no plausible fair values can be derived from the estimated values provided by third parties, the securities concerned are modeled as bullet bonds and measured using a discounted cash flow method. In this process, the maturity corresponds to a conservatively estimated date of full redemption. The coupon corresponds to the actual interest rate. A value based on non-observable market inputs is modeled for the spread (Level 3).

11) Listed securitized liabilities with sufficient market liquidity are measured at fair value on the basis of the observed price (Level 1). For securitized liabilities that do not meet these requirements, measurement models are used whose observable inputs are derived from the market (Level 2).

12) Non-current amounts due to customers are measured at fair value by discounting the expected cash flows in accordance with the respective maturity profile and adjusting them by a product-specific spread (Level 3).

13) The fair value of non-current deposits from banks is determined by discounting expected cash flows in accordance with their respective maturity profile. The model parameters used in doing so are usually observable on the market (Level 2). The fair values of liabilities from pass-through development loans are allocated to Level 3 because significant non-observable inputs are used in the measurement.

## Notes to the consolidated income statement

### (33) Net interest income

| | 2016 €m | 2015 €m |
|---|---|---|
| **Interest income** | | |
| Interest income from lending transactions | 2,991 | 3,028 |
| Interest income from available for sale securities | 581 | 620 |
| Interest income from held to maturity securities | 16 | 14 |
| Other interest income | – 753 | – 801 |
| Negative Interest on liabilities | 16 | 1 |
| Total interest income | 2,851 | 2,862 |
| **Interest expenses** | | |
| Interest expenses on deposits from banks | 289 | 248 |
| Interest expenses on amounts due to customers | 537 | 769 |
| Interest expenses on securitized liabilities | 20 | 27 |
| Other interest expenses | 14 | 2 |
| Negative Interest on assets | 19 | 9 |
| Total interest expenses | 879 | 1,055 |
| Net interest income | 1,972 | 1,807 |

The total interest income in respect of financial assets which are subsequently measured at amortized cost or at fair value through other comprehensive income amounted to EUR 3,604 million (2015: EUR 3,663 million). To the extent total interest expenses related to financial liabilities subsequently measured at amortized cost, this amounted to EUR 879 million (2015: EUR 1,055 million).

In fiscal year 2016, interest income from loans on which allowances have been recognized was below half a million euro, as in the previous year.

"Other interest income" includes net interest income from derivatives used in effective hedges. Since the hedging derivatives serve to hedge against interest risks, the interest expense on the hedging derivatives is reported together with interest income on the hedged item within the "interest income" item.

Net interest income also includes amortization of the fair value adjustments related to the hedged risk, which are included in the carrying amount of the hedged items, over the remaining term of the hedged items in fair value hedge relationships. The fair value change arising from the pull-to-par effect of derivatives in effective fair value hedges is also recognized under this item.

## (34) Net commission income

| | 2016<br>€ m | 2015<br>€ m |
|---|---|---|
| **Commission income** | | |
| Payment transactions | 41 | 38 |
| Securities business | 127 | 143 |
| Lending business | 73 | 44 |
| Other fees and commissions | 2 | 3 |
| Fee and commission income | 243 | 228 |
| | | |
| **Commission expense** | | |
| Payment transactions | 49 | 42 |
| Securities business | 24 | 25 |
| Lending business | 56 | 59 |
| Other fees and commissions | 10 | 10 |
| Fee and commission expense | 139 | 136 |
| Net commission income | 104 | 92 |

Net commission income in the payment transactions business relates primarily to income and expenses relating to account management and processing of ATMs.

Income and expenses from the securities business result primarily from customer brokerage services.

## (35) Net gains/losses on measurement of derivatives and hedged items

| | 2016<br>€ m | 2015<br>€ m |
|---|---|---|
| Changes in fair value of | | |
| derivatives in fair value hedges (excl. pull-to-par) | – 438 | – 153 |
| derivatives in cash flow hedges (ineffective portion) | 0 | 0 |
| other derivatives | 4 | – 17 |
| Changes in fair value, net | – 434 | – 170 |
| Changes in the fair values of the hedged items that relate to the hedged risk | 461 | 174 |
| Total | 27 | 4 |

Interest income and expense for derivatives which are not designated as fair value hedges or which are ineffective fair value hedges are presented together with the fair value changes under net gains/losses on measurement of derivatives and hedged items.

The changes in fair value of derivatives and hedged items in hedge relationships were attributable in particular to the further fall in the yield curve during the measurement period, while interest rates persisted at historically low levels.

In fiscal year 2016, a *Pfandbrief* issue was designated in a liability fair value hedging strategy for the first time in order to hedge interest rate risk.

Other derivatives that do not qualify for hedge accounting under IFRSs contributed EUR 4 million to earnings in 2016 (2015: EUR -17 million), including EUR 9 million from foreign currency derivatives (2015: EUR -8 million).

For more information on hedge accounting, refer to note 24.

## (36) Other net gains/losses on financial investments and investment property

| | 2016<br>€ m | 2015<br>€ m |
|---|---|---|
| Balance from income and expenses from investment property | 0 | 0 |
| Net gain/loss on investment property | 0 | 0 |
| Net gain/loss on disposal of available for sale financial investments | 48 | 76 |
| Net gain/loss on available for sale financial investments | 48 | 76 |
| Net gains/losses on financial investments | 48 | 76 |

The direct operating expenses in relation to investment property are immaterial.

## (37) Other income and expenses

| | 2016<br>€ m | 2015<br>€ m |
|---|---|---|
| Net income/loss from receivables | – 12 | 0 |
| Net income/loss from currency translation | – 24 | 5 |
| Other | 6 | 8 |
| Total | – 30 | 13 |

## (38) Risk provision

Risk expenses can be broken down as follows:

| | 2016 Portfolio impairment allowance €m | 2016 Specific impairment allowance including specific impairment allowances calculated on a portfolio basis €m | 2016 Total €m |
|---|---|---|---|
| Additions to/reversals of risk provision | 21 | 15 | 36 |
| Direct write-downs | 1 | 0 | 1 |
| Receipts from loans written off | 0 | – 6 | – 6 |
| Total | 22 | 9 | 31 |

| | 2015 Portfolio impairment allowance €m | 2015 Specific impairment allowance including specific impairment allowances calculated on a portfolio basis €m | 2015 Total €m |
|---|---|---|---|
| Additions to/reversals of risk provision | 7 | 81[1] | 88 |
| Direct write-downs | 1 | 0 | 1 |
| Receipts from loans written off | 0 | – 12 | – 12 |
| Total | 8 | 69 | 77 |

(1) Also includes additions to provisions in the lending business

Only immaterial impairment allowances on loans and advances to banks had to be recognized in the fiscal years under review.

## Risk provision with respect to the customer lending business

| | 2016<br>€ m | 2015<br>€ m |
|---|---|---|
| Mortgage loans | – 22 | 21 |
| Consumer loans | 58 | 36 |
| Corporate loans | – 5 | 20 |
| Public sector loans and other receivables | 0 | 0 |
| Asset-backed securities/mortgage-backed securities | 0 | 0 |
| Total | 31 | 77 |

These expenses are classified analogously to the corresponding report on the risk portfolio (note 3), by products reported under "loans and advances to customers" with similar characteristics. Further information on risk expenses can be found in the risk report, particularly under the section entitled "Monitoring and management of credit risks."

## (39) Personnel expenses

| | 2016<br>€ m | 2015<br>€ m |
|---|---|---|
| Salaries | 235 | 219 |
| Bonuses | 15 | 13 |
| Expenses for pensions and other post-employment benefits | 14 | 12 |
| Social insurance contributions | 39 | 35 |
| Share-based payments | 5 | 3 |
| Expenses for external employees | 16 | 15 |
| Training and continuing education | 5 | 4 |
| Other personnel costs | 13 | 13 |
| Total | 342 | 314 |

## Average number of employees

| | 2016 | | | 2015 | | |
|---|---|---|---|---|---|---|
| | Total | Germany | Austria | Total | Germany | Austria |
| Average number of employees | 3,485 | 3,285 | 200 | 3,281 | 3,121 | 160 |

## Share-based payments

### The programs from the perspective of the Group as a whole

ING Groep N.V. grants senior employees share-based compensation to reward their contribution to increasing shareholder value and to promote long-term corporate success. Among other things, their exercise is linked to continued employment in the Company.

The share-based payments are issued in the form of stock options and free shares. The option programs are primarily designed such that they are settled by granting shares (equity-settled share-based payments); to a lesser extent, they are settled in cash (cash-settled share-based payments).

Since this concerns a direct commitment of ING Groep N.V. to executives of the Group as a whole, all components are posted against equity (equity-settled) in accordance with IFRS 2 at the ING-DiBa Group level.

In the 2016 fiscal year, share-based payments totaled EUR 5 million (2015: EUR 3 million), which is included in the "personnel expenses" account.

ING Groep N.V. decides annually whether and in what form share-based payments will be granted. The stock option programs were discontinued in fiscal year 2011. The previous forms of compensation will gradually expire on schedule. The share-based payments programs were unchanged between 2015 and 2016.

### Stock option programs

Under the expiring stock option programs, the beneficiaries receive the option to acquire shares of the ING Groep N.V. within stipulated periods at one price (strike price) and to transfer them to their personal securities account. The strike price is set when the options are granted and corresponds to the official listing price at that time. There is no provision for an exchange of options (reload function).

There is a uniform three-year holding period. After expiration of the holding period, the options may be exercised within the following seven years, either completely or in tranches.

The fair value of the stock options is determined uniformly throughout the entire ING Group using Monte Carlo simulation. In the 2016 fiscal year, the following parameters were included: risk-free interest rate in a range of 2.02 to 4.62 percent (2015: from 2.0 to 4.6 percent), expected holding period of the options of 5 to 9 years (2015: from 5 to 9 years), the strike prices, the current market price of the share between EUR 2.90 and EUR 25.42 (2015: between EUR 2.90 and EUR 26.05), the expected volatility of the shares of ING Groep N.V. of between 25 and 84 percent (2015: between 25 and 84 percent), and the expected dividends at 0.94 to 8.99 percent (2015: 0.94 to 8.99 percent) of the quoted share price. The assumptions regarding volatility came from the ING trading systems and are therefore not based on historical, but rather current market data.

## Outstanding options – 2016

| | 2016 Outstanding options Number | 2016 Weighted strike price € |
|---|---|---|
| Outstanding options as of Jan. 1 | 652,704 | 14.56 |
| Options granted during the reporting period | 0 | 0.00 |
| Net additions and disposals - new and departing Group employees | 41,312 | 13.22 |
| Exercised during the reporting period | 29,309 | 5.91 |
| Forfeited during the reporting period | 16,263 | 6.51 |
| Lapsed after expiration of exercise period | 94,422 | 25.16 |
| Outstanding options as of Dec. 31 | 554,022 | 13.35 |
| Exercisable options as of Dec. 31 | 554,022 | 13.37 |

## Outstanding options – 2015

| | 2015 Outstanding options Number | 2015 Weighted strike price € |
|---|---|---|
| Outstanding options as of Jan. 1 | 763,345 | 14.69 |
| Options granted during the reporting period | 0 | 0.00 |
| Net additions and disposals - new and departing Group employees | 27,647 | 16.60 |
| Exercised during the reporting period | 16,148 | 6.17 |
| Forfeited during the reporting period | 14,363 | 10.90 |
| Lapsed after expiration of exercise period | 107,777 | 17.88 |
| Outstanding options as of Dec. 31 | 652,704 | 14.53 |
| Exercisable options as of Dec. 31 | 605,510 | 14.29 |

## Outstanding options – 2016

| Range of strike prices<br><br><br><br>€ per share | 12/31/2016 Outstanding options<br><br><br><br>Number | 12/31/2016 Weighted avg. remaining term of the agreement<br>Years | 12/31/2016 Weighted avg. strike price<br><br><br><br>€ | 12/31/2016 Options exercisable<br><br><br><br>Number | 12/31/2016 Weighted avg. remaining term of the agreement<br>Years | 12/31/2016 Weighted avg. strike price<br><br><br><br>€ |
|---|---|---|---|---|---|---|
| 0,00 - 15,00 | 236,220 | 2.87 | 6.03 | 236,220 | 2.87 | 6.03 |
| 15,01 - 20,00 | 206,949 | 1.20 | 16.66 | 206,949 | 1.20 | 16.66 |
| 20,01 - 25,00 | 110,853 | 0.23 | 24.72 | 110,853 | 0.23 | 24.72 |
| 25,01 - 30,00 | 0 | 0.00 | 0.00 | 0 | 0.00 | 0.00 |
| | 554,022 | 2.09 | 13.74 | 554,022 | 2.09 | 13.74 |

## Outstanding options – 2015

| Range of strike prices<br><br><br><br>€ per share | 12/31/2015 Outstanding options<br><br><br><br>Number | 12/31/2015 Weighted avg. remaining term of the agreement<br>Years | 12/31/2015 Weighted avg. strike price<br><br><br><br>€ | 12/31/2013 Options exercisable<br><br><br><br>Number | 12/31/2015 Weighted avg. remaining term of the agreement<br>Years | 12/31/2015 Weighted avg. strike price<br><br><br><br>€ |
|---|---|---|---|---|---|---|
| 0,00 - 15,00 | 258,685 | 3.82 | 5.86 | 249,425 | 3.82 | 5.86 |
| 15,01 - 20,00 | 196,819 | 2.20 | 16.66 | 177,450 | 2.20 | 16.66 |
| 20,01 - 25,00 | 102,778 | 1.22 | 24.72 | 93,989 | 1.23 | 24.72 |
| 25,01 - 30,00 | 94,422 | 0.23 | 25.16 | 84,135 | 0.23 | 25.16 |
| | 652,704 | 2.41 | 14.88 | 604,999 | 2.44 | 14.64 |

## Earnings and performance-based (free) shares

The plan for compensation in shares of ING Groep N.V. in place since 2011 consists of two components: In the first component, a contingent right to the allocation of a number of free shares is granted, which is linked to the employee's continued affiliation with the Company (holding period). One third of the shares are allocated on a specified calendar day on each of the next three years. The number of allocated shares as of the relevant expiry date is based on the degree to which predefined corporate targets have been achieved. The value of the shares on the actual strike date is determined in accordance with the opening share price on NYSE Euronext. The second component is granted in the form a deferred share model. Bonus claims in excess of a stipulated base amount are not paid out fully in cash, but instead a tiered percentage is paid in the form of shares to the extent the holding period has been satisfied. The bonus amount provided for share compensation on this basis is divided by an average price of the BDR (Bearer Depositary Receipts) on NYSE Euronext on the day ING Groep N.V. publishes the results for the fourth quarter of the fiscal year and rounded up if necessary. Analogously to the first component, one third of the resulting number of shares is allocated in the three subsequent years after expiry of each holding period. The shares are issued at the current opening share price on NYSE Euronext.

Up to the actual allocation, the expense is recorded by distributing an extrapolated fair value over the holding period. Since 2015 ING Groep N.V.'s stock option program has no longer stipulated any capital market-related performance conditions. To calculate the extrapolated fair value of stock grants until fiscal year 2014 on the basis of capital market-related performance conditions, ING Groep N.V. uses a Monte Carlo simulation, which includes the risk-free base interest rate, current stock market prices, expected volatilities, and current dividends of peer companies.

In relation to the group of ING Groep N.V. as a whole, the previously unallocated expenses from free shares were EUR 41 million as of December 31, 2016 (December 31, 2015: EUR 45 million). An allocation period of 1.4 years is forecast for fiscal year 2016 (2015: 1.4 years).

Group-wide (ING Groep N.V.), the volume of free shares as of December 31, 2016, was 8,382,963 shares (December 31, 2015: 8,737,014 shares). The weighted average fair value was EUR 10.44 (2015: EUR 10.04).

The ING-DiBa Group held out a prospective total of 466,731 free shares to its executives during fiscal year 2016 (2015: 203,964).

Please see note 31 regarding the share-based payments obtained by the Management Board.

## (40) Other administrative expenses

| | 2016<br>€ m | 2015<br>€ m |
|---|---:|---:|
| IT | 87 | 76 |
| Telecommunications, office and operating expenses | 71 | 67 |
| Marketing and public relations | 78 | 83 |
| Travel expenses and corporate hospitality expenses | 8 | 8 |
| Legal and consulting expenses | 51 | 30 |
| Deposit protection | 72 | 86 |
| Shipping costs | 13 | 18 |
| Depreciation of buildings and office equipment | 16 | 16 |
| Amortization of software | 6 | 6 |
| ATMs | 15 | 14 |
| Bank levy | 13 | 14 |
| VAT | 5 | 4 |
| Other administrative costs | 79 | 64 |
| Total | 514 | 486 |

Other administrative expenses did not include any write-downs in the fiscal year.

In fiscal year 2016, expenses of EUR 3 million (2015: EUR 0 million) were incurred for software development within the meaning of IAS 38.54 and IAS 38.57.

The mandatory contributions to the bank restructuring fund (bank levy) were expensed in full.

## Auditors' fees

| | 2016<br>€ m | 2015<br>€ m |
|---|---:|---:|
| Audit services | 3 | 2 |
| Audit-related services | 0 | 0 |
| Tax services | 0 | 0 |
| Other services | 0 | 0 |
| Total | 3 | 2 |

Auditors' fees are a component of the legal and consulting expenses.

## (41) Income tax

### Disclosures relating to income tax expenses

| | 2016 €m | 2015 €m |
|---|---|---|
| Current income tax expense/income (-) | 371 | 354 |
| Income tax expense/income (-) relating to the current year | 410 | 354 |
| Income tax expense/income (-) related to other accounting periods | – 39 | 0 |
| Deferred tax expense | 4 | 6 |
| Deferred tax expense/income (-) related to other accounting periods | 0 | 3 |
| Effect from temporary differences | 4 | 3 |
| Items charged or credited directly to equity | 0 | 0 |
| Total | 375 | 360 |

ING-DiBa is part of a tax group for corporate income and trade tax purposes due to a profit transfer agreement with ING Deutschland GmbH, Frankfurt am Main.

In addition, there is a tax group for corporate income tax, trade tax, and VAT purposes with ING-DiBa as the tax group parent and GGV Gesellschaft für Grundstücks- und Vermögensverwaltung mbH, Frankfurt am Main, as the tax group subsidiary.

In accordance with the principle of substance over form, both the current and deferred income taxes are disclosed in the IFRS consolidated financial statements by the entity responsible, ING-DiBa. In this area, for which IFRSs do not provide any guidance, ING-DiBa thus follows the interpretation of ASC 740 (US GAAP).

Under the push-down method, corresponding tax assets and liabilities are presented for the income taxes. The current income taxes paid by the tax group parent are presented in the consolidated statement of changes in equity as a capital contribution by the tax group parent under other reserves.

The income tax amounts resulting from the components of other comprehensive income are presented in the consolidated statement of comprehensive income.

## Tax reconciliation

| | 2016<br>€ m | 2015<br>€ m |
|---|---|---|
| Profit before tax | 1,234 | 1,115 |
| Applicable tax rate in % | 31.6 | 31.5 |
| Expected income tax expense | 390 | 351 |
| Tax-free income | – 12 | 0 |
| Non-tax deductible expenses | 6 | 6 |
| Effects of as yet unrecognized amounts on deferred taxes | 38 | 3 |
| Effects of as yet unrecognized amounts on current income taxes | – 46 | 0 |
| Other tax effects | – 1 | 0 |
| Effective income tax expenses | 375 | 360 |
| Effective tax rate in % | 30.4 | 32.3 |

The applicable tax rate is determined based on the applicable overall tax rate for the Germany operation (32 percent) and the branch in Austria (25 percent), weighted by each operation's share of total profit. There was no significant change compared to the previous year.

## Segment report

### (42) Segment report

The following segment information is based on the "management approach," the presentation of segment information based on internal reporting. The Chief Operating Decision Maker (CODM), here, the full Management Board of ING-DiBa, regularly decides on the allocation of resources to segments and the assessment of the segments' financial performance based on the segment information. The CODM sets performance goals and approves and monitors the issued budgets.

### Segments

Segment reporting follows the Group's organizational structure underlying the internal management information systems. The Bank's management information system differentiates between the segments "Retail Customer Loans", "Retail Customer Assets" and "Wholesale Banking". The Retail Customer Loans segment includes both long-term mortgage loans and medium-term consumer loans. The Retail Customer Assets segment comprises deposits on the "Extra-Konto" account payable on demand as well as mid-term deposits to fixed term deposit accounts and share assets in securities accounts. The "Wholesale Banking" segment comprises the financing of corporate customers.

The interest income realized and interest expense incurred by the segments are reported as net interest income in the disclosures on the business segments because the segments are managed primarily on the basis of net interest income. Further key performance indicators include the pre-tax management-accounting (MA) result and the business volume of the individual segments. Income and expenses are not offset between the individual segments as the effort involved would be disproportionately high.

### Measurement of segment profit or loss

The information as presented in this note corresponds to the segment information as provided to the full Management Board in the internal management information system.

The reconciliation of the profits or losses as per management reporting to the consolidated earnings in accordance with IFRSs relates to the following aspects in particular:

Management reporting follows the method used by ING Groep N.V. In order to render the business units mutually comparable, corrections are made to capital charges. Net interest income as calculated under IFRSs is reduced by the risk-free interest rate in reference to the accounting equity. This is offset by a credit equaling the risk-free euro interest rate on risk-weighted assets.

"Other income" comprises the following line items from the income statement: "net gains/losses on measurement of derivatives and hedged items," "other net gains/losses on financial investments and investment property," and "other income and expenses." This presentation mirrors that at ING Groep N.V.

The "administrative expenses" presented in the management reporting include amortization, depreciation and write-downs, and personnel expenses.

The income tax reported in accordance with the push-down method (see note 41) is not allocated to individual segments.

## Segment results

| | 2016 Retail Customer Loans €m | 2016 Retail Customer Assets €m | 2016 Wholesale Banking €m | 2016 MA total €m | 2016 Reconciliation €m | 2016 IFRS €m |
|---|---|---|---|---|---|---|
| Net interest income | 743 | 931 | 325 | 1,999 | – 27 | 1,972 |
| Net commission income | – 84 | 86 | 58 | 60 | 44 | 104 |
| Other net income | 0 | 43 | 18 | 61 | – 16 | 45 |
| MA income | 659 | 1,060 | 401 | 2,120 | 1 | 2,121 |
| Risk provision | 22 | – 4 | – 5 | 13 | – 44 | – 31 |
| Administrative expenses | – 189 | – 574 | – 93 | – 856 | 0 | – 856 |
| Result before tax | 492 | 482 | 303 | 1,277 | – 43 | 1,234 |

| | 2015 Retail Customer Loans €m | 2015 Retail Customer Assets €m | 2015 Wholesale Banking €m | 2015 MA total €m | 2015 Reconciliation €m | 2015 IFRS €m |
|---|---|---|---|---|---|---|
| Net interest income | 726 | 899 | 173 | 1,798 | 9 | 1,807 |
| Net commission income | – 96 | 109 | 41 | 54 | 38 | 92 |
| Other net income | 0 | 103 | 10 | 113 | – 20 | 93 |
| MA income | 630 | 1,111 | 224 | 1,965 | 27 | 1,992 |
| Risk provision | – 53 | – 4 | – 20 | – 77 | 0 | – 77 |
| Administrative expenses | – 186 | – 545 | – 66 | – 797 | – 3 | – 800 |
| Result before tax | 391 | 562 | 138 | 1,091 | 24 | 1,115 |

## Information on geographical areas

ING-DiBa generated total income of EUR 2,121 million during the 2016 fiscal year (2015: EUR 1,992 million). Because ING-DiBa Austria funded itself using internal Group resources and operates the deposit business almost exclusively, the branch's contribution from external customers is negative. Of ING-DiBa's total income, ING-DiBa Austria's share of total income from external customers was EUR -24 million (2015: EUR -42 million). ING-DiBa generated total net interest income of EUR 1,972 million during the 2016 fiscal year (2015: EUR 1,807 million). Of that amount, EUR -26 million from external customers was attributable to ING-DiBa Austria (2015: EUR -43 million). ING-DiBa Austria's net commission income from external customers was EUR 2 million in fiscal year 2016 (2015: EUR 1 million).

There are no non-current assets at ING-DiBa Austria.

ING-DiBa did not have any major customers within the meaning of IFRS 8 as of December 31, 2016 and December 31, 2015. Under IFRS 8, a customer is considered major if more than 10 percent of total income is earned from this customer.

## Business volume

| | 2016 Retail Customer Loans € billion | 2016 Retail Customer Assets € billion | 2016 Wholesale Banking € billion | 2016 MA total € billion | 2016 Reconciliation € billion | 2016 IFRS € billion |
|---|---|---|---|---|---|---|
| Business volume | 74 | 160 | 35 | 269 | – 39 | 230 |

| | 2015 Retail Customer Loans € billion | 2015 Retail Customer Assets € billion | 2015 Wholesale Banking € billion | 2015 MA total € billion | 2015 Reconciliation € billion | 2015 IFRS € billion |
|---|---|---|---|---|---|---|
| Business volume | 71 | 147 | 23 | 241 | – 34 | 207 |

Business volume is a key performance indicator used by the Bank. It serves as an alternative benchmark for measuring all assets and liabilities (segment assets within the meaning of IFRS 8.28 in conjunction with IFRS 8.23) for each reportable segment. Reports on this performance indicator are included in the regular internal management reporting.

The Bank computes the business volume of the Retail Customer Loans segment as the reported volume of mortgage loans and consumer loans; business volume for the Retail Customer Assets segment comprises the reported volume of savings, current and securities accounts held by customers. In the “Wholesale Banking” segment, business volume includes the reported volume of loans and deposits as well as contingent liabilities and open commitments. When reconciling the Wholesale Banking business volume to the figures reported under IFRS, the value of customer securities accounts and contingent liabilities and open commitments is eliminated.

# Notes to the consolidated cash flow statement

## (43) Notes to the consolidated cash flow statement

### Significant principles of the cash flow statement

The cash flow statement shows the change in the balances of cash and cash equivalents of the ING-DiBa Group using the indirect method for cash flows from operating activities; the other cash flows are determined directly. The changes in the balances are allocated based on their economic cause to cash flows from operating, investing, and financing activities.

The cash flows from operating activities arise from the normal banking business. The earnings before taxes here are thus adjusted for non-cash changes in the balance. Inflows and outflows in relation to changes in the balances of “financial investments,” “property and equipment,” and “intangible assets” are reported as net cash flows from investing activities. Net cash flows from financing activities represent ING-DiBa’s external financing. They consist primarily of profit transfers as well as cash inflows and outflows in relation to securitized liabilities.

ING-DiBa has opted not to report cash flows from income tax payments since it is part of a tax group for corporate income and trade tax purposes due to a profit transfer agreement with ING Deutschland GmbH.

Cash and cash equivalents comprise cash and funds that can readily be converted to cash and are subject to an insignificant risk of changes in value. This includes cash balances and balances with central banks, receivables payable on demand, and deposits from banks.

### Reconciliation to the statement of financial position items

| | 12/31/2016<br>€ m | 12/31/2015<br>€ m |
|---|---|---|
| Cash reserve | 1,487 | 1,497 |
| Loans and advances to banks included in cash and cash equivalents | 604 | 256 |
| thereof not freely disposable | 0 | 0 |
| Loans and advances to banks not included in cash and cash equivalents | 8,277 | 4,648 |
| Loans and advances to banks | 8,881 | 4,904 |

| | 12/31/2016<br>€ m | 12/31/2015<br>€ m |
|---|---|---|
| Deposits from banks included in cash and cash equivalents | 1,325 | 306 |
| Deposits from banks not included in cash and cash equivalents | 15,270 | 12,635 |
| Deposits from banks | 16,595 | 12,941 |

## Capital management

### (44) Regulatory capital and risk-weighted assets

ING-DiBa's capital management serves to ensure compliance with the statutory minimum capital requirements and to hold a sufficient capital buffer to ensure the Bank's ability to act at all times.
ING-DiBa's Risk & Capital Committee (RCC) and Management Board are responsible for setting the target capital ratios and for decisions on capital management. The members of the Management Board are kept informed of the status and development of the capital base in regular RCC meetings (as well as at ad-hoc meetings if necessary). The necessary decisions and management measures are prepared by the capital working group consisting of members from various departments.
Regular monitoring of compliance with the capital requirement ensures target attainment and delivers warning signals where appropriate to initiate appropriate management measures. As in the preceding fiscal year, the statutory minimum capital requirements were satisfied at all times during the 2016 fiscal year.
ING-DiBa's return on capital pursuant to section 26a (1) KWG, calculated as the quotient of the net profit and total liabilities and equity, as per German financial reporting requirements, was 0.80 percent as of the reporting date (December 31, 2015: 0.65 percent).
The eligible capital is calculated based on the provisions of Regulation (EU) No. 575/2013 including the technical implementation and regulatory standards issued by the Commission and additional specifications as well as the supplemental requirements of the German Banking Act and the German Solvency Regulation.
The following tables show the quantitative composition of own funds for ING-DiBa as a single institution for regulatory purposes, as well as at the consolidated level for the financial holding group pursuant to section 10 KWG.

The first calculation and disclosure of own funds and of the Common Equity Tier 1 capital ratio for the financial holding group was submitted as of December 31, 2016.

### Composition of ING-DiBa AG's own funds

| | 12/31/2016<br>€ m | 12/31/2015<br>€ m |
|---|---|---|
| Common Equity Tier I Capital after regulatory adjustments | 5,887 | 5,517 |
| Additional Tier I Capital | 0 | 0 |
| Tier I Capital | 5,887 | 5,517 |
| Tier II Capital | 10 | 0 |
| Own funds | 5,897 | 5,517 |

As of the end of the reporting period (December 31, 2016), eligible equity amounted to EUR 5,897 million (December 31, 2015: EUR 5,517 million).

### Composition of the financial holding group's own funds

| | 12/31/2016<br>€ m |
|---|---|
| Common Equity Tier I Capital after regulatory adjustments | 6,065 |
| Additional Tier I Capital | 0 |
| Tier I Capital | 6,065 |
| Tier II Capital | 10 |
| Own funds | 6,075 |

As of the end of the reporting period (December 31, 2016), eligible equity of the financial holding group amounted to EUR 6,075 million.

The table below presents the Common Equity Tier 1 capital ratio of ING-DiBa and of the financial holding group as compared to the internal target ratio and the statutory minimum ratio.

### Common Equity Tier 1 capital ratio of ING-DiBa AG

| | 12/31/2016 Percent | 12/31/2015 Percent |
|---|---|---|
| Tier 1 ratio | 13.2 | 14.9 |
| Regulatory minimum requirement - Tier 1 ratio | 5.1 | 4.5 |
| Target for Tier 1 ratio | 11.8 | 11.8 |

As of the end of the reporting period (December 31, 2016), risk-weighted assets amounted to EUR 44,743 million (December 31, 2015: EUR 36,971 million).

### Core Equity Tier 1 capital ratio of the financial holding group

| | 12/31/2016 Percent |
|---|---|
| Tier 1 ratio | 13.6 |
| Regulatory minimum requirement - Tier 1 ratio | 5.1 |
| Target for Tier 1 ratio | 11.8 |

As of the end of the reporting period (December 31, 2016), risk-weighted assets of the financial holding group amounted to EUR 44,765 million.

Further information on economic capital management can be found in the risk report in the section entitled “Principles of risk management.”

Frankfurt am Main, March 10, 2017

The Management Board

Roland Boekhout | Bernd Geilen | Katharina Herrmann

Željko Kaurin | Remco Nieland | Dr. Joachim von Schorlemer

# Auditors’ Report

We have audited the consolidated financial statements prepared by ING-DiBa AG, Frankfurt am Main, comprising the consolidated statement of financial position, consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows and the IFRS notes to the consolidated financial statements, together with the group management report for the business year from 1 January to 31 December 2016. The preparation of the consolidated financial statements and the group management report in accordance with IFRSs, as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315a Abs. 1 HGB (Handelsgesetzbuch "German Commercial Code") are the responsibility of the parent company`s management. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with § 317 HGB (Handelsgesetzbuch „German Commercial Code“) and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRSs, as adopted by the EU, the additional requirements of German commercial law pursuant to § 315a Abs. 1 HGB and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The group management report is consistent with the consolidated financial statements, complies with the German statutory requirements, and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Frankfurt/Main, March 17, 2017

KPMG AG
Wirtschaftsprüfungsgesellschaft

| | |
|---|---|
| Bernhard | Winner |
| Wirtschaftsprüfer | Wirtschaftsprüfer |
| [German Public Auditor] | [German Public Auditor] |

# Supervisory Board Report

In fiscal year 2016, the Supervisory Board comprehensively and with the utmost due care completed all tasks prescribed by the law, the Articles of Association, and the rules of procedure and regularly advised the Management Board in managing the Company and monitored its actions. The Supervisory Board was informed about the bank's business performance in four Supervisory Board meetings and in regular discussions with Management Board. Significant business transactions were discussed in detail at these meetings. The Supervisory Board was always included in the discussions about fundamental issues on corporate planning and the bank's strategic orientation. Furthermore, the Supervisory Board received regular detailed written and oral reports about the operating business, net assets, liquidity, and results of operations of the Company as well as the risk situation, risk management, internal control system, and compliance. The Supervisory Board's audit of the submitted reports revealed that there were no objections to the actions of the Company's management for the 2016 fiscal year.

## Focus of the meetings:

The Supervisory Board held regular in-depth discussions on and supported the further development of the banking business and implementation of the digitization and efficiency improvement strategy as part of the "Welcome" program to safeguard market success in the future. Particular focus was placed on the following items during the discussions and resolutions of the full Supervisory Board: the continued implementation of the "One Bank" strategy in Germany and Austria with the completion of the Onebank.at integration project, the continued integration and expansion of the corporate customer business and the bank's investment strategy. As in previous years, the Supervisory Board also addressed numerous amendments to statutory and regulatory requirements; in particular, the Supervisory Board was heavily involved in addressing the audits announced and conducted by the European Central Bank (ECB) in connection with the transfer of banking supervision to it. Another area covered was the impact of the ECB's Supervisory Review and Evaluation Process (SREP) and its effects on the bank's capital requirements. As in previous years, the further development of the growth strategy in the retail customer business also remained a focus throughout the fiscal year. This included in particular achieving a leading market position in mortgage lending, expanding consumer loans and current accounts, and achieving a leading market position in securities trading and the deposit business. The Supervisory Board also discussed the targeted growth in the Wholesale Banking segment, in particular via increasing asset diversification through asset transfers from the United States on the bank's books. In addition, the Supervisory Board also continued its education on regulatory developments as part of an internal training course (Knowledge Day).

## Committees:

The Supervisory Board had three committees in 2016. The bank has an Audit Committee, a Risk and Credit Committee, and a Nomination, Mediation and Compensation Monitoring Committee. The committees are tasked with preparing upcoming issues and resolutions for the full Supervisory Board. They are also sometimes authorized to make decisions on matters referred to them by the full Supervisory Board. The chairpersons of the committees regularly informed the Supervisory Board about their work.

The Audit Committee convened once. It concentrated on the annual financial statements and discussed these with the Management Board and the auditor. It also prepared the audit engagement for the auditor, including defining the key audit matters and expediting the audit of the annual financial statements. It focused in particular on the risk management system and the internal control system. In addition, the Audit Committee addressed anti-money laundering and compliance issues, the audit findings of the Internal Audit department and its audit planning as well as the findings of other external audits. It regularly received written reports about the bank's risk situation and the implementation status of audit findings.

The Nomination, Mediation and Compensation Monitoring Committee met twice. It primarily addressed the appointment of two new members of the Management Board, the remuneration levels of the Management Board, the execution of new executive employment agreements, and the remuneration system, as well as the implementation of the Remuneration Ordinance for Institutions (*Institutsvergütungsverordnung*, "InstitutsVergV") and the new statutory requirements.

The Risk and Credit Committee met twice, and adopted most of its resolutions, which primarily related to loan approvals for executives and corporate customers, by way of circulation. Other topics of discussion at the meetings included the asset diversification through asset transfers from the United States on the bank's books. In addition, the members of the Risk and Credit Committee were also continuously informed about the bank's current risk situation and its risk-bearing capacity.

## 2016 annual financial statements:

As the auditor, KPMG AG Wirtschaftsprüfungsgesellschaft, Frankfurt am Main, audited the HGB annual financial statements and management report for fiscal year 2016, and the IFRS consolidated financial statements and Group management report for fiscal year 2016, as prepared by the Management Board, including the accounting system; it did not raise any objections, and issued an unqualified auditor's report. Following their own review and after discussing the audit findings in detail with the auditor, the Supervisory Board and the Audit Committee concurred with these.

In accordance with its conclusive review findings, the Supervisory Board did not raise any objections and approved the HGB annual financial statements and management report, and the IFRS consolidated financial statements and Group management report, as prepared by the Management Board for fiscal year 2016, which are thereby adopted.

## Personnel changes on the Supervisory Board and Management Board:

The following changes occurred on the Supervisory Board in 2016: The terms of office of the members of the Supervisory Board expired at the end of the Annual General Meeting on May 13, 2016. Mr. Aris Bogdaneris, Prof. Wolfgang Gerke, Dr. Claus Dieter Hoffmann, Mr. Ben Tellings, Mr. Diederik Baron van Wassenaer and Mr. Hermann Zeilinger were reelected as shareholder representatives on the Supervisory Board.

Ms. Birgit Braitsch, Ms. Christine Stürtz-Deligiannis, Mr. Rüdiger Köppel and Mr. Rainer Pfeifer were reelected as employee representatives. Mr. Christopher Walker and Mr. Alexander Klein left the Supervisory Board. Mr. Ulrich Probst and Mr. Stefan Teichmann were appointed to the Supervisory Board in their place.

Ben Tellings stepped down from his position as member and Chairman of the Supervisory Board with effect as of the end of July 5, 2016. His replacement has not been appointed to date pending consultation with the supervisory authorities. As Deputy Chairman of the Supervisory Board, Rüdiger Köppel has assumed responsibility for chairing Supervisory Board meetings.

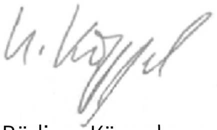
The Supervisory Board would like to thank the departing members of the Supervisory Board and in particular the Chairman of the Supervisory Board for their committed and constructive work and their efforts for the benefit of the Company.

The following changes occurred on the Management Board in 2016: Joachim von Schorlemer was appointed as a member of the Management Board effective January 1, 2016 for a period of five years. Martin Krebs stepped down from the Management Board on December 31, 2015.

The Supervisory Board would like to thank the Management Board and all employees for their commitment in the past fiscal year. Their hard work and expertise contributed decisively to ING-DiBa AG successfully mastering the various challenges faced in 2016.

Frankfurt am Main, March 31, 2017

For the Supervisory Board



Rüdiger Köppel

Deputy Chairman of the Supervisory Board

## Editorial Information

**Publisher:** ING-DiBa AG, Theodor-Heuss-Allee 2, 60486 Frankfurt am Main

**Customer Relations:** ING-DiBa Kundendialog, Tel. 069 – 50 50 90 69, info@ing-diba.de, www.ing-diba.de

**Media Relations:** Dr. Ulrich Ott, Leiter ING-DiBa Corporate Communications,
Tel. +49 69 27 222 66233, ulrich.ott@ing-diba.de, www.ing-diba.de/presse

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ING-DiBa AG
Theodor-Heuss-Allee 2
60486 Frankfurt am Main
Tel. +49 69 50 50 90 69
www.ing-diba.de

Die Bank und Du