BASE PROSPECTUS SUPPLEMENT N°2 dated 8 May 2018

ING Belgium SA/NV

(Incorporated with limited liability in Belgium)

EUR 10,000,000,000

Residential Mortgage Pandbrieven Programme

This base prospectus supplement (the "**Supplement N°2**") constitutes a supplement for the purposes of Article 16 of Directive n° 2003/71/EC (the "**Prospectus Directive**") and Article 34 of the Belgian Law dated 16 June 2006 concerning the public offer of investment securities and the admission of investment securities to trading on a regulated market implementing the Prospectus Directive (the "**Prospectus Law**"). The Supplement N°2 is supplemental to, forms part of, and must be read in conjunction with the base prospectus dated 11 July 2017 and the Supplement N°1 dated 20 March 2018 (the "**Base Prospectus**"), issued by ING Belgium SA/NV (the "**Issuer**"), for the purpose of giving information with regard to the issue of Mortgage Pandbrieven under its EUR 10,000,000,000 Residential Mortgage Pandbrieven Programme during the period of twelve months after the date of the Base Prospectus. Terms defined in the Base Prospectus or in any document incorporated by reference in the Base Prospectus shall, unless the context otherwise requires, have the same meaning when used in this Supplement N°2.

This Supplement N°2 has been approved by the Belgian Financial Services and Markets Authority (*Autoriteit voor Financiële Diensten en Markten/Autorité des services et marchés financiers*) (the "**FSMA**") in its capacity as competent authority under the Prospectus Directive. This Supplement N°2 will be published on the website of Euronext Brussels (www.euronext.com) and on the www.ing.be website.

Erik Van Den Eynden
CEO ING Belgium

T.N.
CFO ING Belgium
TANATE PHUTRAKUL

The Issuer accepts responsibility for the information contained in this Supplement N°2 and declares that, having taken all reasonable care to ensure that such is the case, the information contained in this Supplement N°2 is, to the best of its knowledge and belief, in accordance with the facts and does not omit anything likely to affect the import of such information.

1 FINANCIAL RESULTS

The Issuer published its annual report in respect of its audited full year results of 2017.

In order to ensure that the information contained in the Base Prospectus is up-to-date as required by the Prospectus Directive and the Prospectus Law, Annex I to the Base Prospectus dated 11 July 2017 and Annex II to the Base Prospectus (as included by Supplement N°1 dated 20 March 2018) will be entirely replaced with a new Annex I included in Annex to this Supplement N°2.

Furthermore, the text in the Base Prospectus will be replaced as follows:

(i) The tables under item 7 (*Key figures*) on p. 207 (in the section "Description of the Issuer") will be deleted and replaced in its entirety as follows:

Highlights	**2017**	**2016**
Profit after tax	EUR 739 millions	EUR 573 millions
Customer deposits	EUR 101 billions	EUR 97 billions
Customer loans	EUR 106 billions	EUR 102 billions
Tier 1 (Basel III)	15.5%	14.3%
Total capital ratio	17.6%	16.6%
Leverage ratio	5.1%	4.8%

ING Belgium NV/SA – Consolidated assets

In EUR millions	**2017**	**2016**	**%**
Cash and balances with central banks	9,558	5,009	+ 90.8%
Amounts due from banks	10,216	9,885	+3.3%
Financial assets at fair value through profit and loss	8,292	13,176	-37.1%
Investments	15,162	17,949	-15.5%

Loans and advances to customers	106,444	101,633	+4.7%
Remaining assets	2,146	2,767	-22.4%
Total Consolidated assets	**151,818**	**150,419**	**+0.9%**

ING Belgium NV/SA – Consolidated liabilities and Equity

In EUR millions	2017	2016	%
Deposits from banks	16,645	13,334	+ 24.8%
Customer deposits	100,896	97,046	+4%
Financial liabilities at fair value through profit and loss	10,916	16,672	-34.5%
Remaining liabilities	13,175	13,077	+0.7%
Shareholder's equity	10,168	10,268	-1.0%
Minority interests	18	21	-14.3%
Total Consolidated Liabilities and Equity	**151,818**	**150,419**	**+0.9%**

ING Belgium NV/SA – Consolidated assets

ING Belgium NV/SA – Consolidated Income statement

In EUR millions	2017	2016	%
Financial and operational income/expenses	**3,351**	**3,455**	**-3.0%**
of which: net interest income	*2,393*	*2,547*	-6.0%
Of which: commissions and fees	*626*	*560*	*+11.7%*
Of which: other income	*332*	*348*	*-4.5%*
Total expenses	**-2,187**	**-2,686**	**-18.6%**
of which: staff expenses	-1,086	-1,053	+3.2%
oh which: administration expenses	-609	-393	+55.0%
of which: bank levies	-218	-221	-1.3%
of which: depreciations	-105	-116	-10.1%
of which: provisions and impairments	-170	-904	-120.3%
Profit before taxes	**1,164**	**769**	**+51.3%**
Taxation	-425	-196	+117.0%
Profit after tax	**739**	**573**	**+28.9%**
Third- party interest	2	*-1*	*-232.2%*
Consolidated net profit	**741**	**572**	**-+29.5%**

ING Belgium NV/SA – CET1 Capital Ratio

CET1 Fully loaded (2017, actuals): 14.57%
CET1 Phased in (2017, actuals): 14.30%

(ii) The text under item 8 (*Trend Information*) on p. 208 (in the section "Description of the Issuer") will be deleted and replaced in its entirety as follows:

"There has been no material adverse change in the prospects of the Issuer since 31 December 2017."

(iii) The text under item 13.1 (*Historical financial information*) on p. 210 (in the section "Description of the Issuer") will be deleted and replaced in its entirety as follows:

*"The audited consolidated accounts 2017 are prepared according to International Financial Reporting Standards (**IFRS**), and are to be found in the Issuer's Annual Report 2017 from page 21 onwards (see "Annex I – Annual Financial Statements")."*

(iv) The text under item 13.2 (*Financial statements*) on p. 210 (in the section "Description of the Issuer") will be deleted and replaced in its entirety as follows:

"The consolidated financial statements 2017 are included in the Issuer's Annual Report 2017 from page 23 onwards (see "Annex I – Annual Financial Statements")"

(v) The text in paragraphs 1 and 2 under item 13.3 (*Auditing of historical annual financial information*) on p. 210 (in the section "Description of the Issuer") will be deleted and replaced in its entirety as follows:

"The historical financial information for the years 2017 and 2016 has been audited.

For the year 2017, see pages 120 onwards of the Issuer's Annual Report 2017 for the auditor's report on the consolidated accounts (see "Annex I – Annual Financial Statements")."

(vi) The text under item 13.4 (*Age of latest financial information*) on p. 211 (in the section "Description of the Issuer") will be deleted and replaced in its entirety as follows:

"The latest financial information is not older than 18 months as it dates back to 31 December 2017."

(vii) The text under item 15 (*Significant change in the Issuer's financial or trading position*) on p. 211 (in the section "Description of the Issuer") will be deleted and replaced in its entirety as follows:

"There has been no significant change in the financial or trading position of the Issuer since 31 December 2017."

(viii) The text under title "Significant or Material Change" on p. 225 (in the section "General Information") will be deleted and replaced in its entirety as follows:

(i) "no significant change in the financial or trading position of the Issuer since 31 December 2017; and

(ii) no material adverse change in the financial position, business or prospects of the Issuer since 31 December 2017."

(ix) The text in paragraph 1 under title "Statutory Auditors" on p. 225 (in the section "General Information") will be deleted and replaced in its entirety as follows:

"*The Auditors of the Issuer are KPMG Bedrijfsrevisoren burg. CVBA. The Auditors of the Issuer are members of the Instituut der Bedrijfsrevisoren/Institut des Réviseurs d'Entreprises. The financial statements of the Issuer for the years ended 31 December 2016 and 31 December 2017 have been audited in accordance with ISA and resulted, in each case, in an unqualified opinion. The Auditors of the Issuer have no material interest in the Issuer.*"

2 GENERAL

Copies of this Supplement N°2 will be available (i) without charge at the specified office of the Issuer (ii) on the website of Euronext Brussels www.euronext.com and (iii) on the www.ing.be website.

To the extent that there is an inconsistency between (a) any statement in this Supplement N°2 and (b) any statement in, or incorporated by reference into, the Base Prospectus, the statements in (a) above will prevail.

8 May 2018

ANNEX

ANNEX I – ANNUAL FINANCIAL STATEMENTS

ING Belgium
Annual Report
2016

Accelerating
think**forward**

ING

ING Belgium nv/sa
Annual Report
2016

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Information about the company on 31 December 2016

Registered name

In Dutch, ING België nv; in French, ING Belgique sa; in English, ING Belgium nv/sa; in German, ING Belgien Ag.

Registered office

Avenue Marnix / Marnixlaan 24
B-1000 Brussels, Belgium

Company registration

The bank is registered in the Register of legal persons n° 0403 200 393.

Form of incorporation, Articles of Association and their publication

ING Belgium nv/sa is incorporated under Belgian law as a public limited company (naamloze vennootschap - société anonyme) by notarial act drawn up on 30 January 1935, witnessed by Mr Pierre De Doncker, Public Notary of Brussels, and published in the appendices to the Belgian Official Journal of 17 February 1935, under n° 1.459.

The Articles of Association of the company have been amended regularly, most recently by notarial act of 30 March 2015, witnessed by Mr Stijn Joye, associated Public Notary of Brussels, and published in the appendices to the Belgian Official Journal of 15 April 2015, under n° 0054382 and n° 0054383.

ING Belgium nv/sa is a credit institution within the scope of Article 1 of the Law of 25 April 2014 on the status and control of credit institutions.

Duration

The company has been established for an unlimited duration.

Corporate object

Under Article 3 of its Articles of Association, the company's business is to carry out, for itself or for third parties, in Belgium or overseas, all transactions coming under the banking activity, in the broadest sense, inter alia, all operations relating to cash and securities deposits, credit transactions of any kind, all financial, stock market, foreign exchange, issue, commission and brokerage transactions.

The company may also exercise all other activities which are or shall be authorised in respect of credit establishments in Belgium or overseas, such as, in particular, but not restricted to, any insurance brokerage and commission, any capital leasing and leasing in any form whatsoever of any real or movable property, any consultancy and research on behalf of third parties in the context of its activities.

Through contribution, transfer, merger, subscription, acquisition of holdings or any other form of investment in securities or personal property rights, through financial participation or any other participation, the company may participate in all businesses, undertakings, associations or companies with company business identical, analogous, similar or related to its own or likely to directly or indirectly favour realisation or development of that company business.

The company may carry out all commercial, industrial, financial and movable or real property transactions, which are directly or indirectly related to its company business or may contribute to realisation of that company business.

Issued share capital

The issued share capital of ING Belgium nv/sa is EUR 2.35 billion currently represented by 55,414,550 ordinary shares, without par value.

The bank has not issued any other class of shares. The bank's shares have not been listed on the Brussels Stock Exchange since 1 July 1998. Since 6 August 2004, they are all held by the ING Group.

External functions exercised by directors and senior management of the bank

The exercise of external functions by directors and senior management of Belgium-based financial institutions is subject to rules set out in the Circular PPB-2006-13-CPB-CPA issued by the Belgian Banking, Finance & Insurance Commission on 13 November 2006.

Each institution is required to publish details of any such mandates by the means described in point I(4)(e) of the circular.

ING Belgium nv/sa has decided to make this information available to the public on its website.

Supervisory and Executive bodies

Composition of the Board of Directors [1]

Eric Boyer de la Giroday (2018)
Chairman of the Board of Directors

Rik Vandenberghe (until 28 February 2017)
Chief Executive Officer
Managing Director

Erik Van Den Eynden (as from 1 March 2017) (2023)
Chief Executive Officer
Managing Director

Michael Jonker (until 31 October 2016)
Managing Director

Krista Baetens (as from 1 October 2016) (2017)
Managing Director

Colette Dierick (until 15 July 2016)
Managing Director

Philippe Wallez (as from 15 October 2016) (2020)
Managing Director

Frank Stockx (2019)
Managing Director

Johan Kestens (2020)
Managing Director

Emmanuel Verhoosel (2020)
Managing Director

Tanate Phutrakul (2022)
Managing Director

Baron Luc Bertrand (2018)
Non-executive Director
Chairman of the Board, Ackermans & van Haaren

Baron Philippe de Buck van Overstraeten (2018)
Non-executive Director
Director of companies
Member of the European Economic and Social Committee

Count Diego du Monceau de Bergendal (2017)
Non-executive Director
Managing Director, Rainyve

Michèle Sioen (until 30 November 2016)
Non-executive Director
CEO, Sioen Industries nv

Christian Jourquin (2018)
Independent Non-executive Director
Member of the Royal Academy of Belgium

Paul Mousel (2020)
Independent Non-executive Director
President, Arendt & Medernach Lawyers

Koos Timmermans [2] (2017)
Non-executive Director
Vice Chairman Supervisory Board, ING Bank NV

Pinar Abay (as from 15 July 2016) (2017)
Non-executive Director
CEO, ING Bank Turkey

[1] Normal expiry dates are shown opposite each Director's name
[2] Non-Executive Director who represents the sole shareholder

Composition of the Audit Committee

Situation per 31 December 2016

Chairman Diego du Monceau de Bergendal

Members Philippe de Buck van Overstraeten
Christian Jourquin [3]

[3] Member of the Audit Committee independent of the legal organ of administration within the meaning of article 526ter of the Companies Code and independent in accounting and/or auditing

Composition of the Remuneration Committee

Situation per 31 December 2016

Chairman Eric Boyer de Giroday

Members Paul Mousel
Koos Timmermans

Composition of the Risk Committee

Situation per 31 December 2016

Chairman	Diego du Monceau de Bergendal	***Members***	Philippe de Buck van Overstraeten Christian Jourquin

Composition of the Nomination Committee

Situation per 31 December 2016

Chairman	Eric Boyer de Giroday	***Members***	Paul Mousel Koos Timmermans

Composition of the Executive Committee

Areas of responsibility per 31 December 2016

Rik Vandenberghe Managing Director	Chief Executive Officer (until 28 February 2017)
Erik Van Den Eynden Managing Director	Chief Executive Officer (as from 1 March 2017)
Tanate Phutrakul Managing Director	Chief Financial Officer
Krista Baetens Managing Director	Chief Risk Officer
Frank Stockx Managing Director	Head of Product Management & Client Services
Emmanuel Verhoosel Managing Director	Head of Wholesale Banking
Philippe Wallez Managing Director	Head of Retail & Private Banking
Johan Kestens Managing Director	Head of Information Technology Services

Registered auditor

KPMG, Bedrijfsrevisoren – Réviseurs d'Entreprises burg. CVBA/SCRL civile
Represented by **Olivier Macq**, company auditor / partner Financial Services

Brussels
24 March 2017
Financial Report 2016

Comments on Financial Statements

Changes in scope during 2016

In March 2016 part of the “Financial Markets” activity was transferred from ING Belgium nv/sa to ING Bank NV, FM Branch Brussels. As a result, these “Equity trading” activities are not performed in ING Belgium nv/sa since then.

Highlights

Good business performance in a challenging market environment

- The 2016 profit after tax of ING Belgium nv/sa consolidated amounted to **EUR 573 million** given challenging circumstances;
- Customer deposits remain **stable**;
- Customer loan growth of **EUR 9 billion** (+10%);
- More than **100,000 new ING Lion accounts** opened;
- We welcomed **158,000** new clients at ING in Belgium **and 42,000 new clients** at Record Bank;
- **Stable income** and **lower recurring costs** despite growth in regulatory costs.

Highlights		
	2016	2015
Profit after tax	EUR 573 million	EUR 956 million
Customer deposits	EUR 97 billion	EUR 97 billion
Customer loans	EUR 102 billion	EUR 93 billion
Tier 1 (Basel III)	14.3%	14.5%
Total capital ratio	16.6%	16.9%
Leverage ratio	4.8%	4.7%

Acceleration of Think Forward: from bank to banking

On 3 October 2016 ING Belgium announced its intention to undertake a fundamental transformation to enable the business to move from being a traditional bank institution to a banking platform at the cutting edge of the digital world and personalised customer service. ING Belgium intends to improve its customer experience by moving to an integrated banking platform, leveraging of the omni-channel capabilities of the Netherlands and rationalise its network by integrating ING and Record Bank branches. In addition to improving customer experience ING Belgium intends to eliminate the internal silo mentality and move away from a top-heavy management system towards multidisciplinary, agile, self-steering teams to deliver faster, at a lower cost.

The intended initiatives are expected to result in a reduction of ING´s workforce in Belgium by around 3,500 FTEs for the years 2016-2021. These numbers include the intended move to an integrated banking platform, with the remainder of functions affected spread over intended programmes in IT, operations, Wholesale Banking and various business support functions. At the same time, colleagues will be added in parts of the business where accelerated growth is expected, given the plans to continue to attract new customers and increase lending to support the economies ING is active in.

For the intended initiatives, a pre-tax redundancy provision and estimated early termination cost of contracts of around EUR 615 million was recognised in December 2016. These initiatives are implemented over the period 2017-2021 and the estimate of the reorganisation provisions is inherently uncertain. This pre-tax redundancy provision is based on the current state and content of the social negotiations and more specifically the different negotiated plans including early and voluntary leaves as well as the remaining residual forced exits needed to reach the intended fundamental transformation. Calculation of the provision has been done on available HR information on salary and age of the population and on several judgemental assumptions including actuarial ones based on the negotiated plans and on previous experience of the bank with such plans.

The provision at the balance sheet date represents the best estimate of the expected redundancy costs and are expected to be sufficient to cover these costs.

Resilient commercial results in a challenging market environment
ING Belgium delivered a good business performance, notwithstanding the many challenges during 2016:

Banking for private individuals: systematic improvement of the customer service offering, including a new online 'Investment Product' tool, 100% digital and easy on-boarding of new clients and continuous improvement of the digital channels in both the mobile and online banking environment.

Banking for professional clients and businesses: several initiatives were taken to strengthen ING's position as primary banker for business clients, such as a new on-boarding process ('ING Welcome Team'), a fully digital follow-up of the invoice payment flow ('ING invoice solutions') and the introduction of the 'personal business banker' supporting each business client and understanding the clients' business and aspirations.

Innovation, with multiple realized projects such as FinTech Village (start-up accelerator), Joyn (digital loyalty platform) and Payconiq (mobile payment solution).

Solvency
All of the above happens while maintaining a strong capital basis:
- the solvency ratio remains very solid with a Tier 1 ratio of 14.3% (Basel III definition) and a total capital ratio of 16.6%;
- a comfortable leverage ratio at 4.8%;
- a solid liquidity position, supported by a strong balance between assets and liabilities.

Consolidated balance sheet

Assets

ING Belgium nv/sa - Consolidated assets			
In EUR millions	**2016**	**2015**	**%**
Cash and balances with central banks	5,009	4,267	+17.39%
Amounts due from banks	9,885	12,669	-21.97%
Financial assets at fair value through profit and loss	13,176	19,018	-30.72%
Investments	17,949	19,768	-9.20%
Loans and advances to customers	101,633	92,800	*+9.52%*
Remaining assets	2,767	3,467	*-20.18%*
TOTAL CONSOLIDATED ASSETS	**150,419**	**151,989**	**-1.03%**

The total assets of ING Belgium nv/sa decreased with EUR 1,570 million or 1.03% to EUR 150.4 billion.

The "Financial assets at fair value through profit & loss" decreased by 31% to amount to EUR 13.2 billion mainly due to the transfer of the 'Equity trading' portfolio towards the ING Bank NV, FM Branch Brussels. Also the "Investments" decreased by 1.8 billion because of investments arriving at maturity date as well as a number of selected sales during the year.

The loan portfolio of the bank grew in 2016 with EUR 8.8 billion. This increase is located in several client segments and products:
- mortgage loans given to retail clients increased by EUR +1.7 billion;
- investment credits, straight loans and roll-overs mainly given to midsize and corporate clients increased by EUR 6.0 billion;
- credits to (local) authorities increased by EUR +1.0 billion.

Liabilities and equity

ING Belgium nv/sa - Consolidated Liabilities and Equity			
In EUR millions	**2016**	**2015**	**%**
Deposits from banks	13,334	10,738	+24.17%
Customer deposits	97,046	96,795	+0.26%
Financial liabilities at fair value through profit and loss	16,672	21,570	-22.71%
Remaining liabilities	13,077	13,093	-0.12%
Shareholder's equity	10,268	9,772	+5.08%
Non-controlling interests	21	20	+4.50%
TOTAL CONSOLIDATED LIABILITIES AND EQUITY	**150,419**	**151,989**	**-1.03%**

The shareholders equity amounts to EUR 10.3 billion and increased by approximately 5% compared to end 2015.

The “Financial liabilities at fair value through profit & loss” decreased by 22.7% to EUR 16.7 billion mainly due to the transfer of the ‘Equity trading’ portfolio towards the ING Bank NV, FM Branch Brussels.

The customer deposits remained stable in 2016 with EUR 97 billion in total. Given the declining interest rates, ING Belgium nv/sa saw its savings accounts decline with 3%. Also corporate deposits decreased by about 2 billion. The credit balances on customer accounts increased on the other hand, thus compensating the aforementioned decreases.

Consolidated income statement

ING Belgium nv/sa - Consolidated income statement				
In EUR millions		**2016**	**2015**	**%**
Financial and operational income/expenses		**3,455**	**3,497**	***-1.21%***
of which: net interest income		*2,547*	*2,645*	*-3.71%*
of which: commissions and fees		*560*	*560*	*+0.08%*
of which: other income		*348*	*293*	*+18.57%*
Total expenses	(-)	**-2,686**	**-2,157**	***+24.49%***
of which: staff expenses		*-1,053*	*-1,094*	*-3.81%*
of which: administration expenses		*-393*	*-533*	*-26.39%*
of which: bank levies		*-221*	*-188*	*+17.68%*
of which: depreciations		*-116*	*-115*	*+1.31%*
of which: provisions and impairments		*-904*	*-228*	*+297.16%*
Profit before taxes		**769**	**1,340**	**-42.58%**
Taxation	(-)	-196	-384	-48.91%
Profit after tax		**573**	**956**	**-40.04%**
Third-party interest	(-)	*-1*	*-6*	-77.06%
CONSOLIDATED NET PROFIT		**572**	**950**	**-39.80%**

ING Belgium posted in 2016 a profit after tax of EUR 573 million; taken into consideration a number of one-off income and costs. The major one-offs in ING Belgium nv/sa are:

- Less costs: Procured costs savings (115 million)
- More income: Gain on investment sale (30 million)
- More costs: Reorganisation provision (615 million)

The total income in 2016 of EUR 3.455 billion remained stable compared to previous years. The interest result reduced by 3.71% compared to 2015. The year 2016 was still an environment in which the market interest rates continued to decline, leading to a further decrease of interest margins despite higher volumes.

The administration expenses (-26%) as well as the salary expenses (-4%) decreased. On the other hand increased the Regulatory costs (bank levies) during 2016 with more than 17% to EUR 221 million. The provisions and impairments contain a reorganisation provision of EUR 615 million. This leads to a profit before tax amount of EUR 769 million (or almost 43% lower than last year).

Finally, the reduction in income taxes by EUR -188 million (-49%) is in line with the 43% decrease of the profit before taxes. The effective tax rate decreased from 28.6% to 25.5%.

Profile of the company

ING in Belgium

ING Group is a global financial institution of Dutch origin offering banking services through its operating company ING Bank. ING Bank's more than 50,000 employees offer retail and wholesale banking services to customers in over 40 countries. ING ranks n° 7 in the Top 20 European Banks by market capitalisation.

ING Belgium nv/sa is a financial institution focusing its core activities on Retail & Private Banking and Wholesale Banking. The bank caters over 2.5 million clients in Belgium with a wide range of financial products via the distribution channel of their choice. ING Belgium won the 2016 "Bank of the Year – Belgium" award from The Banker Magazine for a fourth year in a row. The jury praised ING Belgium for its focus on innovation to offer its customers an optimal range of products and services.

Record Bank -a fully owned subsidiary of ING Belgium nv/sa- focuses on mass retail (0.8 million clients). It offers basic financial products, safe, simple & transparent. Key products are savings, bonds, mortgages, consumer loans and investment funds. Record has a network of independent agents, credit brokers, vendors supported by online services.

ING Luxembourg -also a fully owned subsidiary of ING Belgium nv/sa- is an universal bank with more than 120,000 customers serviced in retail agencies and 13,000 wholesale clients. It is a key challenger in mass markets (free online current account, Orange Account), an international Wealth Management centre and a main actor in Wholesale Banking Services (cash facilities, lending, securities custody) for Large & Mid-size Corporate and Financial Institutions

Staff evolution

In the course of 2016, the total number of staff (in full time equivalent, or FTE's) of ING Belgium nv/sa consolidated decreased by 6% from 10,434 to 9,843 FTE's. In January 2016, 142 internal FTE were transferred from ING Belgium nv/sa to ING Bank NV, FM Branch Brussels.

While overall staffing members declined in 2016, the bank was able to continue to recruit new staff equal to 334 FTE's to meet its strategic goals.

Risk management

See the specific chapter "Information on the Consolidated accounts".

Post-balance-sheet events

No material financial events occurred between the close of the financial year and the date of issue of this report.

Information on branches

ING Belgium nv/sa has a branch in Switzerland: Geneva, with a representative office in Zurich.

Research and development

Not applicable.

Information concerning the use of financial instruments

See the specific chapter "Information on the Consolidated accounts".

Outlook

ING Belgium nv/sa complied with the position adopted since 2004 by ING Group's Executive Board: the Board decided not to formulate any further results forecasts.

Legal stipulations regarding the composition of the Audit Committee

In compliance with article 526bis of the company Code, at least one member of the Audit Committee of ING Belgium should be an independent director (according to the definition in article 526ter).

This person is Mr Christian Jourquin. His curriculum vitae and active participation in ING Belgium's Board of Directors demonstrate his capabilities in accounting and audit.

The rules of Corporate Governance

Current state of affairs

In Belgium, corporate governance is partly regulated by the law of 25 April 2014 (hereafter: the Banking Act) and partly by the Circular PPB-2007-6CPB-CPA. The Banking Act and this circular describe the prudential expectation of the supervisor regarding good governance of a financial institution.

In addition, ING Belgium respects the 'Belgian Corporate Governance Code', effective since 1 January 2005. In accordance with the 'comply or explain' approach adopted in the Anglo-Saxon world, the Code's recommendations lack binding force, though companies are urged to provide reasons if they refuse to comply.

ING Belgium's position regarding the Belgian Corporate Governance Code

The shares representing ING Belgium's share capital are no longer listed on the Brussels Stock Exchange since 1 July 1998. They have been held in their entirety by ING Group since 2004. However, ING Belgium continues to engage in all the activities permitted to Belgium-based financial institutions, including public debt issues. ING Belgium is also responsible for steering its Belgian and foreign subsidiaries. For these reasons, the bank continues to meet the requirements applicable for listed companies with regards to corporate communication and governance.

The Board of Directors approved the Governance memorandum and the charters of the Board of Directors, the Executive Committee, the Audit Committee, the Risk Committee, the Remuneration Committee and the Nomination Committee on 20 November 2015.

ING Belgium currently satisfies the main recommendations of the Belgian Corporate Governance Code. The bank diverges from the Code on the following points:

1. Its internal governance charter is mainly based on article 21 of the Banking Act and the Circular PPB-2007-6CPB-CPA of the former Banking, Financial and Insurance Commission (CBFA), role taken over by the National Bank of Belgium (NBB), related to the prudential expectations of NBB regarding good governance of a financial institution.
2. The term of mandates to the Board of Directors remains uniformly fixed at six years, including for independent directors. The bank believes it is essential to have external key members with enough distance from the bank to be able to obtain an overall picture of its activities.
3. The bank also believes it should not have to personalise information concerning the remuneration it pays to its leading managers. An analysis of the breakdown of remuneration paid to the executive and non-executive members of the Board of Directors, together with overall figures for each of the items in the budget, is provided in the chapter "Consolidated annual accounts".

Corporate Governance and the Board of Directors

Composition

Under the terms of Article 12 of the Articles of Association, the ING Belgium Board of Directors must comprise at least 7 members. On 24 March 2017 the Board has 15 members.

Responsibilities

The main responsibility of the Board of Directors is to define the bank's general policy and supervise the Executive Committee. The Board of Directors appoints and dismisses the Chief Executive Officer and the members of the Executive Committee after having consulted the Executive Committee and obtained the approval of the National Bank of Belgium.

It delegates day-to-day management to the Executive Committee, ensures that this is carried out and oversees the general state of affairs. The Board of Directors convenes General Meetings and decides on their agenda. It sets the date for payment of dividends.

The Board may decide to pay interim dividends for the current period, subject to the conditions laid down by law. It also sets the amounts and dates of such payments.

Provisions in the Articles of Association relating to terms of office

The General Assembly of Shareholders appoints directors to sit on the Board and may dismiss them at any time. In accordance with Article 12 of the Articles of Association, the term of office of outgoing directors expires at the end of the Annual General Assembly. Outgoing directors are eligible to stand for re-election, unless the total term of office of a non-executive director would exceed 12 years due to his re-election (This rule is only applicable to non–executive directors appointed since 30 March 2015).

The order of rotation of mandates is decided by the Board of Directors in order to ensure that no term exceeds six years and that at least one member of the Board is (re-)elected each year.

As stated in Article 14 of the Articles of Association, the Board of Directors chooses a chairman amongst its members who are not members of the Executive Committee (non–executive directors), after having consulted the supervisory body NBB.

Age limit

Article 12 of the Articles of Association stipulates that the term of office of a director expires at the end of the Annual General Meeting held the year following the year in which the director in question reaches the age of 70.

An ordinary or extraordinary General Assembly of Shareholders may, based on the proposal of the Chairman of the Board, extend or renew for one additional term the mandate of a director who has reached the age limit. The additional term may not exceed two years.

Board decisions

The Board's decision-making powers are explained in Article 15 of the Articles of Association.

Except in case of force majeure, resulting from war, unrest or other disasters affecting public life, the Board may only deliberate and reach valid decisions if most of its members are present or represented, on the understanding that any director present may not exercise more than two mandates by delegation.

However, if the Board fails to reach a quorum at a meeting, it may duly deliberate at a follow-up meeting, to be held within 15 days at the latest, on the items on the agenda of the previous meeting, regardless of the number of members present or represented.

Board decisions are taken by simple majority vote. Where there is a requirement, under Articles 523 of the Belgian Companies Code, for one or more members to abstain from voting, resolutions may be validly decided upon by a simple majority vote of all eligible members present or represented. In the event of a tied vote, the presiding member has the casting vote.

Remuneration

Under Article 13 of the Articles of Association, the General Assembly of Shareholders determines the amount of the remuneration of the members of the Board of Directors until a new decision is taken by such a meeting. For more information, see also the paragraph on Remuneration of the members of the Board of Directors and the Executive Committee (in chapter "Consolidated annual accounts").

Specific committees

The Board of Directors has four permanent committees: the Audit Committee, the Risk Committee, the Remuneration Committee and the Nomination Committee. Each Committee shall be comprised of at least three non-executive members of the Board of Directors, of which at least one member needs to be independent within the context of article 526ter of Company Law.

Risk committee

The Risk Committee assists and advises the Board of Directors in monitoring, among other things, the risk profile of the company as well as the structure and operation of the internal risk management and control systems. The risks of the bank must remain within the limits defined by its risk appetite framework.

A risk appetite framework must be defined for the following risk categories: market, operational, credit, compliance, strategic, reputational and liquidity risk.

The purpose of the Risk Committee is to advise the Board of Directors in matters related to the risk strategy and risk tolerance, as well for the current as for the future risks. The risks for the bank must remain within the risk limits. The Risk Committee met 4 times in 2016.

Audit committee

The Audit Committee assists the Board of Directors in monitoring, among other things, the integrity of the financial statements of ING Belgium, the compliance with legal and regulatory requirements, and the independence and performance of ING's internal and external auditors. The Audit Committee's responsibilities extend to ING Belgium and its Belgian and foreign subsidiaries. It met 4 times in 2016. Matters it dealt with included examination of the bank's financial statements for 2015 and the interim results for 2016.

The Committee also analysed the reports prepared by the bank's General Auditor and the Global Compliance Officer. It reviewed the loans placed under special surveillance as well as legal disputes. The Audit Committee reports to the Board of Directors at the Board meeting following each of its own meetings.

Remuneration committee

The Remuneration Committee advises the Board of Directors, among other things, on the terms and conditions of employment (including their remuneration) of Executive Board members and the policies and general principles on which the terms and conditions of employment of Executive Board members and of senior managers of ING and its subsidiaries are based. The Remuneration Committee met 5 times in 2016.

Nomination committee

The Nomination Committee advises the Board of Directors, among other things, on the composition and functioning of the Board of Directors and Executive Board. The Committee also looks at the composition of the Board of Directors and develops the policy to increase the diversity in the Board (gender, age, cultural background…). The Nomination Committee met 4 times in 2016.

Corporate Governance and the Executive Committee

Composition and responsibility

Currently comprising seven members, the Executive Committee is responsible for conducting the bank's day-to-day management in line with the general policy set by the Board of Directors. Its members are Executive Directors and its president is the bank's Chief Executive Officer.

Assignment of responsibilities & decision-making

Each member of the Executive Committee is directly in charge of a number of the bank's entities. These responsibilities are detailed in the section 'ING Belgium's Supervisory, Executive and External Audit bodies' in the next chapter. All decisions by the Executive Committee are taken on a collective basis; each decision is binding on all members of the Committee.

The Executive Committee, in turn, delegates the management of areas of the bank's business to a number of individuals whose rank, responsibilities, authority and remuneration are determined by the Committee.

As mentioned above, the activities of the Executive Committee have been governed by a charter since 9 March 2006 and reviewed on 20 November 2015.

Remuneration

Article 13 of the bank's Articles of Association stipulates that the Board of Directors determines, on the advice of the Remuneration Committee and in accordance with the remuneration policy of the bank, the remuneration of the Executive Committee members. For more information, see also the paragraph on Remuneration of the members of the Board of Directors and the Executive Committee (in chapter "Consolidated annual accounts").

Activities

The Executive Committee generally meets once a week. Additional meetings are convened if there are a large number of items to be discussed, or if there is an urgent matter.

In addition to specific decisions relating to the day-to-day management of the bank, the Executive Committee reviews a detailed annual account of the performance and prospects of each of the bank's central units (profit centres and support services) and of all the main Belgian and foreign subsidiaries. The Executive Committee studies the bank's monthly results, broken down by segment. The results are examined in detail once a quarter.

It examines also the periodic report drawn up by the General Auditor every other month.

At the closing dates of 30 June and 31 December, the Executive Committee and the senior managers of the Credit Department review loan facilities requiring special attention.

The Executive Committee also regularly looks into issues affecting personnel management.

Corporate Governance and Special Committees

Several special committees report directly to the Executive Committee. These are e.g. the Assets and Liabilities Management Committee (ALCO BeLux), the Bank Treasury Committee (BTC), the Non-Financial Risk Committee (NFRC), the Credit Risk Committee, the Product Committee and the Financial Market Committee.

The Executive Committee remains the bank's sole decision-making body.

Consolidated Balance sheet

Assets

In EUR thousands	Note	2016	2015
Cash and balances with central banks	1	5,008,639	4,267,049
Loans and advances to banks	2	9,885,421	12,668,906
Financial assets at fair value through profit and loss	3	13,175,766	19,018,491
of which: trading assets		*8,674,772*	*14,504,727*
of which: non-trading derivatives		*4,413,044*	*4,419,223*
of which: designated as at fair value through profit and loss		*87,950*	*94,541*
Investments	4	17,948,820	19,767,926
of which: available-for-sale		*17,022,923*	*18,809,053*
of which: held-to-maturity		*925,897*	*958,873*
Loans and advances to customers	5	101,632,669	92,800,051
Investments in associates	6	67,431	78,211
Real estate investments	7	48,358	47,812
Property and equipment	8	801,750	900,903
Intangible assets	9	102,483	149,142
Current tax assets		59,643	87,425
Deferred tax assets	10	192,419	16,583
Other assets	11	1,495,319	2,186,578
Assets held for sale		0	0
TOTAL ASSETS		**150,418,720**	**151,989,077**

Liabilities

In EUR thousands	Note	2016	2015
Deposits from banks	12	13,333,629	10,741,946
Customer deposits	13	97,046,298	96,791,727
Financial liabilities at fair value through profit and loss	14	16,672,317	21,570,497
of which: trading liabilities		*8,808,874*	*13,129,450*
of which: non-trading derivatives		*6,074,113*	*6,069,523*
of which: designated as at fair value through profit and loss		*1,789,330*	*2,371,524*
Current tax liabilities		53,467	60,824
Deferred tax liabilities	15	177,090	241,693
Provisions	16	780,794	145,876
Other liabilities	17	2,787,720	2,619,503
Debt securities in issue	18	7,743,252	8,502,448
Subordinated loans	18	1,440,429	1,423,471
Liabilities held for sale		0	0
Share capital repayable on demand	19	94,002	99,027
TOTAL LIABILITIES		**140,128,998**	**142,197,013**

Equity

In EUR thousands	Note	2016	2015
Shareholder's equity	20	10,268,413	9,771,673
of which: Share capital and share premium		*2,801,511*	*2,801,511*
of which: Other reserves		*207,226*	*292,932*
of which: Retained earnings		*7,259,676*	*6,677,230*
Non-controlling interests		21,309	20,392
TOTAL EQUITY		**10,289,722**	**9,792,065**
TOTAL LIABILITIES AND EQUITY		**150,418,720**	**151,989,077**

Consolidated Income Statement

Consolidated profit and loss account			
In EUR thousands	**Note**	**2016**	**2015**
Interest income		5,720,674	6,621,309
Interest expenses		-3,173,888	-3,978,549
Interest result	*21*	***2,546,786***	***2,642,761***
Investment income	*22*	49,763	18,006
Commission income		839,760	842,715
Commission expenses		-279,408	-282,817
Commission result	*23*	***560,351***	***559,898***
Valuation results on non-trading derivatives	*24*	4,555	48,960
Net trading income	*25*	150,204	141,036
Share of profit from associates		29,230	30,292
Other income	*26*	114,169	56,770
Total income		**3,455,059**	**3,497,723**
Addition to loan loss provisions	*5*	208,584	180,669
Staff expenses	*27*	1,052,683	1,094,347
Other operating expenses	*28*	1,424,465	882,808
Total expenses		**2,685,732**	**2,157,824**
Result before tax from continuing operations		**769,327**	**1,339,899**
Taxation	*29*	**195,917**	383,507
Net result from continuing operations		**573,410**	**956,392**
PROFIT OR (-) LOSS FOR THE YEAR		**573,410**	**956,392**
Net result attributable to Non-controlling interest		**1,405**	**6,125**
Net result attributable to Equityholders of the parent		**572,005**	**950,266**

Dividend per ordinary share (in euros)	**0**	20.68
Total amount of dividend paid (in millions of euros)	**0**	1,146

Consolidated Statement of Comprehensive Income

Consolidated Statement of Comprehensive Income		
In EUR thousands	**2016**	**2015**
Net result (before Non-controlling interests)	**573,410**	**956,391**
Other comprehensive income, net of tax	**-85,707**	**-21,047**
Items that will not be reclassified to the profit and loss account:	**-18,235**	**42,061.00**
Remeasurement of the net defined benefit asset/liability	-25,067	60,992
Unrealised revaluations property in own use	-2,748	5,515
Related tax	9,580	-24,446
Items that may subsequently be reclassified to the profit and loss account:	**-67,472**	**-63,108**
Unrealised revaluations available-for-sale investments and other	-55,475	-56,708
Realised gains/losses transferred to the profit and loss account	-58,719	-14,685
Changes in cash flow hedge reserve	29,728	-34,601
Share of other comprehensive income of associates and joint ventures	0	0
Exchange rate differences and other	2,423	-2,918
Related tax	14,571	45,804
TOTAL COMPREHENSIVE INCOME	**487,703**	**935,344**
Comprehensive income attributable to:	**487,703**	**935,344**
Non-controlling interests	1,405	6,125
Equityholders of the parent	486,298	929,219

Consolidated Cash Flow Statement

Consolidated cash flow statement		
In EUR thousands	2016	2015
Cash flows from operating activities		
Result before tax	**769,327**	**1,339,899**
Adjusted for:		
Depreciations	116,309	114,224
Addition to loan loss provisions	208,584	180,669
Other	730,212	8,236
Taxation paid	-377,283	-364,671
Changes in:		
Amounts due from banks, not available on demand	741,590	2,272,532
Trading assets	-5,829,955	-5,341,314
Non-trading derivatives	-6,179	-1,004,585
Other financial assets at fair value through profit and loss	-6,591	23,153
Loans and advances to customers	8,832,618	1,728,113
Other assets	-691,259	206,121
Amounts due to banks, not payable on demand	2,592,946	1,870,325
Customer deposits and other funds on deposit	251,048	3,463,089
Trading liabilities	-3,710,593	-4,958,110
Other financial liabilities at fair value through profit and loss	-582,195	-684,345
Other liabilities	168,217	288,762
Net cash flow used in/(from) operating activities	**3,206,796**	**-857,902**
Cash flows from investing activities		
Investments and advances:		
Associates	-14,414	-6,241
Available-for-sale investments	-1,677,231	-680,563
Real estate investments	0	-37
Property and equipment	-40,806	-74,143
Other investments	-33,119	-47,921
Disposals and redemptions:		
Associates	7,950	29,261
Available-for-sale investments	3,445,517	483,083
Property and equipment	21,468	15,866
Loans	0	694,945
Other investments	1,351	-15
Net cash flow used in/(from) investing activities	**1,710,716**	**414,235**
Cash flows from financing activities		
Proceeds from debt securities	505,636	1,552,462
Repayments of debt securities	-1,274,200	-962,690
Proceeds from issuance of subordinated loans	0	551,015
Repayments of subordinated loans	197	186
Dividends paid	0	1,145,973
Net cash flow used in/(from) financing activities	**-768,367**	**2,286,946**
NET CASH FLOW	**4,149,145**	**1,843,279**
Cash and cash equivalents		
Cash and cash equivalents at beginning of year	7,519,436	4,570,176
Effect of exchange rate changes on cash and cash equivalents	0	0
Cash and cash equivalents at end of year	**11,668,581**	**7,519,436**
Cash and cash equivalents at end of year		
Treasury bills and other eligible bills	874,779	0
Amounts due from/to banks	5,785,163	3,252,387
Cash and balances with central banks	5,008,639	4,267,049
Cash and cash equivalents at end of year	**11,668,581**	**7,519,436**

Consolidated Statement of Changes in Equity

Consolidated statement of changes in equity - 2016								
In EUR thousands	**Share capital**	**Share premium**	**Revaluation reserve**	**Other reserves**	**Retained earnings**	**Net profit current year**	**Non-controlling interests**	**Total**
Opening balance	**2,350,000**	**451,511**	**292,932**	**0**	**5,726,965**	**950,266**	**20,392**	**9,792,066**
Capital increase / decrease (-)								**0**
Purchases / sales of treasury shares								**0**
Share based payment					10,704			**10,704**
Net profit transferred to reserves					942,652	-950,266		**-7,614**
Reclassification between reserves					7,351		-488	**6,863**
Other changes								**0**
Dividend previous year								**0**
Interim dividend current year								**0**
Net profit or loss for the current year						572,005	1,405	**573,410**
Other Comprehensive Income (net of related tax effects)								**0**
Currency translation reserve			6,983					**6,983**
Net change in hedge of net investments in foreign operations reserve			3,314					**3,314**
Net change in tangible fixed assets revaluation reserve			-1,706					**-1,706**
Net change in the revaluation reserve available for sale			-97,771					**-97,771**
Net change in cash flow hedges			20,002					**20,002**
Net change in actuarial gains/losses on pension defined benefit plans			-16,529					**-16,529**
Share of the other comprehensive income of associates and joint ventures accounted for using equity method								**0**
CLOSING BALANCE	**2,350,000**	**451,511**	**207,225**	**0**	**6,687,673**	**572,005**	**21,309**	**10,289,723**

Consolidated statement of changes in equity - 2015								
In EUR thousands	**Share capital**	**Share premium**	**Revaluation reserve**	**Other reserves**	**Retained earnings**	**Net profit current year**	**Non-controlling interests**	**Total**
Opening balance	**2,350,000**	**451,511**	**313,979**	**0**	**5,797,713**	**1,064,072**	**18,320**	**9,995,595**
Capital increase / decrease (-)								**0**
Purchases / sales of treasury shares								**0**
Share based payment					8,622			**8,622**
Net profit transferred to reserves					1,064,072	-1,064,072		**0**
Reclassification between reserves					2,530		-4,054	**-1,524**
Other changes								**0**
Dividend previous year								**0**
Interim dividend current year					-1,145,973			**-1,145,973**
Net profit or loss for the current year						950,266	6,126	**956,392**
Other Comprehensive Income (net of related tax effects)								**0**
Currency translation reserve			106,274					**106,274**
Net change in hedge of net investments in foreign operations reserve			-107,745					**-107,745**
Net change in tangible fixed assets revaluation reserve			3,622					**3,622**
Net change in the revaluation reserve available for sale			-38,960					**-38,960**
Net change in cash flow hedges			-22,677					**-22,677**
Net change in actuarial gains/losses on pension defined benefit plans			38,439					**38,439**
Share of the other comprehensive income of associates and joint ventures accounted for using equity method								**0**
CLOSING BALANCE	**2,350,000**	**451,511**	**292,932**	**0**	**5,726,964**	**950,266**	**20,392**	**9,792,065**

Statement of compliance with IFRS

ING Belgium nv/sa has prepared its consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU). In this document the term 'IFRS' is used to refer to International Financial Reporting Standards as adopted by the EU, including the decisions ING Belgium has made with regard to the options available under IFRS and the supplementary disclosures required by Belgian law.

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

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

Corporate information

ING Belgium nv/sa is an international financial institution active in banking, insurance and asset management and a subsidiary of ING Bank NV. ING Belgium has organised its commercial network into two business lines: Retail & Private Banking and Wholesale Banking. Both report functionally to the equivalent business lines at ING Group. ING Belgium is a limited liability company and its registered office is Marnix Avenue 24, 1000 Brussels.

These consolidated financial statements were approved for issue by the Board of Directors on 24 March 2017. Amounts in the notes to the financial statements are in thousands of euros unless otherwise stated.

Basis of presentation

Preliminary remark: The format and layout of the 2016 Annual Report of ING Belgium nv/sa has been adapted to the format and layout of the Annual Report of ING Group NV and ING Bank NV, to increase comparability with the parent's financial statements.

The main measurement basis used in preparing these financial statements are fair value and amortised cost.

Fair value of financial assets and liabilities is determined by using quoted market prices. Market prices are obtained from traders, brokers and independent market vendors. In general, positions are valued by taking the bid price for a long position and the offer price for a short position. In some cases where positions are marked at mid-market prices, a fair value adjustment is calculated.

Furthermore, additional fair value adjustments may be necessary for liquidity or outdated data because transactions in a particular financial instrument do not take place on a regular basis.

For certain financial assets and liabilities, including Over-The-Counter (OTC) derivative instruments, no quoted market prices are available. For these financial assets and liabilities, fair value is determined using valuation techniques. These valuation techniques consider, amongst other factors, contractual and market prices, correlations, time value of money, credit spread, yield curve, volatility factors and/or prepayment rates of the underlying positions. All valuation techniques used are approved by the applicable internal authorities. In addition, market data used in these valuation techniques are validated on a daily basis. More information can be found in the chapter under "Fair value of financial assets and liabilities".

Models are subjective in nature and significant judgement is involved in establishing fair values for financial assets and liabilities. Models involve various assumptions regarding the underlying price, yield curve, correlations and many other factors. The use of different valuation techniques and assumptions could produce materially different estimates of fair value.

Price testing is done to assess whether the process of valuation has led to an appropriate fair value of the position and to an appropriate reflection of these valuations in the income statement. Price testing is performed to minimise the potential risks of economic losses due to materially incorrect or misused models. This applies to both exchange-traded positions as well as OTC positions.

The difference between the price based on the model used and the market data, the 'day one profit', is recorded in the income statement of the bank. However, when the bank uses internally developed models and/or data derived from observable prices, a valuation adjustment is made for model risk. This adjustment takes into account the different aspects of these models/data and the related degree of uncertainty.

In respect of the general rule for calculating the adjustment for model risk, the calculation takes into account:

- the internal classification of the model in accordance with its complexity;
- experience in using the model;
- and the remaining term of the operation.

The calculation is performed on a transaction-by-transaction basis. The first two points are subject to a regular review by Risk Management. A specific adjustment is also made for correlation risk. This adjustment is calculated based on the sensitivity indicator for this risk factor.

A valuation adjustment is also recorded for credit risk. This adjustment takes the model risk into account. Both Credit Valuation Adjustment (CVA) and Debit Valuation Adjustment (DVA – own default risk of ING) are taken into account to determine the fair value.

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation, using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or non-collectability.

As of 2013, ING Belgium reports applying the 'dirty price' methodology. This means that from this date the accrued interests are booked with the underlying instrument, and no longer separately.

Financial statements are prepared on a going concern basis.

Change in IFRS-EU

New and/or amended IFRS-EU standards were adopted by ING Belgium. The implementation of these amendments had no or no material effect on the consolidated accounts of ING Belgium.

Significant changes in IFRS-EU effective in 2016

In 2016, a number of changes to IFRS became effective under IFRS. ING Group applied, for the first time, these standards and amendments which are effective for annual periods beginning on or after 1 January 2016. The implementation of these amendments did not have a material impact on the consolidated financial position, net result, other comprehensive income and related disclosures of ING Group.

ING Group has not early adopted any other standard, interpretation or amendment which has been issued, but is not yet effective.

Significant upcoming changes in IFRS-EU after 2016

On 1 January 2017, amendments to IFRS become effective once endorsed by the EU. The implementation of these amendments will have no significant impact on ING Group's results or financial position.

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

- Amendments to IAS 12 'Income Taxes': Recognition of Deferred Tax Assets for Unrealised losses [not yet endorsed by the EU, 8 February 2017];
- Amendments to IAS 7 'Statement of Cash Flows: Disclosure Initiative' [not yet endorsed by the EU, as at 8 February 2017]
- Annual improvement cycle 2014 – 2016 [not yet endorsed by the EU, as at 8 February 2017]

IFRS 9 'Financial Instruments'

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

IFRS 9 Program governance and status

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

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

There has been an increased focus on IFRS 9 by the Internal and external auditors along with external parties such as European Banking Authority (EBA) and European Central Bank (ECB) as seen through their surveys, questionnaires, thematic reviews and impact assessments.

In 2016, ING Group's IFRS 9 Program continued to focus on the clarification of certain areas of judgement in IFRS 9 and based on the central teams' interpretations and discussions with the business, process, system, data and governance decisions have been made. The IFRS 9 Program is being implemented across functions, businesses and countries. The Group Accounting Manual is also being updated to align with changes that IFRS 9 will bring. In 2017, parallel runs will be performed to ensure IFRS 9 readiness on 1 January 2018.

Classification and measurement

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

Two criteria are used to determine how financial assets should be classified and measured:

1. The Business Model assessment is performed to determine how a portfolio of financial instruments as a whole is managed in order to classify it as Hold to Collect, Hold to Collect & Sell or Other Business Model and
2. Contractual cash flow characteristics of financial instruments held in each Business Model are analysed to check if they consist of Solely Payments of Principal and Interest (SPPI) test in order to determine if the measurement will be at Amortised Cost, Fair Value through Other Comprehensive Income ('FVOCI') or Fair Value through Profit and Loss ('FVPL').

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

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

The focus in 2017 will be finalizing SPPI testing and formalizing the governance to embed the changes brought by IFRS 9 into everyday business and financial reporting cycles to ensure ongoing compliance. ING Group will also finalize accounting policy choices around use of FVOCI presentation for equity investments and designations at FVPL. Furthermore, there will be increased emphasis on the impact of IFRS 9 on prudential ratios, especially capital ratios. While the classification and measurement of the majority of the Group's portfolio will remain consistent with IAS 39, there are some sub-portfolios where changes will occur. The classification and measurement of financial liabilities remains essentially the same as under IAS 39.

Impairment

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

Three stage approach

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

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

Key concepts

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

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

Measurement
The calculation of ECL will be based on ING Group's expected loss models (PD, LGD, EAD) currently used for regulatory capital, economic capital and collective provisions in the current IAS 39 framework. The IFRS 9 ECL model leverage on existing IRB models, removing embedded prudential conservatism (such as PD floors) and including forward looking point in time information based on macro-economic indicators, such as unemployment rates and GDP growth. The expected loss parameters will be determined by using historical statistical relationships and macroeconomic predictions. For the portfolios outside the IRB approach, existing framework for loan loss provisions will be applied to set the parameters to measure credit risk. The lifetime risk assessment will be based on historical observations. The data series will be shorter compared to the assets under the IRB approach. To measure ECL, ING Group applies a PD x EAD x LGD approach. For stage 2 assets a lifetime view on the underlying parameters is taken. The Lifetime Expected Loss (LEL) is the discounted sum of the portions of lifetime losses related to default events within each time window of 12 months. For stage 3 the PD equals 100% and the LGD and EAD represent a lifetime view of the characteristics of facilities that are in default. The ECL is calculated in the central credit risk systems to ensure consistency.

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

Impact
Based on the IFRS 9 ECL model a more volatile impairment charge is expected on the back of macroeconomic predictions. Financial assets with high risk long maturity profiles are expected to be at subject to the biggest impact. All financial assets in scope of the ECL model will be assessed for at least 12-month ECL (though largely offset by current IBNR under IAS 39). IFRS 9 requires to calculate lifetime ECL for those assets with a significant increase in credit risk since initial recognition but are not credit impaired at the reporting date (i.e. Stage 2). This category did not exist under IAS 39. These factors combined will likely result in an increase in the total level of impairment allowances. ING Group expects that the negative effect that this might have on equity can be partly offset by the release of expected loss elements currently included in the calculation of regulatory capital (i.e. the regulatory shortfall).

Hedge accounting
The IFRS 9 hedge accounting requirements aim to simplify general hedge accounting requirements. Furthermore, IFRS 9 aims to aligns hedge accounting more closely with risk management. All micro hedge accounting strategies as well as the macro cash flow hedge accounting are in scope of IFRS 9. Macro fair value hedging is not in scope of IFRS 9. ING Group performed a technical assessment of the impact of the new hedge accounting requirements. Based on the outcome of this technical assessment, ING Group has made a decision to continue applying IAS 39 for hedge accounting including the application of the EU 'carve out'. ING Group will implement the revised hedge accounting disclosures as required by IFRS 7 'Financial Instruments: Disclosures' as per 1 January 2018.

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

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

Principles of consolidation

Subsidiaries

Subsidiaries are all entities (including Variable Interest Entities) over which ING Belgium has the power to govern the financial and operating policies, generally accompanying a shareholding of more than 50% of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether ING Belgium controls another entity. Subsidiaries are fully consolidated from the date on which control is exercised by ING Belgium. They are deconsolidated from the date on which control ceases.

ING Belgium has also shareholding above 50% of the voting rights in companies which are not fully consolidated. Considering IFRS 10 requirements, the bank effectively exercises a control on those companies but given the low materiality for the bank, these companies have not been consolidated. Those participations are considered as investments. Further details can be found in note 6.

As regards fully consolidated subsidiaries, the bank ensures that, within the limits of percentages of equity controlled and with the exclusion of political risk, fully consolidated shareholdings are able to meet their commitments.

The purchase method of accounting is used to account for the acquisition of subsidiaries by ING Belgium. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed on the exchange date. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are initially measured at their fair value on the acquisition date, irrespective of the extent of any non-controlling interest (or minority interest). The excess of the acquisition cost over the fair value of the bank's share in the identifiable net assets acquired is recorded as goodwill. If the acquisition cost is less than the fair value of the bank's share in the net assets of the subsidiary acquired, the difference is directly recognised in the income statement. The badwill is only recognised in the income statement after reassessment that all assets acquired and liabilities assumed were correctly identified.

Balances and unrealised gains on transactions between ING Belgium companies are eliminated. Unrealised losses are also eliminated, unless the transaction provides evidence of an impairment of the asset transferred. When necessary, the accounting policies of subsidiaries have been changed to ensure consistency with the policies adopted by ING Belgium.

Consolidated subsidiaries								
In EUR thousands				Entity's Financial statement at the reporting date				
Entity name	Registered office	Activity	Company code	Accumulated Equity interest (%)	Assets	Liabilities	Net result	Equity (without Income Statement)
Cel Data Services	Brussels	IT	BE 0435.463.880	100.0%	8,610	2,053	279	6,278
Immo Globe	Brussels	Real Estate	BE 0414.586.512	100.0%	15,333	956	163	14,214
ING Belgium International Finance Luxembourg	Luxembourg	Finance	-	100.0%	1,716,843	1,730,760	1,998	-15,915
ING Contact center	Brussels	Finance	BE 0452.936.946	100.0%	10,319	7,631	-237	2,925
ING Luxembourg	Luxembourg	Finance	-	100.0%	15,328,674	14,149,586	101,215	1,077,873
ING Lease Luxembourg	Luxembourg	Leasing	-	100.0%	261,813	243,811	1,670	16,332
Société Immobilière ING Luxembourg	Luxembourg	Real Estate	-	100.0%		Dissolved		
ING Technology Services	Brussels	IT	BE 0846.738.437	100.0%		Dissolved		
Lease Belgium	Brussels	Leasing	BE 0402.918.402	100.0%	4,221,896	4,016,974	34,747	170,175
ING Equipment Lease Belgium	Brussels	Leasing	BE 0427.980.034	100.0%	1,941,231	1,851,600	13,913	75,718
ING Asset Finance Belgium	Brussels	Leasing	BE 0429.070.986	100.0%	635,231	601,281	4,946	29,004
ING Truck Lease Belgium	Brussels	Leasing	BE 0440.360.895	100.0%	292,434	280,984	948	10,502
Commercial Finance	Brussels	Factoring	BE 0470.131.086	100.0%	1,098,548	1,081,582	7,177	9,789
D'Ieteren Vehicle Trading NV	Brussels	Leasing	BE 0428.138.994	51.0%	5,365	2,844	105	2,416
New Immo-Schuman	Brussels	Real Estate	BE 0428.361.797	100.0%	11,105	1,431	191	9,483
Record Bank	Brussels	Banking	BE 0403.263.642	100.0%	19,104,887	18,118,288	83,473	903,126
Fiducré	Brussels	Finance	BE 0403.173.372	100.0%	129,836	108,668	19,678	1,490
Logipar	Brussels	Real Estate	BE 0439.526.103	100.0%	4,601	2	-260	4,859
Record Credit Services	Liège	Finance	BE 0403.257.407	18.7%	1,479,341	1,433,118	2,009	44,214
Sogam	Brussels	Finance	BE 0402.688.075	100.0%	563	8	109	446
Soges-Fiducem	Brussels	Finance	BE 0403.238.304	100.0%	40,757	37,177	343	3,237
Belgian Overseas Agencies	Montreal	Finance	CA 0403.202.967	100.0%	23,975	23,763	10	202
Belgian Overseas Issuing Corp	New York	Finance	CA 0403.203.066	100.0%	27,682	27,139	57	486

PM: Amounts before intercompany eliminations. Assets are not equal to liabilities because equity is not included

Consolidated annual accounts - continued

Structured entities

ING Belgium's activities involve transactions with various structured entities ('SE') in the normal course of its business. A structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual arrangements.

The structured entities over which ING Belgium can exercise control are consolidated. ING may provide support to these consolidated structured entities as and when appropriate, and this is fully reflected in the consolidated financial statements of ING Belgium as all assets and liabilities of these entities are included and off-balance sheet commitments are disclosed.

ING Belgium's activities involving structured entities are explained below in the following categories:

1) Consolidated ING originated Liquidity management securitization programs (Belgian Lions);
2) Consolidated Record Bank originated Liquidity management securitization programs (Record Lions).

Associates

Associates are all entities over which ING Belgium has significant influence but no control, generally accompanying a shareholding of 20-50% of the voting rights. Investments in associates are accounted for under the equity method of accounting and are initially recognized at cost. They include goodwill (net of any accumulated impairment loss) identified upon acquisition.

The bank's share in the post-acquisition profits or losses of associates is recognized in the income statement. Its share in the post-acquisition movements in reserves is recognized in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When ING Belgium's share in the losses of an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the bank does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealized gains on transactions between ING Belgium and its associates are eliminated to the extent of the bank's interest in the associates. Unrealized losses are also eliminated, unless the transaction provides evidence of an impairment of the asset transferred. When necessary, the accounting policies of associates have been changed to ensure consistency with the policies adopted by ING Belgium. Amounts from the latest published financial statements of these entities:

Subsidiaries and Associates accounted for under the equity method

In EUR thousands				Entity's Financial statement at the reporting date				
Entity name	Registered office	Activity	Company code	Accumulated Equity interest (%)	Assets	Liabilities	Net result	Equity (without Income Statement)
Isabel	Brussels	Finance	BE 0455.530.509	25.3%	33,330	13,027	3,636	16,667
Synapsia	Luxembourg	Finance	LU			Dissolved		
European Marketing Group (LU) S.A.	Luxembourg	Leasing	LU	40.0%	7,859	2,610	956	4,293
Aigle aviation SA	Luxembourg	Finance	LU	75.0%	56,412	53,679	-1,914	4,647
A.E.D. Rent	Willebroek	Audiovision	BE 0451.899.343	31.3%	52,987	34,052	108	18,827
Ark Angels Activator Fund	Hasselt	Private equity fund	BE 0843.728.962	33.1%	3,145	6	-552	3,692
Ark Angels Activator Fund Beheer	Hasselt	Private equity fund	BE 0843.353.929	25.8%	408	0	72	336
AXISQL	Willebroek	Holding	BE 0848.687.939	41.7%	16,428	3,277	3,051	10,100
Belgian Mobile Wallet	Brussels	Finance	BE 0541.659.084	12.5%	Shares splitted by 3 so transfer to "Non associates"			
BIENCA Biotechnological Enzymatic Catalyse	Seneffe	Biotechnology	BE 0446.755.472	20.8%	1,177	630	476	71
(Brand & Licence Comp) Bancontact/Mistercash	Brussels	Finance	BE 0884.499.250	20.0%	9,237	3,173	625	5,439
Euresys (Walltech)	Angleur	Industry	BE 0437.408.137			Dissolved		
Europay Belgium	Brussels	Services	BE 0434.197.536	22.2%	2,025	1,050	34	941
GDW Holding	Waregem	Holding	BE 0824.392.409	38.4%	21,291	12,480	62	8,749
Immomanda	Brussels	Finance	BE 0417.331.315	100.0%	1,413	1,233	569	-389
Innotec International	Dessel	Commerce	BE 0534.724.475	40.0%	18,866	6,008	771	12,087
ING Activator	Brussels	Private equity fund	BE 0878.533.255	50.0%	1,858	190	-1,004	2,672
ISIM (ING Solutions Investment Management)	Luxembourg	Holding	LU	100.0%	1,997	1,016	185	796
M Brussels Village	Brussels	Services	BE 0473.370.886	24.6%	382	246	-2	138
QUSTOMER	Brussels	Holding	BE 0846.759.718			Sold		
SAS Marnix Invest	Paris	Research	FR 490.246.246.0002			Dissolved		
SAS SODIR-Deux	Paris	Holding	FR 523.128.759.0001			Sold		
Sherpa Invest	Brussels	Holding	BE 0878.752.692	20.0%	1,352	702	-45	695
Sherpa Invest II	Brussels	Holding	BE 0835.148.719	25.0%	2,545	27	-365	2,883
Stardekk	Bruges	IT	BE 0474.598.036	37.5%	3,281	1,221	572	1,488
Tasco	Antwerp	Consultancy	BE 0656.874.397	30.1%		n/a (created in June 2016)		
Unibioscreen SA	Brussels	Biology	BE 0466.013.437	25.5%	152	362	-59	-151
Vesalius Biocapital Partners sarl	Luxembourg	Finance	LU	20.0%	4,187	3,497	1,359	-669
Vesalius Biocapital II Partners sarl	Luxembourg	Finance	LU	20.0%	4,394	3,950	126	318
Vesalius Biocapital I SA SICAR	Luxembourg	Investments	LU	35.4%	49,172	73	13,270	35,829
Visa Belgium	Brussels	Finance	BE 0435.551.972	14.9%	114,942	74,699	113,984	325

PM: Amounts before intercompany eliminations. Assets are not equal to liabilities because equity is not included

Accounting policies

Foreign currency translation

Functional and presentation currency

Items included in the accounts of all ING Belgium entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are drawn up in thousands of euros, which is the presentation currency.

Translations

Foreign currency transactions are converted into the functional currency using the exchange rates prevailing on the transaction date. Foreign exchange gains and losses resulting from the settlement of such transactions, as well as gains and losses resulting from the conversion at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies, are recognized in the income statement, except when deferred in equity as part of qualifying cash flow or net investment hedges.

Conversion differences on non-monetary items measured at fair value through profit and loss are reported as part of the fair value gain or loss. Non-monetary items are reconverted on the date where their fair value is determined.

Conversion differences on non-monetary items measured at fair value through the revaluation reserve are included in the revaluation reserve in equity.

Results and financial position of group companies

The results and financial position of ING Belgium companies whose functional currency differs from the presentation currency are converted into the presentation currency:

- assets and liabilities included in their balance sheet are converted at the closing rate, on the date of the balance sheet concerned;
- income and expenses included in their income statement are converted at average exchange rates; however, when the average is not a reasonable approximation of the cumulated effect of the rates prevailing on the transaction dates, income and expenses are converted on the transaction dates;
- resulting exchange differences are recognised in a separate component of equity.

On consolidation, exchange differences arising from the conversion of a monetary item that forms part of the net investment in a foreign operation, and of borrowings and other instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold, such exchange differences are recognized in the income statement as part of the gain or loss on sale. Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and converted at the closing rate.

Recognition and derecognition of financial instruments

All purchases and sales of financial assets classified as available for sale and trading that require delivery within the timeframe established by regulation or market convention ('regular way' purchases and sales) are recognized on trade date, being the date when ING Belgium committed to purchase or sell the asset. Loans and deposits are recognized on settlement date.

Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or when ING Belgium has transferred all risks and rewards of ownership. If ING Belgium neither transfers nor retains all risks and rewards of ownership of a financial asset, it derecognizes the financial asset when it no longer has control over it. In case of transfers where control over the asset is retained, ING Belgium continues to recognize the asset to the extent of its continuing involvement. The extent of this continuing involvement is determined by the extent to which ING Belgium is exposed to changes in the value of the asset.

Offsetting of financial assets and liabilities

Financial assets and liabilities are offset and the net amount is reported in the balance sheet when ING Belgium has a legally enforceable right to offset the recognized amounts and intends to either settle on a net basis or to simultaneously realize the asset and settle the liability.

Repurchase and reverse repurchase transactions

Securities sold subject to repurchase agreements (‘repos’) are retained in the consolidated financial statements. The counterparty liability is included in financial liabilities associated with the transferred assets.

Securities purchased under agreements to resell (‘reverse repos’) are recorded as collateral received. In addition, a receivable is recognised as ‘loans and advances’ or as ‘financial assets held for trading’.

The difference between the sale and repurchase price is recorded as interest and accrued over the life of the agreement, using the effective interest method.

Financial assets

Cash and cash balances with central banks

Cash includes money held by ING Belgium, as well as money deposited with other financial institutions that can be withdrawn without notice.

Cash equivalents are defined as short-term, highly liquid investments which are readily convertible to known amounts of cash and subject to an insignificant risk of changes in value. The classification of a short-term investment as a cash equivalent not only requires the investment to meet the definition of a cash equivalent, but also depends on the purpose for which the investment is held.

Cash and cash equivalents comprise balances with less than three months’ maturity from the date of acquisition, including cash on hand, balances with central banks, short-term loans and advances, short-term government securities, reverse repos and bank overdrafts.

Financial assets held for trading

Trading assets are assets that are acquired principally for the purpose of generating short-term gains or a dealer's margin. Financial assets held for trading are initially recognised at cost. Subsequently, they are remeasured to fair value, without deduction of transaction costs, on each balance sheet date until they are derecognised.

Gains and losses arising from changes in fair value are recorded in the income statement for the period in which they occur. They include realised gains and losses on the disposal of financial assets and unrealised gains and losses arising from changes in fair value.

Interest income and expenses are recorded separately in the income statement.

Financial assets designated at fair value through profit or loss

Management designates financial assets at fair value through profit or loss when one of the following conditions is met:

- it eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as ‘accounting mismatch’) that would arise from measuring assets or recognising gains/ losses on them on a different basis;
- a group of financial assets is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group of assets concerned is provided internally on that basis;
- the assets contain one or more embedded derivatives, unless the embedded derivative does not significantly modify the cash flows or if separation of the embedded derivative would be prohibited.

Gains and losses arising from changes in the fair value of such assets are recognised in the income statement for the period in which they occur. They include realised gains and losses on the disposal of financial assets and unrealised gains and losses arising from changes in the fair value of the assets.

Interest income and expenses are recorded separately in the income statement.

Designation is irrevocable: the market-to-market valuation of such assets is maintained until derecognition.

Loans and receivables

Loans and receivables are non-derivative instruments with fixed or determinable payments. They are initially recognised at fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset. Subsequently, they are carried at amortised cost using the effective interest rate method, less any impairment losses.

Interest income is recognised on an accruals basis using the effective interest rate method.

Financial assets available for sale
Financial assets not classified in another category are recorded as available for sale.

Available-for-sale financial assets are measured at fair value. Unrealised gains and losses arising from changes in fair value are recognised in equity. When the assets are disposed of, the related accumulated fair value adjustments are recorded in the income statement as gains and losses from investments.

Held-to-maturity investments
Non-derivative financial assets with fixed or determinable payments and fixed maturity which ING Belgium has the intent and ability to hold to maturity and which are designated by management as held-to-maturity assets are initially recognised at fair value plus transaction costs. Subsequently, they are carried at amortised cost using the effective interest method less any impairment losses.

Interest income from debt securities classified as held-to-maturity is recognised in Interest income in the profit and loss account using the effective interest method. Held-to-maturity investments include only debt securities.

Impairment of financial assets

At each balance sheet date, ING Belgium assesses whether there is objective evidence that a financial asset or a group of financial assets is impaired. Objective evidence that a financial asset or group of assets is impaired includes, but is not limited to:
- the borrower has sought or has been placed in bankruptcy or similar protection, and this avoids or delays repayment of the financial asset;
- the borrower has failed in the repayment of principal, interest or fees, and the payment failure has remained unsolved for a certain period;
- the borrower has given evidence of significant financial difficulty, which will have a negative impact on the future cash flows of the financial asset;
- the credit obligation has been restructured for non-commercial reasons. ING Belgium has granted concessions, for economic or legal reasons relating to the borrower's financial difficulty, the effect of which is a reduction in the expected future cash flows of the financial asset.

Impairment of financial assets designated as available for sale
With regard to equity investments classified as available for sale, a significant (25%) or prolonged decline (6 months) in the fair value of the assets linked to the quality of the debtor, below their acquisition cost, is considered in determining whether the assets are impaired.

If any such evidence exists, the cumulated loss -measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the income statement- is removed from equity and recognised in the income statement. Impairment losses on equity instruments recognised in the income statement are not reversed through the income statement until the items are derecognised.

Regarding debt securities, the same rule applies to record the impairment. If, however, in a subsequent period the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement, the impairment loss is reversed through the income statement.

Impairment of loans
ING Belgium first assesses whether objective evidence of impairment exists individually for loans that are individually significant, and individually or collectively for loans that are not individually significant. Loans that are individually assessed for impairment and for which an impairment loss is, or continues to be recognised, are not included in a collective assessment of impairment.

For loans that are not individually significant a collective provision is calculated.

A collective provision is calculated when ING Belgium determines that no objective evidence exists of the depreciation of a financial asset or a group of financial assets; this also referred to as 'Incurred But Not Reported' (IBNR). Collective provisions calculation is model based. When it appears with certainty that the result of the calculation materially over- or underestimate the expected loss, for example as a consequence of an upcoming model or regulatory change, operational change or process optimization, the expected impact of that change is incorporated to the provisions.

A loan is impaired when it is probable that the bank will not be able to collect all amounts due (principal and interest) according to the contractual terms. The collectability of loans includes the credit risk, when a loan may not be repaid due to the borrower's lack of capacity to repay. It also includes the transfer risk, when the loan is not repaid due to factors external to the borrower such as currency restrictions resulting from an economic crisis in his/her country of domicile. Emphasis should be placed on the timing of the contractual cash flows from interest payments and principal repayments. If the bank expects to collect all interest and principal due in full, but it is probable that those cash flows will be received later than the date agreed in the original contract, an impairment review must be performed. In addition, following the introduction of a new definition of non-performing loans and forbearance by EBA in 2014, forborne exposure showing past due for more than 30 days are considered like impaired and provisions are calculated accordingly.

When a loan is defaulted, it is written off against the related provision account. This occurs after all required procedures have been undertaken and the final loan loss has been determined. Any amounts received in excess of expected cash flows are recognised in the income statement as reductions of the related provision. When an impairment is recognised for a financial asset valued at amortised cost, the amount of the impairment is determined as being the difference between the asset's book value and the present value of the expected future cash flows (excluding future loan losses that have not yet occurred), discounted using the asset's original effective interest rate. Currently, the future cash flows are discounted using the contractual rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement. If the loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the income statement. It is the bank's policy that write-offs should only be made when the loss is quasi certain e.g. after completion of a restructuring, in a bankruptcy situation, after divestment of a credit facility at a discount, after closure of all recovery attempts. Both the loan and the impairment show up in the books. If the decision to (partially) write off the loan is taken, both the loan and the related provision are eliminated from the books and only the difference between the two is brought to the income statement.

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

Considerable judgment is exercised in determining the extent of loan loss provisions. This judgment is based on the management's evaluation of the risk in the portfolio, current economic conditions, loss experience in recent years and credit and geographical concentration trends. Changes in such judgments and analyses may lead to changes in provisions over time.

Financial liabilities

Financial liabilities held for trading

A financial liability is held for trading when it is acquired or incurred principally for the purpose of generating a profit from short-term fluctuations in price or dealer's margin. Financial liabilities held for trading include 'short' positions in securities. Financial liabilities held for trading are initially recognised at cost, and subsequently remeasured to fair value (without deduction for transaction costs) on each balance sheet date until the items are derecognised.

Gains and losses arising from changes in the fair value are recorded in the income statement for the period in which they occur. Gains and losses include realised gains and losses on the disposal of financial liabilities, and unrealised gains and losses arising from changes in the fair value.

Interest is recorded separately in the income statement

Financial liabilities at fair value through profit or loss

Management designates financial liabilities at fair value through profit or loss when one of the following conditions is met:

- it eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as 'accounting mismatch') that would arise from measuring liabilities or recognising gains/ losses on them on a different basis;
- a group of financial liabilities is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group of liabilities concerned is provided internally on that basis;
- the liabilities contain one or more embedded derivatives, unless the embedded derivative does not significantly modify the cash flows or when separation of the embedded derivative would be prohibited.

Financial liabilities at amortized cost

The amortised cost of a financial liability is the amount at which the financial liability is measured at initial recognition (the fair value), minus principal repayments, plus or minus the cumulated amortisation, using the effective interest method of any difference between the initial amount and the maturity amount. This is the default classification.

Derivatives and hedging activities

Any derivative contract is initially recognised at fair value at the date on which it is entered into and is subsequently remeasured to its fair value. All derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative. Embedded derivatives are bifurcated from their host contract provided the following conditions are met:

- Their economic characteristics and risks are not closely related to those of the host contract;
- The host contract is not carried at fair value through profit or loss;
- A separate instrument with the same terms as the embedded derivative would meet the definition of a derivative.

These embedded derivatives are measured at fair value, with changes in fair value recognised in the income statement. The method of recognising the resulting fair value gain or loss depends on whether the derivative is designated as a hedging instrument and, if so, on the nature of the item being hedged. Hedge accounting is used for derivatives designated in this way, provided certain criteria are met.

At the inception of the transaction, ING Belgium documents the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The bank assesses, both at hedge inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items including the method for assessing the hedging instruments' effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. ING Belgium uses three types of hedge accounting, which are described below.

Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognised in the income statement, together with fair value adjustments to the hedged item attributable to the hedged risk. If the hedge relationship no longer meets the criteria for hedge accounting, the cumulative adjustment of the hedged item is, in the case of interest-bearing instruments, amortised in the income statement over the remaining term of the original hedge or recognised directly when the hedged item is derecognised. Interest Rate Swaps are concluded in the ALM book as hedging instruments in order to manage the overall interest rate risk created by the commercial activity of the bank. Interest rate swaps and cap/floor (for mortgage loans) are used.

ING makes use of the 'carved-out' version of IAS39 as adopted by the European Commission in 2004. In this version, certain aspects of portfolio fair value hedging of interest rate risk have been moderated to avoid operational complexity. Among other, the carved-out version allows the use of the 'bottom layer' approach for pre-payable assets.

Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognized in equity. The gain or loss relating to the ineffective portion is immediately recognized in the income statement. Amounts accumulated in equity are recycled to the income statement in the periods in which the hedged item will affect the income statement.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognized when the forecast transaction is ultimately recognized in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that is reported in equity is immediately transferred to the income statement.

Interest Rate Swaps are concluded in the ALM book as hedging instruments in order to manage the overall interest rate risk created by the commercial activity of the bank.

Hedge of a net investment in a foreign operation

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement.

Gains and losses accumulated in equity are included in the income statement when the foreign operation is disposed of.

Tangible assets

Property, plant and equipment
Land and buildings held for own use are stated at fair value on the balance sheet date. The cost of an item of property, plant and equipment comprises its purchase price, including non-refundable purchase taxes, after deducting trade discount and rebates. The fair value of land and buildings is their market value.

ING Belgium measures at fair value property at each reporting date and obtains a valuation from an independent, professionally qualified appraiser on a sufficiently regular basis, or at least every five years.

Increases in the carrying amount arising from a revaluation of land and buildings held for own use are credited to the revaluation reserves in shareholders' equity. Decreases that offset previous increases of the same asset are charged against revaluation reserves directly in equity. All other decreases are charged to the income statement. Increases that reverse a revaluation decrease on the same asset previously recognised in income statement are recognised in the income statement.

Depreciation on buildings is recognised, based on the fair value and the estimated useful life of the asset (in general 33 years). Depreciation is calculated pro rata temporis (or proportionally) on a straight-line basis. Residual values and useful lives are reviewed and adjusted, if appropriate, at each balance sheet date.

Subsequent expenditures are included in the carrying amount of the asset when it is probable that future economic benefits associated with the item will flow to ING Belgium and its cost can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which these are incurred.

On disposal, the related revaluation reserve is transferred to retained earnings. Land is not depreciated.

Equipment is stated at cost, less accumulated depreciation and any impairment losses. The cost of such assets is depreciated on a straight-line basis over their estimated useful lives. Expenditures for maintenance and repairs are charged to the income statement as incurred. Expenditure incurred on major improvements is capitalised and depreciated.

The leases entered into by ING Belgium are operating leases. The total payments made under operating leases are charged to the profit and loss account on a straight-line basis over the period of the lease. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

Investment property
Investment property is stated at fair value on the balance sheet date. Changes in the carrying amount resulting from revaluations are recorded in the income statement. On disposal, the difference between the sale proceeds and book value is recognised in the income statement.

Fair value of investment property is based on regular appraisals by independent qualified appraisers. Investment properties are not depreciated.

Goodwill and intangible assets

Goodwill
ING Belgium's acquisitions are accounted for under the purchase method of accounting, whereby the cost of the acquisitions is allocated to the fair value of the assets, liabilities and contingent liabilities acquired. Goodwill -being the difference between the cost of the acquisition (including assumed debt) and the bank's interest in the fair value of the acquired assets, liabilities and contingent liabilities on the acquisition date- is capitalised as an intangible asset. The results of the operations of the acquired companies are included in the income statement from the date control is obtained.

Goodwill is only capitalised on acquisitions after the date of implementing IFRS. Accounting for acquisitions before that date is not restated; goodwill and internally generated intangibles on those acquisitions are directly charged to shareholders' equity. Goodwill is allocated to cash-generating units for the purpose of impairment testing. These cash-generating units are the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or group of assets.

The impairment testing is performed annually or more frequently if there are indicators of impairment. Under the impairment tests, the carrying value of the cash-generating unit (including goodwill) is compared to its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. Adjustments to the fair value as of the date of acquisition of acquired assets and liabilities that are identified within one year after acquisition are recorded as an adjustment to goodwill. Any subsequent adjustment is recognised as income or expense. However, recognition of deferred tax assets after the acquisition date is recorded as an adjustment to goodwill, even after the first year.

On disposal of group companies, the difference between the sale proceeds and book value (including goodwill) and the amount recorded in the currency conversion reserve in equity is included in the income statement.

Goodwill is attributable to the high profitability of the acquired business and the significant synergies expected to arise. Fair value of assets and liabilities acquired are based on discounted cash flow model.

Software

Computer software that has been purchased or internally generated for own use is stated at cost, less depreciation and any impairment losses. Depreciation is calculated on a straight-line basis over the useful life of the item. This period is a minimum of five years. Depreciation is included in other expenses.

Internally generated software should only be capitalised if all of the following requirements are met:

- ING Belgium has the feasibility of completing the intangible asset, so that it will be available for use or sale;
- ING Belgium has the intention to complete the intangible asset and use or sell it;
- ING Belgium has the ability to use or sell the intangible asset;
- the intangible asset will generate probable future economic benefits; among other things, the bank must be able to demonstrate the existence of a market for the output of the intangible asset or the intangible asset itself or, if it is to be used internally, the usefulness of the intangible asset;
- ING Belgium has adequate technical, financial and other resources available to complete the development and to use or sell the intangible asset;
- ING Belgium is able to reliably measure the expenditure attributable to the intangible asset during its development.

Projects with regard to internally generated software for own use are considered for capitalisation if they reach or exceed EUR 2.5 million in value.

Other intangible assets

Other intangible assets are capitalised and amortised over their expected economic lives. Intangible assets with an indefinite life are not amortised and tested for impairment annually.

Provisions

A provision involves a present obligation arising from past events, the settlement of which is expected to result in an outflow from the company of resources embodying economic benefits, whereas the timing or the amount is uncertain. Unless otherwise stated, provisions are discounted using a pre-tax discount rate to reflect the time value of money. The determination of provisions is an inherently uncertain process, involving estimates of amounts and timing of cash flows. Reorganisation provisions include employee termination benefits, when ING Belgium is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal, or providing termination benefits as a result of an offer made to encourage voluntary redundancy.

As a general rule, a provision or a part thereof should be released only when:

- cash is received, which results in the present value of the expected future cash flows increasing compared to previous estimates (partial release) or exceeding the carrying amount (full release);
- liabilities are extinguished and no claims whatsoever may be expected, in the case of contingent exposures.

Employee benefits: pension obligations

Pension schemes

ING Belgium entities operate various pension schemes. These are generally funded through payments to insurance companies or trustee-administered funds, determined by periodic actuarial calculations. ING Belgium has both defined-benefit and defined-contribution plans.

A defined-benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually depending on one or more factors such as age, seniority and compensation.

The liability (or asset) recognised in the balance sheet in respect of defined-benefit pension plans is the present value of the defined-benefit obligation on the balance sheet date, less the fair value of the plan assets.

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

The defined-benefit obligation is calculated annually by internal and external actuaries, using the projected unit credit method.

Inherent in the actuarial models are assumptions including discount rates, rate of increase in future salary and benefit levels, mortality rates, health-care costs trends, consumer price index. The assumptions are based on available market data and the historical performance of plan assets. They are updated annually. The actuarial assumptions may differ significantly from the actual results due to changes in market conditions, economic and mortality trends and other assumptions. Any changes in these assumptions could have a significant impact on the defined-benefit plan liabilities and future pension costs. The effects of changes in actuarial assumptions and experience adjustments are recognised through equity.

Any past service cost is recognized in the profit and loss account.

For defined-contribution plans, ING Belgium pays contributions to publicly or privately managed pension insurance plans on a mandatory, contractual or voluntary basis. The contributions are recognised as an employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

Other post-retirement obligations

ING Belgium provides post-retirement health care and other benefits to its retirees. The entitlement to these benefits is usually conditional on the employee remaining in service up to retirement age and the completion of a minimum period of service. The expected costs of these benefits are accrued over the period of employment, using an accounting methodology similar to that for defined-benefit pension plans.

Income tax expenses

Income tax on income for the year comprises current and deferred tax. Income tax is recognised in the income statement, except when it relates to items directly recognised in equity, in which case it is recognised in equity.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined using tax rates and laws that have been substantially enacted by the time of the balance sheet date, and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised when it is probable that future taxable profit will be available, against which the temporary differences can be utilised. Deferred tax liabilities are provided on temporary differences arising from investments in subsidiaries and associates, except when the timing of the reversal of the temporary difference can be controlled and it is probable that the difference will not reverse in the foreseeable future.

The tax effects of income tax losses available for carrying forward are recognised as an asset when it is probable that future taxable profits will be available, against which these losses can be utilised.

Deferred tax related to fair value re-measurement of available-for-sale investments and cash flow hedges that are directly charged or credited to shareholders' equity is also directly credited or charged to equity and subsequently recognised in the income statement, together with the deferred gain or loss.

Income recognition

Net interest income

Net interest income is recognised in the income statement using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expenses over the relevant period.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, ING Belgium estimates cash flows considering all contractual terms of the financial instrument (e.g. prepayment options) but does not consider future credit losses. The calculation includes all fees and basis points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts. Net interest income from trading positions and non-trading derivatives are classified in a separate line of the income statement. Movements in the fair value are included in net trading income.

Once an impaired loan or a portfolio of impaired loans has been written down to its estimated recoverable amount, interest income is thereafter recognised, based on the interest rate that was used to discount the future cash flows for the purpose of measuring the recoverable amount. The rationale of this is that, as time passes, the value of expected future cash flows increases as the time to realisation decreases; this unwinding effect is recognised as interest income.

Underlying source systems may either (i) suspend interest income due on impaired loans or (ii) continue to recognise it in full. An adjustment to interest income is required in both cases in order to recognise the correct amount of interest: upward under (i) and downward under (ii).

Actual interest receipts on impaired loans ('late payments') should be applied against interest accruals/principal depending on the probability of bankruptcy of the borrower. Interest receipts are either applied first to principal (when bankruptcy is probable) or first to interest (when bankruptcy is not probable).

Net fee and commission income

Fees and commissions are generally recognised when a service has been provided. Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognised as an adjustment to the effective interest rate on the loan. Fees and commissions arising from negotiating, or participating in the negotiation of, a transaction for a third party –such as the arrangement of the acquisition of shares or other securities, or the purchase or sale of businesses– are recognised on completion of the underlying transaction.

Portfolio and other management advisory and service fees are recognised based on the applicable service contracts as the service has been provided. Asset management fees related to investment funds and investment contract fees are recognised rateably over the period the service is provided. The same principle is applied for planning and custody services that are continuously provided over an extended period of time.

Dividend income

Revenue is recognised when ING Belgium's right to receive the payment is established.

Dividend policy description

The Board of Directors convenes general meetings and decides on their agenda. It sets the date for payment of dividends. The Board may decide to pay interim dividends for the current period, subject to the conditions laid down by law. It also sets the amount and date of the payment.

Fiduciary activities

The bank commonly acts as trustee and in other fiduciary capacities that result in the holding or placing of assets on behalf of individuals, trusts, retirement benefit plans and other institutions. These assets and income arising thereon are excluded from these financial statements, as they are not assets of ING Belgium.

Share-based payment transactions

Option rights and share plans on ING Group shares have been granted by ING Belgium to a number of senior executives and managers (equity settled transactions). The purpose of the option and share schemes, apart from promoting a lasting growth of ING Belgium, is to attract, retain and motivate senior executives.

The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable.

At each balance sheet date, ING Belgium revises its estimates on the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the income statement, and a corresponding adjustment to equity over the remaining vesting period.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

Financial guarantees

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and other bodies on behalf of customers to secure loans, overdrafts and other banking facilities.

Financial guarantees are initially recognised in the financial statements at fair value, being the premium received, on the date the guarantee was given.

The premium received is recognised in the income statement in net fees and commission income on a straight-line basis over the life of the financial guarantees. Any increase in the liability relating to guarantees is recorded in the income statement under ‘other operating income’.

Notes to the Consolidated accounts

Assets

Note 1: Cash and balances with central banks

Cash and balances with central banks		
In EUR thousands	**2016**	**2015**
Amounts held at central banks	4,372,638	3,643,277
Cash and bank balances	636,001	623,772
TOTAL	**5,008,639**	**4,267,049**

Note 2: Loans and advances to banks

Loans and advances to banks		
In EUR thousands	**2016**	**2015**
Loans and advances to banks	9,886,580	12,560,870
Cash advances, overdrafts and other balances		110,201
Loan loss provisions	-1,159	-2,165
TOTAL	**9,885,421**	**12,668,906**

Note 3: Financial assets at fair value through profit and loss

Financial Assets at fair value through profit and loss		
In EUR thousands	**2016**	**2015**
Trading assets	8,674,772	14,504,727
Non-trading derivatives	4,413,044	4,419,223
Designated as at fair value through profit and loss	87,950	94,541
TOTAL	**13,175,766**	**19,018,491**

Trading assets

Trading assets by type		
In EUR thousands	**2016**	**2015**
Equity securities	8,026	2,319,984
Debt securities	22,935	59,415
Derivatives	8,643,306	12,124,522
Loans and receivables	505	806
TOTAL	**8,674,772**	**14,504,727**

Remark on the evolution of the “Trading Assets - Derivatives”: In March 2016 part of the “Financial Markets” activity was transferred from ING Belgium nv/sa to ING Bank NV, FM Branch Brussels. As a result, these “Equity trading” activities are not performed in ING Belgium nv/sa since then.

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Non-trading derivatives used for risk management purposes

Non-trading derivatives by type (in assets)		
In EUR thousands	**2016**	**2015**
Derivatives used in fair value hedges	770,334	602,068
Derivatives used in cash flow hedges	3,604,690	3,802,626
Other non-trading derivatives	38,021	14,529
TOTAL	**4,413,044**	**4,419,223**

Designated as at fair value through profit and loss

Designated as at fair value through profit and loss by type (in assets)		
In EUR thousands	**2016**	**2015**
Equity securities	2,615	2,812
Debt securities		
Loans and receivables	85,335	91,729
TOTAL	**87,950**	**94,541**

Note 4: Investments

Investments by type		
In EUR thousands	**2016**	**2015**
Available for sale	17,022,923	18,809,053
of which: equity securities	*55,414*	*78,065*
of which: debt securities	*16,967,509*	*18,730,988*
Held to maturity	925,897	958,873
of which: debt securities	*925,897*	*958,873*
TOTAL	**17,948,820**	**19,767,926**

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

Changes in available-for-sale and held-to-maturity investments								
In EUR thousands	**Equity securities - AFS**		**Debt securities - AFS**		**Debt securities - HTM**		**Total**	
	2016	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**
Opening balance	**78,065**	**53,345**	**18,730,988**	**19,599,510**	**958,873**		**19,767,926**	**19,652,855**
Additions	8,359	13,570	1,668,872	666,993			**1,677,231**	680,563
Amortisation			12,466	-5,388	-33,014	-24,817	**-20,548**	-30,205
Transfers and reclassifications	-5,478	109		-969,796		969,796	**-5,478**	109
Changes in unrealised revaluations	1,464	29,381	-25,952	-89,216	38	13,894	**-24,450**	-45,941
Impairments	-342	-6,372					**-342**	-6,372
Reversal of impairments								
Disposals and redemptions	-26,652	-11,968	-3,418,865	-471,115			**-3,445,517**	-483,083
Exchange rate differences								
Changes in the composition of the group and other changes								
CLOSING BALANCE	**55,414**	**78,065**	**16,967,509**	**18,730,988**	**925,897**	**958,873**	**17,948,820**	**19,767,926**

Note 5: Loans and advances to customers

Loans and advances to customers		
In EUR thousands	**2016**	**2015**
Loans to, or guaranteed by, public authorities	6,372,779	5,577,317
Loans secured by mortgages	48,492,134	46,883,059
Loans guaranteed by credit institutions	36,818	24,174
Personal lending	5,592,376	5,509,970
Asset backed securities		
Corporate loans	41,829,723	35,512,951
Loan loss provisions	-691,161	-707,420
TOTAL	**101,632,669**	**92,800,051**

In 2016, it became apparent that a portion of loans previously reported as “Corporate loans” should have been reported as “Loans secured by mortgages”. Loans secured by mortgages, as at 31 December 2015, is EUR 8.4 billion higher from EUR 38.52 billion to EUR 46.88 billion.

Changes in loan loss provisions

Changes in the loan loss provisions		
In EUR thousands	**2016**	**2015**
Opening balance	**-709,585**	**-802,421**
Write-offs	152,399	233,180
Recoveries	-4,324	-31,821
Increase in loan loss provisions	-208,591	-180,669
Exchange rate differences	-403	1,468
Changes in the composition of the group and other changes	51,118	70,678
CLOSING BALANCE	**-719,386**	**-709,585**
The closing balance is included in		
- Loans and advances to banks	-1,159	-2,165
- Loans and advances to customers	-691,161	-707,420
- Provisions other provisions	-27,066	

Remark on “Changes in the composition of the group and other changes”: Following an IFRS accounting policy change of Fiducre (ING's debt collection company). This change results in a different presentation in the P&L compared to previous year (between Loan Loss Provisioning, Other Income and Net interest). The impact is EUR 38 million. As from 2016 the income related to modified loans leading to derecognition, are presented as Net interest and Other income.

Corporate loans include finance lease receivables

Future minimum lease payments by maturity		
In EUR thousands	**2016**	**2015**
Within 1 year	819,721	762,373
More than 1 year but less then 5 years	1,999,028	1,837,867
More than 5 years	1,025,135	1,024,956
TOTAL	**3,843,884**	**3,625,196**

Note 6: Investments in associates

Associates					
In EUR thousands Entity name	2016	2015	Entity name	2016	2015
Isabel	4,602	4,222	ING Activator	628	1,237
Synapsia	0	39	ISIM (ING Solutions Investment Management)	1,076	366
European Marketing Group Luxembourg (LU) S.A.	333	272	M Brussels Village	0	0
Aigle aviation SA	1,550	1,471	QUSTOMER	0	5,229
A.E.D. Rent	13,701	17,905	SAS Marnix Invest	0	0
Ark Angels Activator Fund	1,898	1,222	SAS SODIR-Deux	0	0
Ark Angels Activator Fund Beheer	125	87	Sherpa Invest	8	155
AXISQL	3,970	9,562	Sherpa Invest II	761	667
Belgian Mobile Wallet	0	50	Stardekk	4,400	0
BIENCA Biotechnological Enzymatic Catalyse	0	781	Tasco nv	6,361	0
(Brand & Licence Comp) Bancontact/Mistercash	1,213	1,127	Unibioscreen SA	0	0
Euresys (Walltech)	0	0	Vesalius Biocapital Partners sarl	157	2,800
Europay Belgium	196	190	Vesalius Biocapital II Partners sarl	111	54
GDW Holding	4,034	1,987	Vesalius Biocapital I SA SICAR	7,246	17,419
Immomanda	179	160	Visa Belgium	10,082	0
Innotec International	4,799	11,208			
TOTAL				**67,431**	**78,211**

Changes in investments in associates		
In EUR thousands	**2016**	**2015**
Opening balance	**78,211**	**76,484**
Additions	14,414	6,241
Transfers to and from Investments	5,523	-342
Revaluations	-36,878	3,127
Share of results	32,217	30,455
Dividends received	-15,213	-8,558
Disposals	-7,950	-29,261
Impairments	-2,972	-192
Exchange rate differences	79	257
Changes in the composition of the group and other changes		
CLOSING BALANCE	**67,431**	**78,211**

Remark on “Revaluations”: As from December 2016 all equity investments reported as associates are accounted for using the net equity method. Before the investments with an interest between 20 and 50% were measured as available for sale equity securities revalued through Other Comprehensive Income.

Consolidated annual accounts - continued

Note 7: Real estate investments

Changes in real estate investments		
In EUR thousands	2016	2015
Opening balance	**47,812**	**47,689**
Additions		37
Transfers to and from Other assets	-2	17
Transfers to and from Property in own use		-18
Gains (losses) from fair value adjustments	547	87
Disposals		
Exchange rate differences		
Changes in the composition of the group and other changes		
CLOSING BALANCE	**48,358**	**47,812**

Note 8: Property and equipment

Changes in property and equipment - 2016				
In EUR thousands	Property in own use	Data processing equipment	Fixtures and fittings and other equipment	Total
Opening balance	**564,840**	**61,797**	**274,266**	**900,903**
Additions	1,455	16,082	23,269	**40,806**
Borrowing costs capitalised				
Depreciations	-7,246	-23,345	-44,792	**-75,383**
Revaluations	-2,748			**-2,748**
Impairments	-52,722			**-52,722**
Reversal of impairments	128			**128**
Disposals	-4,997	-61	-5,129	**-10,187**
Exchange rate differences		1	1	**2**
Changes in the composition of the group and other changes		77	1,549	**1,626**
Transfer to and from Other assets	-676			**-676**
Transfer to and from Real estate investments				
CLOSING BALANCE	**498,033**	**54,552**	**249,165**	**801,750**
Gross carrying amount per 31 December	**918,825**	**345,982**	**885,929**	**2,150,736**
Accumulated depreciations per 31 December	-327,668	-291,430	-636,764	**-1,255,862**
Accumulated impairments per 31 December	-93,124			**-93,124**
NET BOOK VALUE	**498,033**	**54,552**	**249,165**	**801,750**

Remark on “Impairments”: In the context of the intended restructuring plan the “Real estate in own use” have been reviewed for impairments triggered by the plan.

Remark on “Property in own use”: ING uses external valuers to value the property in own use. All properties are typically appraised by external valuers every five years. The latest valuation of the main properties is from December 2016.

Changes in revaluation reserve		
In EUR thousands	2016	2015
Opening balance	**145,686**	**142,064**
Revaluation during the year	-1,706	3,622
CLOSING BALANCE	**143,980**	**145,686**

Consolidated annual accounts - continued

Changes in property and equipment - 2015				
In EUR thousands	Property in own use	Data processing equipment	Fixtures and fittings and other equipment	Total
Opening balance	**569,356**	**62,595**	**280,233**	**912,184**
Additions	310	27,715	46,118	**74,143**
Borrowing costs capitalised				
Depreciations	-5,521	-27,686	-45,067	**-78,274**
Revaluations	5,515			**-694**
Impairments	-197			**-197**
Reversal of impairments	3,669			**3,669**
Disposals	-15,677	-387	-6,011	**-15,866**
Exchange rate differences	88	-191	-38	**-141**
Changes in the composition of the group and other changes		-249	-969	**-1,218**
Transfer to and from Other assets	7,279			**7,279**
Transfer to and from Real estate investments	18			**18**
CLOSING BALANCE	**564,840**	**61,797**	**274,266**	**900,903**
Gross carrying amount per 31 December	**929,843**	**317,577**	**904,378**	**2,151,798**
Accumulated depreciations per 31 December	-324,294	-255,780	-630,112	**-1,210,186**
Accumulated impairments per 31 December	-40,708			**-40,708**
NET BOOK VALUE	**564,840**	**61,797**	**274,266**	**900,903**

Note 9: Intangible assets

Changes in intangible assets - 2016				
In EUR thousands	Goodwill	Software	Other intangible assets	TOTAL
Opening balance	**2,558**	**146,584**		**149,142**
Additions		3,239		3,239
Capitalised expenses		29,880		29,880
Amortisations		-40,925		-40,925
Impairments		-37,692		-37,692
Effect of unrealised revaluations in equity				
Reversal of impairments				
Exchange rate differences				
Disposals		-1,351		-1,351
Changes in the composition of the group and other changes		191		191
CLOSING BALANCE	**2,558**	**99,925**		**102,483**
Gross carying amount as at 31 December	**1,438**	**364,069**		**365,507**
Accumulated amortisations as at 31 December		-226,452		-226,452
Accumulated impairments as at 31 December	1,120	-37,692		-36,572
NET BOOK VALUE	**2,558**	**99,925**		**102,483**

Remark on “Impairments”: In the context of the intended restructuring plan the “Capitalised software” have been reviewed for impairments triggered by the plan.

Remark on “Software”: The majority of the software is internally developed software.

Consolidated annual accounts - continued

Changes in intangible assets - 2015				
In EUR thousands	Goodwill	Software	Other intangible assets	TOTAL
Opening balance	**2,558**	**134,157**		**136,715**
Additions		12,528		12,528
Capitalised expenses		35,393		35,393
Amortisations		-35,950		-35,950
Impairments		-9,692		-9,692
Effect of unrealised revaluations in equity				
Reversal of impairments				
Exchange rate differences				
Disposals		15		15
Changes in the composition of the group and other changes		10,133		10,133
CLOSING BALANCE	**2,558**	**146,584**		**149,142**
Gross carying amount as at 31 December	**44,225**	**364,378**		**408,603**
Accumulated amortisations as at 31 December		-212,618		-212,618
Accumulated impairments as at 31 December	-41,666	-5,176		-46,842
NET BOOK VALUE	**2,558**	**146,584**		**149,142**

Remark on “Software”: The majority of the software is internally developed software.

Note 10: Deferred tax assets

Breakdown of deferred tax assets by origin		
In EUR thousands	2016	2015
Investments	-122,155	-150
Financial assets and liabilities at fair value through profit or loss	87,384	7,706
Depreciations	622	
Other provisions	261,369	6,808
Unused tax losses carried forward	0	584
Cash flow hedges	81,421	
Property and equipment	-77,372	0
Other	-38,850	1,634
TOTAL	**192,419**	**16,583**

See also note 15 about Deferred tax liabilities.

Important changes are explained by the fact that the figures are presented on a net basis to be in line with the group reporting.

Net deferred tax assets (liabilities) - 2016				
In EUR thousands	Gross deferred tax assets	Write-downs - deferred tax assets	Deferred tax liabilities	TOTAL
Opening balance	**16,583**	**0**	**-241,693**	**-225,109**
Exchange differences	38		-0	38
Deferred tax Profit & Loss	252,847		-37,441	215,406
Deferred tax Equity	-9,805		33,956	24,151
Netting deferred taxes	-67,244		68,088	843
CLOSING BALANCE	**192,419**	**0**	**-177,090**	**15,328**

Income tax: breakdown of tax losses carried forward/unused tax credits by expiry terms - 2016					
In EUR thousands	**TOTAL**	**Up to five years**	**Five to ten years**	**Ten to twenty years**	**Not expiring**
Total of unused tax losses carried forward	45,352	14,115		31,237	
Of which: unused tax losses carried forward					
not recognised as a deferred tax asset	*45,352*	*14,115*		*31,237*	
recognised as a deferred tax asset					
Tax rate applicable	*33.99%*				
Deferred tax asset recognised on unused tax losses carried forward	0				

Income tax relating to components of other comprehensive income - 2016			
In EUR thousands	**Tax assets**	**Tax liabilities**	**TOTAL**
Currency translation reserve			**0**
Hedge of net investments in foreign operations reserve			**0**
Tangible fixed assets revaluation reserve	3,848	-76,730	**-72,882**
Revaluation reserve available for sale	10,092	-177,585	**-167,494**
Cash flow hedges	81,421	-6,698	**74,723**
Share of the other comprehensice income of associates and joint ventures accounted for using equity method			**0**
Actuarial gains/losses on pension defined plans	76,953		**76,953**
TOTAL	**172,314**	**-261,014**	**-88,699**

Note 11: Other assets

Other assets by type		
In EUR thousands	**2016**	**2015**
Net defined benefit assets	468	76
Property development and obtained from foreclosures	238	2,336
Accrued interest and rents	3,358	5,911
Other accrued assets (other than interest income from financial assets)	179,567	165,137
Others	1,311,688	2,013,118
TOTAL	**1,495,319**	**2,186,578**

Remark on “Others”: this includes EUR 1.067 billion related to transactions still to be settled at balance sheet date.

Liabilities and Equity

Note 12: Deposits from banks

Amounts due to banks		
In EUR thousands	**2016**	**2015**
Non-Interest bearing		
Interest bearing	13,333,629	10,738,423
TOTAL	**13,333,629**	**10,738,423**

Note 13: Customer deposits

Customer deposits		
In EUR thousands	**2016**	**2015**
Savings accounts	39,501,111	40,730,910
Credit balances on customer accounts	51,773,448	48,288,293
Corporate deposits	5,690,560	7,686,489
Other	81,179	89,558
TOTAL	**97,046,298**	**96,795,250**

Note 14: Financial liabilities at fair value through profit and loss

Financial Liabilities at fair value through profit and loss		
In EUR thousands	**2016**	**2015**
Trading liabilities	8,808,874	13,129,450
Non-trading derivatives	6,074,113	6,069,523
Designated as at fair value through profit and loss	1,789,330	2,371,524
TOTAL	**16,672,317**	**21,570,497**

Trading liabilities

Trading liabilities by type		
In EUR thousands	**2016**	**2015**
Short positions in equity instruments	0	136
Short positions in fixed-income securities	73	83,598
Derivatives	8,808,801	13,045,715
TOTAL	**8,808,874**	**13,129,450**

Remark on the evolution of the “Derivatives”: In March 2016 part of the “Financial Markets” activity was transferred from ING Belgium nv/sa to ING Bank NV, FM Branch Brussels. As a result, these “Equity trading” activities are not performed in ING Belgium nv/sa since then.

Non-trading derivatives used for risk management purposes

Non-trading derivatives by type (in liabilities)		
In EUR thousands	2016	2015
Derivatives used in fair value hedges	2,246,539	2,042,598
Derivatives used in cash flow hedges	3,726,986	3,935,529
Other non-trading derivatives	100,588	91,395
TOTAL	6,074,113	6,069,523

Designated as at fair value through profit and loss

Designated as at fair value through profit and loss by type (in liabilities)				
In EUR thousands	Carrying amount		Difference between the carrying amount and the amount contractually payable at maturity	
	2016	2015	2016	2015
Debt securities	1,789,330	2,371,524	-282,597	-303,651
Funds entrusted				
Subordinated loans				
TOTAL	1,789,330	2,371,524	-282,597	-303,651

Remark on the evolution of the “Debt securities”: Structured notes which are economically hedged are designated at fair value through P&L to avoid asymmetrical P&L evolutions.

Note 15: Deferred tax liabilities

Deferred tax liabilities		
In EUR thousands	2016	2015
Investments	51,210	193,840
Financial assets and liabilities at fair value through profit or loss	-884	-33,328
Depreciation	54	-111
Other provisions	92,625	24,475
Loans and advances to customers	24,830	50,697
Property and equipment	944	89,671
Cash flow hedges	6,839	-84,347
Other	1,474	796
TOTAL	177,090	241,693

Note 16: Provisions

Provisions - 2016				
In EUR thousands	**Termination benefits and other restructuring provisions**	**Pending legal issues**	**Other provisions**	**TOTAL**
Opening balance	**69,731**	**64,958**	**11,188**	**145,877**
Additions	606,157	42,425	28,453	**677,035**
Amounts used	-20,952	-927	-1,254	**-23,133**
Unused amounts reversed during the period	-1,477	-18,422	-2,579	**-22,478**
Increase in the discounted amount (passage of time) and effect of any change in the discount rate				**0**
Exchange rate differences				**0**
Changes in the composition of the group and other changes	-6,285	5,523	4,255	**3,493**
CLOSING BALANCE	**647,174**	**93,557**	**40,063**	**780,794**

Remark on “Additions”: On 3 October 2016 ING Belgium announced its intention to undertake a fundamental transformation to enable the business to move from being a traditional bank institution to a banking platform at the cutting edge of the digital world and personalised customer service. ING Belgium intends to improve its customer experience by moving to an integrated banking platform, leveraging of the omni-channel capabilities of the Netherlands and rationalise its network by integrating ING and Record Bank branches. In addition to improving customer experience ING Belgium intends to eliminate the internal silo mentality and move away from a top-heavy management system towards multidisciplinary, agile, self-steering teams to deliver faster, at a lower cost.

The intended initiatives are expected to result in a reduction of ING´s workforce in Belgium by around 3,500 FTEs for the years 2016-2021. These numbers include the intended move to an integrated banking platform, with the remainder of functions affected spread over intended programmes in IT, operations, Wholesale Banking and various business support functions. At the same time, colleagues will be added in parts of the business where accelerated growth is expected, given the plans to continue to attract new customers and increase lending to support the economies ING is active in.

For the intended initiatives, a pre-tax redundancy provision and estimated early termination cost of contracts of around EUR 615 million was recognised in December 2016. These initiatives are implemented over the period 2017-2021 and the estimate of the reorganisation provisions is inherently uncertain. This pre-tax redundancy provision is based on the current state and content of the social negotiations and more specifically the different negotiated plans including early and voluntary leaves as well as the remaining residual forced exits needed to reach the intended fundamental transformation. Calculation of the provision has been done on available HR information on salary and age of the population and on several judgemental assumptions including actuarial ones based on the negotiated plans and on previous experience of the bank with such plans.

The provision at the balance sheet date represents the best estimate of the expected redundancy costs and are expected to be sufficient to cover these costs.

Remark on “Additions”: The “Other provisions” include amounts related to Letters of Credit / Guarantees of EUR 27 million (previously reported under Loan Loss Provisions).

Provisions - 2015				
In EUR thousands	**Termination benefits and other restructuring provisions**	**Pending legal issues**	**Other provisions**	**TOTAL**
Opening balance	**60,022**	**68,921**	**18,287**	**147,230**
Additions	45,033	3,237	2,571	**50,841**
Amounts used	-32,604	-35	-2,828	**-35,467**
Unused amounts reversed during the period	-1,694	-7,165	-7,934	**-16,793**
Increase in the discounted amount (passage of time) and effect of any change in the discount rate				**0**
Exchange rate differences				**0**
Changes in the composition of the group and other changes	-1,027	0	1,092	**65**
CLOSING BALANCE	**69,730**	**64,958**	**11,188**	**145,876**

Note 17: Other liabilities

Other liabilities		
In EUR thousands	**2016**	**2015**
Net defined benefit liability	134,478	128,644
Other staff-related liabilities	43,105	43,012
Other taxation and social security contributions	254,327	271,439
Income received in advance	106,653	103,652
Costs payable	370,449	381,119
Others	1,878,708	1,691,637
TOTAL	**2,787,720**	**2,619,503**

Remark on “Others”: this includes EUR 1.283 billion related to transactions still to be settled at balance sheet date.

Information on pension and other staff-related liabilities

ING Belgium sponsors defined-benefit retirement plans in the major countries in which it operates. These plans are all completely or partially funded by ING. They generally cover all employees and provide them with benefits, in particular upon retirement.

Annual contributions are paid to the funds at a rate that is necessary to adequately finance the accrued liabilities of the plans, calculated in accordance with local legal requirements. In all countries, the plans comply with applicable local regulations concerning investments and funding levels. During 2017, the expected contributions to be paid by ING Belgium to defined benefit retirement plans are estimated to be EUR 11.6 million.

The bank provides certain employees with other post-employment and post-retirement benefits. These are primarily post-retirement health-care benefits and post-employment defined-benefit early retirement plans provided to employees and former employees.

Certain group companies sponsor defined-contribution pension plans. The assets of all of ING Belgium’s defined-contribution plans are held in independently administered funds. Contributions are generally determined as a percentage of pay. As at 31 December 2016, all defined-contribution plans are funded according to the minimal return guarantee imposed by law in Belgium moreover, new defined contribution plan in force for new employees to ING Belgium as from January 2007, present an overfunding of about EUR 7.1 million (5% of individual account amount) that has been funded by ING Belgium as minimum guarantee reserve.

Evolution of defined benefit pension plans		
In EUR thousands	**2016**	**2015**
Present value of the defined benefit obligation	791,591	746,380
Fair value of plan asset	-657,581	-617,813
Surplus (deficit) in the defined benefit pension plan	**134,010**	**128,567**
Presented as:		
- Other assets	*-468*	*-76*
- Other liabilities	*134,478*	*128,644*

Movements in defined benefit obligations		
In EUR thousands	**2016**	**2015**
Opening balance	**746,380**	**827,651**
Current service costs	16,740	18,395
Interest costs	12,739	10,920
Actuarial losses/gains arising from changes in demographic assumptions	-12,196	-8,874
Actuarial losses/gains arising from changes in financial assumptions	65,495	-43,600
Employee's contribution	1,381	1,453
Benefits paid	-39,312	-55,375
Past service costs		-10,348
Effect of curtailment or settlement		
Exchange differences	364	6,032
Changes in the composition of the group and others		126
CLOSING BALANCE	**791,591**	**746,380**

PM: "Current service costs" and "Interest costs" are booked via Profit & Loss in current year's Pension costs (see also note 27) whereas "Actuarial losses/gains arising from changes in demographic assumptions" and "Actuarial losses/gains arising from changes in financial assumptions" are booked via Other comprehensive income.

Movements in the fair value of plan assets		
In EUR thousands	**2016**	**2015**
Opening balance	**617,813**	**631,214**
Expected return on plan assets	9,942	7,728
Actuarial gains and losses on plan assets	28,232	8,545
Employer's contribution	39,432	19,737
Employee's contribution	1,381	1,453
Benefits paid	-39,311	-55,374
Effect of settlement		
Exchange differences	93	4,510
Changes in the composition of the group and others		
CLOSING BALANCE	**657,581**	**617,813**

PM: "Expected return on plan assets" is booked via Profit & Loss in current year's Pension costs (see also note 27) whereas "Actuarial gains and losses on plan assets" are booked via Other comprehensive income.

Weighted averages of basic actuarial assumptions		
In EUR thousands	**2016**	**2015**
Discount rates	1,2%	1.8%
Consumer price inflation	2.0%	2.0%
Expected rates of salary increases (excluding promotional increase)	age based salary scale	age based salary scale

Sensitivity analysis: impact of changes in significant actuarial assumptions on the defined benefit obligation 2016		
In EUR thousands	Financial impact of increase	Financial impact of decrease
Discount rates - increase/decrease of 1%	-85,215	105,665
Mortality rates - increase/decrease of 1 year	11,057	-11,389
Expected rates of salary increase (excl promotional increase) - increase/decrease of 0.25%	20,745	-19,295
Consumer price inflation - increase/decrease of 0.25%	142	-2,052

As of 31 December 2016, it has been decided to perform also an IAS19 valuation of all Defined Contribution plans (considered as Defined Benefit plans under IAS19 rules with respect to the legal guaranteed interest rate).

According to the plan rules the valuation method (PUC) consists in the projection at retirement age of the minimum reserve vested for each employee with the minimum return as currently foreseen by law (1.75%). The net present value (using all actuarial assumption accordingly to the IAS19 rules such as discount rate, mortality and turnover) of the obtained minimum capital represent the defined benefit obligation.

In case of this defined benefit obligation would be higher than the individual account of the concerned person, a liability should be recognized. As result of the calculation made it appeared that the liability to be recognized is lower that the market value of the dedicated assets, the fund has built up in order to fund the minimum return obligation.

Pension investment strategy

The primary financial objective of the ING Belgium employee benefit plan is to secure participant retirement benefits. As such, the key objective in the plan's financial management is to promote stability and, to the appropriate extent, growth in funded status (i.e. the ratio of market value of assets to liabilities). The investment strategy for the plan's portfolio of assets (the fund) balances the requirement to generate returns with the need to control risk, in particular to minimize the plan assets' volatility. This strategy is under the responsibility of each independent legal entity entitled to manage the different plans.

The asset mix is recognized as the primary mechanism to influence the reward and risk structure of the fund in an effort to accomplish the plan's funding objectives. Desirable target allocations among identified asset classes are set, and within each asset class, careful consideration is given to balancing the portfolio between industry sectors, geographies, interest rate sensitivity, dependence on economic growth, currency and other factors than can effect investment returns.

The assets are managed by professional investment firms. They are bound by precise mandates and measured against specific benchmarks. Among the managers, consideration is given among others to balancing security concentration, investment style and the reliance on particular active investment strategies. The fund's asset mix is reviewed on a regular basis and is under the responsibility of the entities entitled to manage their fund.

Plan assets		
In EUR thousands	2016	2015
Equity securities	233,382	218,889
Debt securities	329,001	297,144
Real estate	790	29,305
Other	94,408	72,475
TOTAL	**657,581**	**617,813**

PM: 'Other' includes amounts that are not invested in equity, debt securities or real estate. It essentially represents cash or insurance reserves.

The plan assets of ING Belgium do not include any property occupied by ING or any own financial instruments except for a small number of own actions held by an index fund or by an actively managed fund. The actual return of the main defined-benefit plan in Belgium for 2016 was 4.60% net. The return of the main defined-contribution plan in Belgium for 2016 was 5.02% net.

Determination of expected return on assets

As from 1 January 2013 and accordingly to new IAS 19 standard, expected return on assets will be considered as equal to the discount rate i.e. the interest rate on AA-corporate with a duration of 10 years. Nevertheless, future return on assets is one of the key elements in the risk appreciation. Considering the strategic allocation of the asset portfolio of main plans, and using defensive assumptions per asset class, future return on asset are estimated to

3.6% for the main defined benefit plan in Belgium (closed plan)
4% for the main defined contribution plan in Belgium

Other risks

Main other risks of current plans are related to discount rate evolution, inflation, salary increase and mortality. Sensitivity to those factors, for the main defined-benefit plan in Belgium (scope ING Belgium nv/sa), are showed here after

- **Discount rate evolution:**
  An increase of the discount rate with 1% would mean a reduction about 10% of the liabilities (69.8 million) while a decrease if the discount rate with 1% would results in an increase of the liabilities with about 12% (82.6 million)

- **Inflation:**
  An increase of the inflation with 0.25% p.a. would mean an increase of about 1% of the liabilities (7.8 million) while a decrease of the inflation with 0.25% p.a. would results in an decrease of the liabilities with about 1% (7.5 million)

- **Salary increase:**
  An increase of the salary growth (excluding inflation) with 0.25% p.a. would mean an increase with about 3% of the liabilities (18.2 million) while a decrease of salary growth with 0.25% p.a. would results decrease of the liabilities with about 2% (15.3 million)

- **Mortality:**
  Assuming current and future beneficiaries would be one year older than they are would results in a decrease of the liability with about 2% (11.2 million) while assuming they would be one year younger would increase the liability with 2% (11.1 million).
  This results comes mainly from the pensioners population for who the liability decrease with age.

Based on these results, one could conclude that assumption leading to the highest volatility is the discount rate. Salary growth and inflation are also sensible factors but in a lower way. Regarding the mortality assumption, as pensioners population is limited and decreasing, the risks related to mortality deviation is limited and will continue to decrease.

Note 18: Debt securities in issue and subordinated loans

Debt securities in issue includes as of 31 December 2016:

- Covered bonds issued by ING Belgium for a total of EUR 2.7bln (2015: EUR 2.7bln);
- Savings Certificates of Record Bank EUR 4.6bln (2015: EUR 5.3bln).

Subordinated loans may be included in the calculation of the total capital ratio and include EUR 1.3bln (2015: 1.3bln) of loans that qualify as Tier 2 capital. These loans have been placed with ING Belgium by ING Bank NV.

Note 19: Share capital repayable on demand

Members' shares in co-operative entities have some characteristics of equity. They also give the holder the right to request redemption for cash, although that right may be subject to certain limitations. Under IFRIC 2, shares for which the member has the right to request redemption are normal liabilities. The total amount relates to the third-party members’ shares in our co-operative entity Record Credit Services.

Note 20: Shareholder's equity

Shareholder's equity		
In EUR thousands	**2016**	**2015**
Share capital	2,350,000	2,350,000
Share premium	451,511	451,511
Revaluation reserves	204,972	269,780
Of which:		
- tangible assets revaluation reserve	*143,980*	*145,686*
- cash flow hedge reserve (effective)	*-140,087*	*-160,088*
- fair value revaluation reserve on financial assets available for sale	*353,549*	*420,123*
- actuarial gains/losses	*-152,470*	*-135,941*
Currency translation reserves	2,227	-456
Of which:		
- hedge of net investments in foreign operations reserve (effective)	*-209,968*	*-213,282*
- foreign currency translation reserve	*212,195*	*212,826*
Other reserves	7,259,703	6,700,839
TOTAL	**10,268,413**	**9,771,674**

The issued capital is represented by 55,414,550 shares without par value. All shares are fully paid.

The reserves including retained earnings mainly includes the reserves available for distribution, result brought forward, consolidation reserves and legal reserves.

The revaluation reserves consist of different types of reserves. Subsequent to initial recognition, property, and equipment is revalued to fair value. The revaluation surplus is recognised in equity, through the tangible assets revaluation reserve. A subsequent revaluation decrease must be charged against this reserve to the extent that the reserve is positive.

Gains and losses arising from the revaluation of a financial instrument designated as a hedge are deferred in the hedge revaluation reserve. Where a subsidiary is a foreign operation, foreign currency translation differences should be recognised in equity through the foreign currency translation reserve.

Unrealised gains/losses on investments classified as available-for-sale are also recognised in equity within the revaluation reserve. These gains/losses are recycled to the income statement on disposal or when the asset becomes impaired.

Share capital	Number of shares		Amounts in thousands of euros	
	2016	**2015**	**2016**	**2015**
Authorised share capital				
Unissued share capital				
Issued share capital	55,414,550	55,414,550	2,350,000	2,350,000

Income statement

Note 21: Interest result

Interest result		
In EUR thousands	**2016**	**2015**
Interest income on loans	2,666,097	2,819,279
Interest income on impaired loans	13,071	3,347
Negative interest on liabilities	21,815	6,309
Total interest income on loans	**2,700,983**	**2,828,935**
Interest income on available-for-sale securities	410,831	447,472
Interest income on held-to-maturity securities	18,800	18,970
Interest income on trading portfolio	1,358,760	1,845,923
Interest income on non-trading derivatives (no hedge accounting)	749	4,515
Interest income on non-trading derivatives (hedge accounting)	1,222,871	1,460,815
Other interest income	7,679	14,679
Total interest income	**5,720,674**	**6,621,309**
Interest expense on deposits by banks	-35,518	-27,710
Interest expense on customer deposits and other funds on deposit	-157,437	-343,491
Interest expense on debt securities	-162,423	-177,900
Interest expense on subordinated loans	-34,213	-30,206
Interest on trading liabilities	-1,381,272	-1,853,060
Interest on non-trading derivatives (no hedge accounting)	-11,406	-14,054
Interest on non-trading derivatives (hedge accounting)	-1,294,483	-1,515,074
Other interest expense	-49,184	-10,261
Negative interest on assets	-47,952	-6,793
Total interest expense	**-3,173,888**	**-3,978,549**
INTEREST RESULT	**2,546,786**	**2,642,761**

Note 22: Investment income

Investment income		
In EUR thousands	**2016**	**2015**
Income from real estate investments	3,492	2,988
Dividend income	6,905	246
Total	**10,397**	**3,233**
Realised gains/losses on debt securities	29,360	19,650
Impairments of available-for-sale debt securities	0	0
Reversal of impairments of available-for-sale debt securities	0	0
Realised gains/losses and impairment on debt securities	**29,360**	**19,650**
Realised gains/losses on disposal of equity securities	9,801	1,407
Impairment of available-for-sale equity securities	-342	-6,372
Realised gains/losses and impairment on equity securities	**9,459**	**-4,965**
Change in fair value of real estate investments	547	87
TOTAL INVESTMENT INCOME	**49,763**	**18,006**

Remark on “Dividend income”: Contains a non-recurring dividend received from a non-associate.

PM: Exceptional income as result of the acquisition of VISA Europe by VISA Inc in 2016. The transaction resulted in a net profit of 10 mio in ‘Investment income’ and 20 mio in ‘Share of results of associates’.

Note 23: Commission result

Commission income		
In EUR thousands	**2016**	**2015**
Gross fee and commission income	**839,760**	**842,715**
Funds transfer	154,548	155,614
Securities business	133,773	165,727
Asset management fees	60,775	53,893
Brokerage and advisory fees	35,874	22,864
Insurance broking	99,318	103,710
Other	355,470	340,907
Fee and commission expenses	**279,408**	**282,817**
Funds transfer	30,375	45,340
Securities business	29,618	24,071
Management fees	262	223
Brokerage and advisory fees	159	320
Insurance broking	0	0
Other	218,995	212,864
TOTAL	**560,351**	**559,898**

Remark on "Other Gross fee and commission income": includes the commissions received on bank guarantees, factoring and leasing; the fee and commission income distribution and the commissions given on loans.

Remark on "Other Fee and commission expenses": includes the commissions paid on bank guarantees and leasing.

Note 24: Valuation results on non-trading derivatives

Valuation results on non-trading derivatives		
In EUR thousands	**2016**	**2015**
Change in fair value of derivatives relating to:		
- fair value hedges	-141,120	218,081
- cash flow hedges (ineffective portion)	0	-0
- other non-trading derivatives	275	-54,224
Net result on non-trading derivatives	**-140,845**	**163,857**
Change in fair value of assets and liabilities (hedged items)	140,743	-176,991
Valuation results on assets and liabilities designated as at fair value through profit and loss (excl trading)	4,656	62,094
NET VALUATION RESULTS	**4,555**	**48,960**

Note 25: Net trading income

Net trading income		
In EUR thousands	**2016**	**2015**
Securities trading results	-34,490	35,479
Foreign exchange transactions results	112,953	115,315
Derivatives trading results	71,096	-10,010
Other	646	253
TOTAL	**150,204**	**141,036**

Note 26: Other income

Other income		
In EUR thousands	**2016**	**2015**
Net operating lease income	0	0
Other	114,169	56,770
TOTAL	**114,169**	**56,770**

Remark on "Other": contains amongst others [1] The result on sale of property and equipment, and [2] Following an IFRS accounting policy change of Fiducre (ING's debt collection company). This change results in a different presentation in the P&L compared to previous year (between Loan Loss Provisioning, Other Income and Net interest). The impact is EUR 38 million. As from 2016 the income related to modified loans leading to derecognition, are presented as Net interest and Other income.

Note 27: Staff expenses

Staff expenses		
In EUR thousands	**2016**	**2015**
Salaries	691,874	707,319
Pension costs	60,719	50,570
Other staff-related benefit costs	733	0
Social security costs	164,778	182,168
Share-based compensation arrangements	10,690	8,636
External employees	82,739	102,595
Education	8,067	8,736
Other staff costs	33,083	34,323
TOTAL	**1,052,683**	**1,094,347**

Remark on "Pension costs": The amount includes EUR 19.5 million of Defined Benefit Contributions (see also note 16)

Note 28: Other operating expenses

Other operating expenses		
In EUR thousands	**2016**	**2015**
Depreciation of property and equipment	75,378	78,852
Amortisation of software	40,925	35,950
Computer costs	120,885	131,083
Office expenses	100,186	114,885
Travel and accommodation expenses	44,707	45,042
Advertising and public relations	40,599	38,605
External advisory fees	26,466	30,148
Postal charges	3,898	2,334
Regulatory costs (bank levies)	220,673	187,518
Addition/(release) of provision for reorganisations	604,680	43,340
Impairments	90,286	6,220
Other	55,782	168,831
TOTAL	**1,424,465**	**882,808**

Remark on "Addition/(release) of provision for reorganisations": On 3 October 2016 ING Belgium announced its intention to undertake a fundamental transformation to enable the business to move from being a traditional bank institution to a banking platform at the cutting edge of the digital world and personalised customer service. ING Belgium intends to improve its customer experience by moving to an integrated banking platform, leveraging of the omni-channel capabilities of the Netherlands and rationalise its network by integrating ING and Record Bank branches. In addition to improving customer experience ING Belgium intends to eliminate the internal silo mentality and move away from a top-heavy management system towards multidisciplinary, agile, self-steering teams to deliver faster, at a lower cost.

The intended initiatives are expected to result in a reduction of ING´s workforce in Belgium by around 3,500 FTEs for the years 2016-2021. These numbers include the intended move to an integrated banking platform, with the remainder of functions affected spread over intended programmes in IT, operations, Wholesale Banking and various business support functions. At the same time, colleagues will be added in parts of the business where accelerated growth is expected, given the plans to continue to attract new customers and increase lending to support the economies ING is active in.

For the intended initiatives, a pre-tax redundancy provision and estimated early termination cost of contracts of around EUR 615 million was recognised in December 2016. These initiatives are implemented over the period 2017-2021 and the estimate of the reorganisation provisions is inherently uncertain. This pre-tax redundancy provision is based on the current state and content of the social negotiations and more specifically the different negotiated plans including early and voluntary leaves as well as the remaining residual forced exits needed to reach the intended fundamental transformation. Calculation of the provision has been done on available HR information on salary and age of the population and on several judgemental assumptions including actuarial ones based on the negotiated plans and on previous experience of the bank with such plans.

The provision at the balance sheet date represents the best estimate of the expected redundancy costs and are expected to be sufficient to cover these costs.

Remark on "Other": includes one-off procured cost savings of EUR 115 million.

Regulatory costs

Regulatory costs (bank levies)		
In EUR thousands	**2016**	**2015**
Operating Charges: Tax on Tax Exempted Liabilities	8,957	9,344
Financial Stability Contribution (FSC)	112,939	87,091
Contribution BRRD/SRF	38,779	26,033
Premiums for deposit insurance	59,998	65,049
TOTAL	**220,673**	**187,518**

Impairment of tangible and intangible assets

Impairment of tangible and intangible assets			
In EUR thousands	2016		
	Impairment losses	Reversals of impairments	Total
Property and equipment	52,722	-128	52,594
Property development			0
Goodwill			0
Software and other intangible assets	37,692	0	37,692
(Reversals of) other impairments	**90,414**	**-128**	**90,286**
Amortisations of other intangible assets			0
TOTAL			**90,286**

Remark on “Impairments”: In the context of the intended restructuring plan the “Real estate in own use” and “Capitalised software” have been reviewed for impairments triggered by the plan.

Note 29: Taxation

Breakdown of income tax expenses		
In EUR thousands	**2016**	**2015**
Current tax expenses	**411,323**	**347,524**
Current tax for the period	427,965	386,685
Adjustments for current tax of previous periods	-16,642	-39,161
Previously unrecognised tax losses, tax credits, temporary differences reducing current tax		
Deferred tax expenses	**-215,406**	**35,983**
Deferred taxes arising from current period	-215,406	35,983
Deferred taxes arising from changes in tax rates		
Deferred taxes arising from the reversal of deferred tax assets		
Previously unrecognised tax losses, tax credits, temporary differences reducing deferred tax		
Other tax expenses	**0**	**0**
Tax expense (income) relating to changes in accounting policies and errors in P&L		
Taxes relating to the gain or loss on discontinuance of an operation		
Income tax expense of discontinued operations		
Total income tax expenses	**195,917**	**383,507**

Reconciliation of statutory tax rate to effective tax rate		
In EUR thousands	**2016**	**2015**
Result before taxation - Tax expense using statutory rate	769,327	1,339,899
Statutory tax rate	**33.99%**	**33.99%**
Statutory tax amount	**261,494**	**455,432**
Tax effect of rates in other jurisdictions	-20,069	-7,895
Tax effect of non taxable revenues	-20,303	-13,779
Tax effect of non tax deductible expenses	27,209	18,410
Tax effect of utilisation of previously unrecognised tax losses		
Tax effect on tax benefit not previously recognised in profit or loss		
Tax effect from reassessment of unrecognised deferred tax assets		
Tax effect of change in tax rates		
Tax effect from under or over provisions in prior periods	-21,088	-36,708
Tax effect from notional interest	-31,326	-33,333
Other increase (decrease) in statutory tax charge		1,380
Effective tax amount	**195,917**	**383,507**
Effective tax rate	**25.47%**	**28.62%**

Complementary information

Fair value of financial assets and liabilities

Fair value of financial assets and liabilities				
In EUR thousands	2016		2015	
	Fair value	Carrying amount	Fair value	Carrying amount
Financial assets				
Cash and balances with central banks	5,008,639	5,008,639	4,267,049	4,267,049
Loans and advances to banks	*9,853,826*	9,885,421	11,098,251	12,668,906
Financial assets at fair value through profit and loss				
of which: trading assets	*8,674,772*	*8,674,772*	*14,504,727*	*14,504,727*
of which: non-trading derivatives	*4,413,044*	*4,413,044*	*4,419,223*	*4,419,223*
of which: designated as at fair value through profit and loss	*87,950*	*87,950*	*94,541*	*94,541*
Investments				
of which: available-for-sale	*17,022,923*	*17,022,923*	*18,809,053*	*18,809,053*
of which: held-to-maturity	*936,353*	*925,897*	*959,946*	*958,873*
Loans and advances to customers	*103,699,630*	101,632,669	96,923,485	92,800,051
Other assets	1,495,319	1,495,319	2,186,578	2,186,578
Financial liabilities				
Deposits from banks	13,330,516	13,333,629	10,743,404	10,741,946
Customer deposits	97,174,313	97,046,298	96,928,659	96,791,727
Financial liabilities at fair value through profit and loss				
of which: trading liabilities	*8,808,874*	*8,808,874*	*13,129,450*	*13,129,450*
of which: non-trading derivatives	*6,074,113*	*6,074,113*	*6,069,523*	*6,069,523*
of which: designated as at fair value through profit and loss	*1,789,330*	*1,789,330*	*2,371,524*	*2,371,524*
Debt securities in issue	8,053,726	7,743,252	8,229,278	8,502,448
Subordinated loans	1,641,268	1,440,429	1,419,980	1,423,471

A three level hierarchy

The estimated fair values correspond with the amounts at which the financial instruments could have been traded on a fair basis at the balance sheet date between knowledgeable, willing parties in arm's-length transactions. The fair value of financial assets and liabilities is based on quoted market prices, where available. Because substantial trading markets do not exist for all of these financial instruments, various techniques have been developed to estimate their approximate fair values.

These techniques are subjective in nature and involve various assumptions about the discount rate and the estimates of the amount and timing of the anticipated future cash flows. Changes in these assumptions could significantly affect the estimated fair values. Consequently, the fair values presented may not be indicative of the net realisable value. In addition, the calculation of the estimated fair value is based on market conditions at a specific point in time and may not be indicative of future fair values.

ING Belgium reports assets and liabilities that are measured at fair value in a three-level hierarchy:

- Level 1: published price quotations in an active market;
- Level 2: valuation technique supported by market inputs;
- Level 3: valuation technique not supported by market inputs.

Level 1 includes only assets and liabilities for which the fair value is determined using unadjusted quoted prices in active markets for identical assets or liabilities. An asset or liability is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions in an active market around the measurement date.

Level 2 includes assets and liabilities for which the fair value is determined using inputs other than (level 1) quoted prices that are market observable, either directly or indirectly, i.e.:

- using a model, where all significant inputs into the model are market observable;
- using adjusted quoted prices in an active market where the adjustment is solely based on market observable data (e.g. because the quoted prices relate to similar, but not identical assets or liabilities);
- using quoted prices from an inactive market without adjustment or with adjustments that are solely based on market observable data; where several quotes are obtained for the same instrument, a narrow range between the prices obtained may be an indicator that the prices are based on market observable data.

Level 3 includes assets and liabilities for which the fair value is determined using (certain) inputs that are not based on observable market data (unobservable inputs), i.e.:

- using a model, where one or more significant inputs are not market observable;
- using adjusted quoted prices where the adjustment is based on non-market observable data;
- using quoted prices from an inactive market with one or more adjustments that are based on non-market observable data; where several quotes are obtained for the same item and the disparity within the range of prices obtained is significant, the item is classified in level 3.

Transfers out of Level 1 into Level 2 occur when ING Group establishes that markets are no longer active and therefore (unadjusted) quoted prices no longer provide reliable pricing information. Transfers out of Level 2 into Level 1 occur when ING Group establishes that markets have become active for identical assets and liabilities and therefore (unadjusted) quoted prices provide reliable pricing information.

With the introduction of IFRS 13 "Fair Value Measurement" additional disclosures are asked:

- Financial instruments that are measured in the balance sheet at amortised cost, but of which the fair value is disclosed in the notes; this mainly relates to loans; and
- Non-financial assets that are measured in the balance sheet at fair value; this mainly relates to real estate
- Customer deposits and other funds on deposit.

Classification of Loans

Valuation of loans is normally not based on market prices for the specific loan, and therefore is not a Level 1 measurement. The determination of the fair value of loans is normally based on a valuation technique that includes various inputs, such as market yields, expected credit losses and liquidity.

As such, the valuation includes non-observable inputs (such as expected credit loss and liquidity) that, especially in the current market environment, are expected to significantly impact the estimated fair value. Therefore, fair values of loans are normally classified in Level 3.

Only when all significant inputs are obtained from market data, the fair value may be classified in Level 2. This could be the case when specific market data are available (e.g. when expected credit losses are based on market CDS spreads for the specific exposure) or when unobservable inputs are insignificant (e.g. for liquid loans with insignificant credit risk).

Classification of Real estate

Valuation of real estate is normally not based on market prices for the specific property, and therefore is not a Level 1 measurement. Valuations are normally based on appraisals that take into account various inputs and assumptions, such as rental income and required yields. These include non-observable inputs that, especially in the current market environment, are expected to significantly impact the estimated fair value. Therefore, fair values of real estate are normally expected to be classified in Level 3. Only when sufficient observable market transactions have occurred for properties that are similar to the property being valued, and the fair value estimate is based (almost) fully on such market transaction data, the fair value may be classified in Level 2.

Classification of Customer Deposits and Other Funds on Deposit

Valuations of instruments where the carrying value equals both the fair value and the notional amount because they are on demand, are classified as Level 1 measurements.

For customer deposits and other funds on deposit not on demand, fair value is normally based on a valuation technique. If the valuation only includes observable inputs such as interest the valuation is classified as Level 2. If the valuation includes non-observable inputs such as own credit, and this non-observable input significantly impacts the estimated fair value the valuation would be expected to be classified in Level 3.

Description of the significant unobservable inputs

A yield curve is derived from a selection of instruments of different maturities. A **spot rate** curve or zero-coupon curve is arrived at by bootstrapping and interpolating the yield curve. A forward rate curve is calculated by applying a mathematical formula to the spot rate curve. A **forward rate** represents the yield for a certain period, starting at a certain point in the future. A **swap rate** is the fixed rate that sets the market value of a given swap at initiation at zero.

A repo (or repurchase agreement) is the sale of securities together with an agreement for the seller to buy back the securities at a later date. The repurchase price should be greater than the original sale price, the difference effectively representing interest, called the **repo rate**.

Credit spread is the yield spread, or difference in yield between different securities due to different credit quality. The credit spread reflects the additional net yield an investor can earn from a security with more credit risk relative to one with less credit risk.

Level 3 can concern observable inputs that require significant adjustments/judgment e.g. sole broker quote with uncertainty around bid/offer spread; obtained with proxy tool but not corroborated.

The **recovery rate** is the estimated level of recovery should a counterparty default.

Volatility is a measure for variation of price of a financial instrument over time. Historic volatility is derived from the series of past market prices. An implied volatility is derived from the market price of a market traded derivative (in particular an option). The implied volatility of an option contract is that value of the volatility of the underlying instrument which, when input in an option pricing model will return a theoretical value equal to the current market price of the option. Depending on the parameter being analysed, one can distinguish **equity volatility**, **interest rate volatility** and **FX volatility**.

Correlation is the most familiar measure of dependence between two quantities. Stock-stock correlation measures the dependency between two stock prices, while IR-IR correlation measures the dependency between two interest rates.

Implied correlation is the market's price for the correlation between the return of assets. It can be backed out from the observed price of a derivative contract which relates two or more assets.

Fair value of financial assets
The following methods and assumptions were used by ING Belgium to estimate the fair value of these financial instruments.

Cash and balances with central banks
The carrying amount of cash equals its fair value.

Financial assets at fair value through profit or loss and held for trading
The fair values of securities in the trading portfolio and other assets at fair value through profit and loss are based on quoted market prices, where available. For those securities that are not actively traded, fair values are estimated based on internal discounted cash flow pricing models, taking into account current cash flow assumptions and the counterparties' credit standings.

Financial assets available for sale
The fair values of equity securities are based on quoted market prices or, if unquoted, on estimated market values generally based on quoted prices for similar securities. Fair values for fixed income securities are based on quoted market prices, where available.
For those securities that are not actively traded, fair values are estimated based on values obtained from private pricing services or by discounting expected future cash flows using a current market rate applicable to the yield, credit quality and maturity of the investment.

Loans and advances
For loans and advances that are frequently re-priced and have had no significant changes in credit risk, carrying amounts represent a reasonable estimate of fair values. The fair values of retail mortgage loans are estimated by discounting expected future cash flows, using interest rates offered for similar loans to borrowers with similar credit ratings. The fair values of non-performing loans are estimated by discounting the expected cash flows of recoveries.

The fair values of mortgage loans are estimated by discounting future cash flows, using interest rates currently being offered for similar loans to borrowers with similar credit ratings. The fair values of fixed-rate policy loans are estimated by discounting cash flows at the interest rates charged on policy loans of similar policies currently being issued. Loans with similar characteristics are aggregated for purposes of the calculations. The fair values of variable-rate policy loans approximate their carrying values.

Other financial assets
The carrying amount of other financial assets approximates their fair value.

Fair value of financial liabilities
The following methods and assumptions were used by ING Belgium to estimate the fair value of these financial instruments.

Financial liabilities at amortized cost
The fair value of the financial liabilities at amortised cost is estimated using discounted cash flows based on interest rates that apply to similar instruments.

Financial liabilities at fair value through profit or loss and held for trading
The fair values of securities in the trading portfolio and other liabilities at fair value through profit or loss are based on quoted market prices, where available. For those securities that are not actively traded, fair values are estimated based on internal discounted cash flow pricing models, taking into account current cash flow assumptions and the banks' credit standings.

Other financial liabilities
The carrying amount of other liabilities approximates their fair value.

Offsetting Financial assets and financial liabilities

The IFRS 7 offsetting disclosure requires to provide quantitative information about the rights to set-off and related arrangements (such as collateral arrangements).

Financial Instruments in scope

The disclosure requirements apply to all financial instruments that are:

1. presented net in the balance sheet under the IFRS netting requirements (legal right to set-off and intention to net settle); and
2. presented gross in the balance sheet but subject to enforceable master netting arrangements or similar arrangement except when these arrangements apply to:
   - loans and customer deposits at the same institution; or
   - financial instruments subject only to a collateral agreement (such as loans secured by collateral).

Disclosure requirements

The disclosure is provided per type of financial instrument per balance sheet line item. It is not required to provide information on a more granular level. A table for assets and a table for liabilities is required. Each table will require the following information for the financial instruments in scope:

1. Gross amounts of recognized financial assets (or liability):
   This cell represents the gross carrying value of items in scope (positive in asset table, negative in liability table), without applying any netting.

2. Gross amounts of recognized financial liabilities (or assets) set off in the balance sheet:
   This cell represents the amount of netting that has been applied under IFRS in the IFRS balance sheet. The total amount should be equal in the asset table and the liability table as total netting on assets and liabilities must be the same.

3. Net amounts of financial assets (or liabilities) presented in the balance sheet:
   This cell is the sum of the two cells above. It represents the amounts as included in the IFRS balance sheet. However, the amounts in this cell do not have to reconcile with the total amount in the applicable balance sheet line item.

4. Related amounts not set of: financial Instruments:
   This cell includes the amount of netting under enforceable master netting agreements. The amounts are limited to the amounts that are subject to set off under the same master netting agreement or similar arrangement.

5. Related amounts not set off: financial collateral received/paid:
   This cell includes amounts of cash and fair value of financial instrument collateral that is not set-off in the balance sheet but is associated with netting arrangements.

6. Net amount:
   This cell shows the net position after all netting and collateral.

Methods applied in determining fair values of assets - 2016

In EUR thousands	Comparison		Fair value hierarchy		
	Fair value	Carrying amount	Level 1	Level 2	Level 3
Assets at fair value	**30,745,080**	**30,745,080**	**15,896,254**	**14,069,542**	**779,284**
Trading assets	8,674,772	8,674,772	22,935	8,476,904	174,933
Non-trading derivatives	4,413,044	4,413,044		4,413,044	
Financial assets designated as at fair value through P&L	87,950	87,950		85,335	2,615
Available-for-sale investments	17,022,923	17,022,923	15,873,319	1,094,259	55,345
Property in own use	498,033	498,033			498,033
Real estate investments	48,358	48,358			48,358
Assets at amortised cost	**119,498,449**	**117,452,626**	**9,128,055**	**281,969**	**110,088,425**
Cash and balances with central banks	5,008,639	5,008,639	5,008,639		
Loans and advances to banks	9,853,827	9,885,421	2,986,190		6,867,637
Held-to-maturity investments	936,353	925,897	936,353		
Loans and advances to customers	103,699,630	101,632,669	196,873	281,969	103,220,788

PM: As for 2016 significant transfers between Level 1 and Level 2 of fair value happened within “Available-for-sale investments”: EUR 155 million from Level 1 to Level 2 and EUR 5 million from Level 2 to Level 1.

Consolidated annual accounts - continued

Methods applied in determining fair values of assets - 2015					
In EUR thousands	Comparison		Fair value hierarchy		
	Fair value	Carrying amount	Level 1	Level 2	Level 3
Assets at fair value	**38,440,196**	**38,440,196**	**20,523,126**	**17,080,976**	**836,092**
Trading assets	14,504,727	14,504,727	2,383,137	11,978,959	142,630
Non-trading derivatives	4,419,223	4,419,223		4,419,222	
Financial assets designated as at fair value through P&L	94,541	94,541		91,729	2,812
Available-for-sale investments	18,809,053	18,809,053	18,139,989	591,066	77,998
Property in own use	564,840	564,840			564,840
Real estate investments	47,812	47,812			47,812
Assets at amortised cost	**113,248,731**	**110,694,879**	**10,359,357**	**0**	**102,889,374**
Cash and balances with central banks	4,267,049	4,267,049	4,267,049		
Loans and advances to banks	11,098,251	12,668,906	4,312,580		6,785,671
Held-to-maturity investments	959,946	958,873	959,946		
Loans and advances to customers	96,923,485	92,800,051	819,782		96,103,703

Methods applied in determining fair values of liabilities - 2016					
In EUR thousands	Comparison		Fair value hierarchy		
	Fair value	Carrying amount	Level 1	Level 2	Level 3
Liabilities at fair value	**16,672,317**	**16,672,317**	**102,621**	**16,429,060**	**140,635**
Trading liabilities	8,808,874	8,808,874		8,668,984	139,890
Non-trading derivatives	6,074,113	6,074,113		6,073,368	745
Financial liabilities designated as at fair value through P&L	1,789,330	1,789,330	102,621	1,686,708	
Liabilities at amortised cost	**120,199,823**	**119,563,608**	**99,425,858**	**19,749,383**	**1,024,582**
Deposits from banks	13,330,516	13,333,629	4,813,789	8,024,122	492,604
Customer deposits	97,174,313	97,046,298	90,406,081	6,684,238	83,994
Debt securities in issue	8,053,726	7,743,252	2,688,899	4,916,844	447,984
Subordinated loans	1,641,268	1,440,429	1,517,089	124,180	

Methods applied in determining fair values of liabilities - 2015					
In EUR thousands	Comparison		Fair value hierarchy		
	Fair value	Carrying amount	Level 1	Level 2	Level 3
Liabilities at fair value	**21,570,497**	**21,570,497**	**101,674**	**21,241,760**	**227,064**
Trading liabilities	13,129,450	13,129,450		12,903,356	226,095
Non-trading derivatives	6,069,523	6,069,523		6,068,554	969
Financial liabilities designated as at fair value through P&L	2,371,524	2,371,524	101,674	2,269,851	
Liabilities at amortised cost	**117,321,321**	**117,459,592**			
Deposits from banks	10,743,404	10,741,946	5,045,143	5,698,261	
Customer deposits	96,928,659	96,791,727	75,036,684	8,372,726	13,519,250
Debt securities in issue	8,229,278	8,502,448	1,936,046	5,746,307	546,925
Subordinated loans	1,419,980	1,423,471	1,304,513	115,466	

Consolidated annual accounts - continued

Changes in Level 3 Financial assets - 2016					
In EUR thousands	**Trading assets**	**Non-trading derivatives**	**Financial assets designated at fair value through profit and loss**	**Available-for-sale investments**	**Total**
Opening balance	**142,630**	**0**	**2,812**	**77,998**	**223,440**
Amounts recognised in profit and loss during the year	106,521		35	9,459	**116,015**
Revaluation recognised in equity during the year				-8,340	-8,340
Purchase of assets				8,359	8,359
Sale of assets			-232	-26,652	-26,884
Maturity/settlement					0
Reclassification					0
Transfers into Level 3					0
Transfers out of Level 3					0
Exchange rate differences					0
Changes in the composition of the group and other changes	-74,218			-5,478	-79,696
CLOSING BALANCE	**174,933**	**0**	**2,615**	**55,345**	**232,893**

Changes in Level 3 Financial assets - 2015					
In EUR thousands	**Trading assets**	**Non-trading derivatives**	**Financial assets designated at fair value through profit and loss**	**Available-for-sale investments**	**Total**
Opening balance	**67,968**	**0**	**3,498**	**65,200**	**136,666**
Amounts recognised in profit and loss during the year	-11,935		-606		**-12,541**
Revaluation recognised in equity during the year			0	21,209	21,209
Purchase of assets	209,596		233	15,804	225,633
Sale of assets	-102,982		-313	-24,215	-127,510
Maturity/settlement					0
Reclassification					0
Transfers into Level 3	1,644				1,644
Transfers out of Level 3	-21,661				-21,661
Exchange rate differences					0
Changes in the composition of the group and other changes					0
CLOSING BALANCE	**142,630**	**0**	**2,812**	**77,998**	**223,440**

Changes in Level 3 Financial Liabilities - 2016				
In EUR thousands	**Trading liabilities**	**Non-trading liabilities**	**Financial liabilities designated at fair value through profit and loss**	**Total**
Opening balance	**226,095**	**969**	**0**	**227,064**
Amounts recognised in profit and loss during the year	16,358	-11		16,347
Revaluation recognised in equity during the year				0
Issue of liabilities				0
Early repayment of liabilities		-213		-213
Maturity/settlement				0
Transfers into Level 3				0
Transfers out of Level 3				0
Exchange rate differences				0
Changes in the composition of the group and other changes	-102,563			-102,563
CLOSING BALANCE	**139,890**	**745**	**0**	**140,635**

Changes in Level 3 Financial Liabilities - 2015				
In EUR thousands	**Trading liabilities**	**Non-trading liabilities**	**Financial liabilities designated at fair value through profit and loss**	**Total**
Opening balance	**208,777**	**1,988**	**0**	**210,765**
Amounts recognised in profit and loss during the year	18,300	23		18,323
Revaluation recognised in equity during the year				0
Issue of liabilities	222,378			222,378
Early repayment of liabilities				0
Maturity/settlement	-187,365	-1,043		-188,408
Transfers into Level 3	450			450
Transfers out of Level 3	-36,444			-36,444
Exchange rate differences				0
Changes in the composition of the group and other changes				0
CLOSING BALANCE	**226,095**	**969**	**0**	**227,064**

Amounts recognised in profit and loss during the year - 2016			
In EUR thousands	**Held at balance sheet date**	**Derecognised during the year**	**Total**
Financial assets			
Trading assets	106,520		106,520
Non-trading derivatives			
Financial assets designated at fair value through profit and loss	-197		-197
Available-for-sale investments	-342	9,801	9,459
TOTAL	**105,981**	**9,801**	**115,782**
Financial liabilities			
Trading liabilities	-16,358		-16,358
Non-trading derivatives			
Financial liabilities designated at fair value through profit and loss			
TOTAL	**-16,358**	**0**	**-16,358**

Amounts recognised in profit and loss during the year - 2015			
In EUR thousands	**Held at balance sheet date**	**Derecognised during the year**	**Total**
Financial assets			
Trading assets	-11,935		-11,935
Non-trading derivatives			
Financial assets designated at fair value through profit and loss	-687		-687
Available-for-sale investments	-6,372	3	-6,369
TOTAL	**-18,994**	**3**	**-18,990**
Financial liabilities			
Trading liabilities	-19,342		-19,342
Non-trading derivatives	1,019		1,019
Financial liabilities designated at fair value through profit and loss			
TOTAL	**-18,323**	**0**	**-18,323**

Offsetting financial assets and liabilities

The following tables include information about rights to offset and the related arrangements. The amounts included consist of all recognised financial instruments that are presented net in the statement of financial position under the IFRS offsetting requirements (legal right to offset and intention to net settle) and amounts presented gross in the statement of financial position but subject to enforceable master netting arrangements or similar arrangement.

Netting agreement as well as the height of the collateral are specified in an ISDA contract (for derivatives) or CSA contract (for credit contracts).

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

In EUR thousands		Gross amounts of recognised financial assets	Gross amounts of recognised financial liabilities offset in the balance sheet	Net amounts of financial assets presented in the balance sheet	Related amounts not offset in the balance sheet: Financial instruments	Related amounts not offset in the balance sheet: Cash and financial instruments received as collateral	Net amount
Amounts due from banks	Reverse repurchase, securities borrowing and similar agreements						
	Other						
Financial assets at fair value through profit and loss - Trading assets	Derivatives	5,160,403	-113,057	5,047,346	4,376,307	145,700	525,339
	Reverse repurchase, securities borrowing and similar agreements						
	Other						
Financial assets at fair value through profit and loss - Non-trading derivatives	Derivatives	38,002	-9,402	28,599	28,599		
Available for sale	Reverse repurchase, securities borrowing and similar agreements						
	Other						
Loans and advances to customers	Reverse repurchase, securities borrowing and similar agreements						
	Other						
Other assets where offsetting is applied in the balance sheet	Other	36,483		36,483			
Impact of enforceable master netting arangements or similar arrangements	Derivatives				-1,511,213		1,511,213
	Other						
TOTAL FINANCIAL ASSETS		**5,234,888**	**-122,460**	**5,112,428**	**2,893,693**	**145,700**	**2,036,552**

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

In EUR thousands		Gross amounts of recognised financial liabilities	Gross amounts of recognised financial assets offset in the balance sheet	Net amounts of financial liabilities presented in the balance sheet	Related amounts not offset in the balance sheet: Financial instruments	Related amounts not offset in the balance sheet: Cash and financial instruments received as collateral	Net amount
Amounts due to banks	Reverse repurchase, securities borrowing and similar agreements						
	Other						
Customer deposits and other funds on deposit	Reverse repurchase, securities borrowing and similar agreements						
	Corporate deposits						
	Other						
Financial liabilities at fair value through profit and loss - Trading liabilities	Derivatives	2,152,774		2,152,774	2,152,774		
	Reverse repurchase, securities borrowing and similar agreements						
	Other						
Financial liabilities at fair value through profit and loss - Non-Trading derivatives	Derivatives	179,875		179,875	179,874		
Other liabilities where netting is applied in the balance sheet	Other	36,843		36,843			36,843
Impact of enforceable master netting arangements or similar arrangements	Derivatives						
	Other						
TOTAL FINANCIAL LIABILITIES		**2,369,492**	**0**	**2,369,492**	**2,332,648**	**0**	**36,843**

Assets not freely disposable

The assets not freely disposable consist primarily of Loans and advances to customers pledged to secure Debt securities in issue and serve to secure margin accounts and are used for other purposes required by law.

ING has an obligation to maintain a reserve with central banks. As at 31 December 2016, the minimum mandatory reserve deposits with central banks amount to EUR 1,008 million (2015: EUR 991 million).

Assets not freely disposable		
In EUR thousands	**2016**	**2015**
Banks		
- Cash and balances with central banks	*870,765*	*968,520*
- Amounts due from banks	*3,124,129*	*5,132,536*
Financial assets at fair value through profit and loss	0	0
Investments	35,827	456,488
Loans and advances to customers	7,046,219	6,330,801
Other assets	0	0
TOTAL	**11,076,939**	**12,888,345**

Off-balance sheet commitments

In the normal course of business, ING Belgium is a party to activities whose risks are not reflected in whole or part in the consolidated financial statements.

Guarantees relate to both credit and non-credit substitute guarantees. Credit-substitute guarantees are guarantees given by ING Belgium with respect to credits granted to customers by a third party. Many of them are expected to expire without being drawn on and therefore do not necessarily represent future cash outflows.

The guarantees are generally of a short-term nature. In addition to the items included in contingent liabilities, ING Belgium has issued guarantees as a participant in collective arrangements of national industry bodies and as a participant in government-required collective guarantee schemes which apply in different countries.

Irrevocable letters of credit mainly secure payments to third parties for foreign and domestic trade transactions of a customer in order to finance a shipment of goods. ING Belgium's credit risk in these transactions is limited since they are collateralized by the commodity shipped and are of a short duration. Other contingent liabilities mainly relate to acceptances of bills and are of a short-term nature.

Irrevocable facilities mainly constitute unused portions of irrevocable credit facilities granted to corporate clients. Many of these facilities are for a fixed duration and bear interest at a floating rate. ING Belgium's credit risk in these transactions is limited. Most of the unused portion of irrevocable credit facilities is secured by customers' assets or as counter-guarantees by the central governments and exempted bodies under the regulatory requirements. Irrevocable facilities also include commitments made to purchase securities to be issued by governments and private issuers.

Breakdown of off-balance sheet commitments - Notional amounts		
In EUR thousands	**2016**	**2015**
Loan commitments	**33,380,757**	**34,723,684**
Given	33,377,256	34,723,684
Received (-)	-3,501	0
Financial guarantees	**26,726,297**	**24,752,006**
Given	711,249	655,322
Received (-)	-26,015,048	-24,096,684
Other commitments	**11,159,591**	**9,273,781**
Given	11,071,117	9,187,581
Received (-)	-88,474	-86,200

ING Belgium nv/sa leases assets to third parties under operating leases as lessor. No individual operating lease has terms and conditions that materially affect the amount, timing or certainty of the consolidated cash flows of the ING Belgium.

Finally, hereunder the off-balance collaterals for ING Belgium:

Off-balance collaterals	
In EUR thousands	**2016**
Guarantees given or promised (own use)	
Liabilities	
TLTRO	1,600,000
Covered bonds	4,334,369
Off-balance	
Credit claims National Bank of Belgium	6,508,900
Investment portfolio	1,104
Assets under guarantee	12,116,511
Collateral	58,538
Others	8
Guarantees given or promised (third parties)	
Collateralized third party debt securities	16,546

Share-based payments

Through the Long-term Equity Ownership (Leo) plan, which has existed since 2004, ING Group NV offers stock options and performance shares to a number of staff members worldwide.

The main characteristics of Leo are as follows:

Stock options:
- gives the participant the right to buy a number of stock shares of ING Group NV equal to the number of options owned at a predefined exercise price;
- an exercise period of 10 years as from the date of receiving the option, which can be reduced to five years at the initiative of the participant;
- a vesting period of three years as from the date of receiving the option;
- exercise by means of delivering ING Group NV stock shares to the participant, immediately followed by the sale of them or by placing them in a brokerage account after payment of the exercise price.

Performance shares:
- offering of a number of performance shares on stock shares of ING Group NV, for which the final number of performance shares depends on the relative position of ING's Total Shareholder Return (TSR) within the TSR of ING Group's competitors;
- vested at the end of the three-year performance period;
- settlement made on the basis of a distribution election (sell all/retain all/sell some).

As of 2011, a new share-based payment plan has been introduced named 'Long-term Sustainable Performance Plan' (LSPP). This plan replaces the Leo plan. (Existing plans which are still running remain unchanged).

The main characteristics of the LSPP are as follows:
- a 100% share plan;
- vesting is dependent on the ING Group performance target;
- tiered vesting: 1/3 after first year, 1/3 after second year, 1/3 after third year.

Movements in stock options				
In EUR	**Options outstanding**		**Weighted average exercise price (in EUR)**	
	2016	**2015**	**2016**	**2015**
Opening balance	**3,611,643**	**5,262,463**	**17.50**	**16.40**
Transfer	-392,139	-14,279	16.50	12.28
Granted				
Exercised	-119,756	-555,909	5.89	6.23
Forfeited	-29,496	-54,039	17.34	16.53
Rights issue				
Expired	-780,569	-1,026,593	24.98	18.15
CLOSING BALANCE	**2,289,683**	**3,611,643**	**15.73**	**17.50**

The weighted average share price at the date of exercise for options exercised during 2016 is EUR 10.43 (This is the ING Group average, as this is not available per business unit).

Summary of stock options outstanding and exercisable

Range of exercise price in EUR	Options outstanding as at 31 December 2016	Weighted average remaining contractual life	Weighted average exercise price	Options excercisable as at 31 December 2016	Weighted average remaining contractual life	Weighted average exercise price
00.00 - 05.00	255,537	2.21	2.73	255,537	2.21	2.73
05.00 - 10.00	425,889	3.22	7.31	425,889	3.22	7.31
10.00 - 15.00	5,905	1.71	14.14	5,905	1.71	14.14
15.00 - 20.00	919,992	1.20	17.04	919,992	1.20	17.04
20.00 - 25.00	682,360	0.23	24.10	682,360	0.23	24.10
25.00 - 30.00	0	0.00	0.00	0	0.00	0.00
30.00 - 35.00	0	0.00	0.00	0	0.00	0.00
35.00 - 40.00	0	0.00	0.00	0	0.00	0.00

The fair value of options granted is recognized as an expense under staff expenses and is allocated over the vesting period of the options. The fair values of the option awards have been determined using a European Black Scholes formula. This model takes the risk free interest rate into account (2.02% to 4.62 %), as well as the lifetime of the options granted (5 to 9 years), the exercise price, the current share price (EUR 2.90 – EUR 25.42), the expected volatility of the certificates of ING Group NV shares (25.00% – 84.00%) and the expected dividend yield (0.94% to 8.99%).

The source for implied volatilities used for the valuation of the stock options is ING's trading system. The implied volatilities in this system are determined by ING's traders and are based on market data implied volatilities not on historical volatilities.

Share based payments

In EUR thousands	2016	2015
Expense arising from share based payments	10,690	8,636
Expense arising from cash transactions		
- total nominal amout at the end of the year		
- total intrinsic value at the end of the year		

Related party disclosures

Related parties

In EUR thousands	Parent & its subsidiaries	Associates
Assets	6,458,473	2,643,882
Liabilities	10,914,343	882,761
Off-balance sheet commitments given	338,537	2,276
Off-balance sheet commitments received	203,733	0
Income received	584,001	19,986
Fees and commissions received	73	1,629
Expenses paid	935,441	16,497
Fees and commissions paid	4,167	0

In the normal course of business, ING Belgium enters into various transactions with related parties. Parties are considered to be related if one party has the ability to control or exercise significant influence over the other party in making financial or operating decisions. Related parties of ING include, among others, its subsidiaries, associates, joint ventures, key management personnel, and various defined benefit and contribution plans (see also chapter “Remuneration of the members of the Board of Directors and Executive Committee” hereafter). Transactions between related parties include rendering or receiving of services, leases, transfers under finance arrangements and provisions of guarantees or collateral. There are no significant provisions for doubtful debts or individually significant bad debt expenses recognised on outstanding balances with related parties.

Transactions between ING and its subsidiaries are eliminated on consolidation. ING Belgium also enters into transactions with ING Bank NV and its subsidiaries. These transactions vary from financing activities to regular purchases and sales transactions.

Legal proceedings

ING Belgium and its subsidiaries are involved in litigation proceedings in Belgium and in foreign jurisdictions involving claims by and against them which arise in the ordinary course of their business, including in connection with their activities as lenders, investors and taxpayers. In certain of such proceedings, large or indeterminate amounts are sought, including punitive and other damages.

While it is not feasible to predict or determine the ultimate outcome of all pending or threatened proceedings, management does not believe that their outcome will have a material adverse effect on ING Belgium's financial position or results of operation.

In Belgium, these legal proceedings include in particular several pending disputes over an alleged responsibility of the bank in the framework of allegedly fraudulent operations early in the years 2000, relating to third parties. The first instance body rendered two favourable decisions for the bank and one which was partially favourable for the Belgian state.

The bank has also been assigned by some customers who took out (intended to take out) a floating rate credit with ING or another bank and who signed in 2007-2008 an IRS contract ("Interest Rate Swap") with ING Belgium in order to hedge the increase of the interest rates which had been announced. The judgment in the first instance was in favour of ING in all the cases. The appeal procedure is still ongoing for some cases. Only one case resulted in a judgment of the Court of Appeal which was totally in favour of ING.

ING Belgium has also been assigned to court by an IT services supplier with whom it had contracted for the outsourcing of the conservation and the execution of orders relating to financial instruments. The performance of this contract by the supplier being unsatisfactory, ING Belgium has ended this collaboration, in accordance with the provisions of contract between the parties, which is disputed by the supplier. ING won in the first instance. The IT services supplier lodged an appeal against the decision.

Finally, 81 retired ING employees assigned the bank after the disappearance of FMC-MHF («Fonds Médico Chirurgical – Medisch Heelkundig Fonds») (fund providing a medical coverage) as they were of the opinion that this disappearance (with proposed alternative solutions) caused a financial harm. The Court of First Instance ruled in favour of the complainants as far as the principle is concerned but did not yet take a decision on the extend of the damage allegedly caused. As there are still ongoing legal proceedings the amounts in scope cannot be disclosed.

Record Bank, a subsidiary of ING Belgium, has received multiple summonses from clients of independent agents. These independent agents, without knowledge of Record Bank, have received funds from their clients to be invested with a third party with whom Record Bank has neither a link nor a business relationship. This third party has since gone bankrupt. Criminal proceedings have been opened, but Record Bank has been set out of that criminal proceeding.

In Luxembourg, ING Luxembourg is confronted with several disputes over an alleged responsibility of the bank in the framework of an ex-employee fraud in the area of fraudulent fund collection before 2005. ING Luxembourg is also involved in cases concerning so called fraudulent operations regarding cash companies before 2002. In the frame of those cases, the Bank (and an ex-employee) is (are) pursued before the criminal court in Belgium or summoned by the authorities before the civil court.

Country by country

Based on article 420 of the Belgian banking law of 25 April 2014, ING Belgium is required to disclose the following information as presented below on a consolidated basis. The country by country reporting includes all entities in the scope of consolidation of ING Belgium.

ING Belgium consolidated 2016, country by country

In thousands EUR	Nature of activities	Turnover (*)	Number of employees (in FTE)	Profit/loss before tax	Taxes on result	Government grants received
Belgium	Banking, other financial services and real estate	3.027.961	8.836	625.090	144.287	
Luxembourg	Banking, other financial services and insurance	209.246	790	74.685	32.182	
Canada	Other financial services	-29		-86		
USA	Other financial services	-30		-150		
Switzerland	Banking and other financial services	189.007	217	69.788	19.449	

(*) Turnover includes: fee and commission income/expenses, net exchange differences (gains or loss), other operating income/expenses.

SCOPE:

Belgium:

ING Belgium nv/sa, CEL Data Services nv/sa, Immo Globe nv/sa, ING Contact Center nv/sa, ING Lease Belgium, New Immo-Schuman nv/sa, Record Bank nv/sa, Record Credit Services cvba/scrl, Sogam nv/sa, Sogès-Fiducem nv/sa

Luxemburg:

ING Luxembourg, ING Lease Luxembourg, ING Belgium International Finance Luxembourg sa

Canada:

Belgium Overseas Agencies Ltd

USA:

Belgian Overseas Issuing Corp

Switzerland:

ING Belgium Genève (branch)

Auditor's remuneration

KPMG Bedrijfsrevisoren – Réviseurs d'Entreprises burg. CVBA/SCRL civile is the auditor of ING Belgium.
This was Ernst & Young Bedrijfsrevisoren / Réviseurs d'Entreprises burg. CVBA/SCRL civile in 2015.

The table below shows audit and non-audit fees for the group for the years 2015 and 2016.

Auditor's remuneration		
In EUR thousands	**2016**	**2015**
The auditors and related professional working partners		
1. Auditors' fees	**2,293**	**2,248**
1.1 Fees for the exercise of the audit mandate	2,293	1,945
1.2 Fees for extraordinary duties or special assignments executed for the group		303
a. Other control assignments		303
b. Tax advice assignments		
c. Other non-audit assignments		
2. Professional working partners' fees	**0**	**514**
2.1 Fees for the exercise of the audit mandate		446
2.2 Fees for extraordinary duties or special assignments executed for the group		68
a. Other control assignments		27
b. Tax advice assignments		
c. Other non-audit assignments		41

All fees were expressly approved by the Audit Committee of ING Belgium nv/sa and the Audit Committee of ING Group NV (Amsterdam).

Remuneration of the members of the Board of Directors and Executive Committee

Breakdown of remuneration paid to members of the Board of Directors

The Annual General Meeting held on 25 April 2011 fixed the remuneration of each member of the Board of Directors at EUR 35,000. Non-executive board members are not entitled to any termination indemnity.

The total remuneration allocated to the serving Directors of the Board for 2016 was EUR 650,000.

Loans and advances to members of the Board of Directors

Loans and advances to members of the Board of Directors		
In EUR thousands	**2016**	**2015**
Loans and advances	2,670	1,211

The loans and advances granted to the members of the Board of Directors are at market conditions.

Breakdown of remuneration paid to members of the Executive Committee

The recent changes to the rules in force in the financial sector have resulted in the adoption of new remuneration policies. Total compensation for members of the Executive Committee has since then been reviewed and now consists of two main components:

- the base salary, which represents the total guaranteed annual income;
- variable remuneration, of which payment takes place in two portions: an upfront portion and a deferred portion.
  - the upfront portion is half cash and half ING Group shares or similar financial instruments. The latter half must be retained for period of one year;
  - the deferred portion with deferral period of three (or five) years applying a tiered vesting schedule. Each annual allocation is half cash and half ING Group shares or similar financial instruments. The latter half must, however, be held for a period of one year.

Variable remuneration is awarded under the condition precedent of the non-occurrence of any of the following circumstances: misbehaviour or serious error, malfeasance, fraud, significant failure of risk management, significant changes in the economic and regulatory Capital Base, specific conduct which has led to material re-statement of the Group's annual account or significant harm.

In addition to the base salary and incentive plans, the members of the Executive Committee also enjoy benefits similar to those granted to most other employees of ING Belgium, such as medical insurance, death insurance, use of company cars and representation allowances.

Breakdown of remuneration paid to members of the Executive Committee		
In EUR thousands	**2016**	**2015**
Short term employee benefits	3,597	3,566
Post employment benefits	927	921
Other long term benefits	282	274
Termination benefits	0	0
Share based payments	629	655
TOTAL	**5,434**	**5,416**

Pension scheme for members of the Executive Committee

The pensions of the members of the Executive Committee are based on a defined-contribution group insurance plan, insured through a contract with AXA Belgium nv/sa.

Other principal contractual stipulations regarding remuneration of members of the Executive Committee

If an individual's function as a member of the Executive Committee is terminated otherwise than through retirement, dismissal or serious misconduct, remuneration will be paid to equal 12 months of the base salary In case of termination for other reason than performance, the Board of Directors can decide to extend the remuneration to maximum 18 months (base salary and variable).

In case of long-term illness, the Executive Committee member will receive 100% of his last base salary during the first 12 months, 90% during the next 12 months and 50% afterwards.

No termination allowance or long-term illness allowances were paid in 2016.

Risk management

The traditional role of a commercial bank is to attract deposits, which it then uses to grant loans. This role implies a two-fold transformation: in transaction value and duration. In addition to this conventional business, known as 'on-balance sheet' activities, commercial banks have introduced a growing number of new off-balance sheet instruments with the common aim of managing different types of risks: credit, liquidity, interest rate, exchange rate and equity risks. These transactions are known as 'derivatives' and generally no funds are exchanged upon their conclusion.

The interest rate risk, exchange risk and equity risk are usually grouped under the generic term 'market risk'.

The management of credit risk has been entrusted to the bank's Credit Risk Management Department, which is part of the credit policy and decision line. The Risk Management Department is responsible for the management of liquidity risk, market risk and operational risk. The Legal Department manages legal risk.

Credit risk

Credit risk is the risk of loss resulting from the default by debtors or counterparties. Credit risk arises in the bank's lending, pre-settlement and investment activities, as well as in its trading activities. Credit risk management is supported by dedicated credit risk information systems and internal rating methodologies for debtors and counterparties.

Policy

ING Belgium's credit policy is aimed at maintaining a diversified loan and bond portfolio while avoiding large risk concentrations.

The task of defining the risk policy applicable to credit transactions and the bank's investment portfolio lies with the Credit Policy Committee, chaired by the Managing Director responsible for risk management. This policy is in line with the general policy of ING Group. It is explained in a credit policy manual and translated into credit procedures, which are made available to all those responsible for credit applications, decisions and monitoring.

Decision-making structures

Depending on the type and size of loans, the granting and monitoring process is subject to a strictly supervised procedure, delegating powers to various approval authorities. A similar procedure applies to operational risks relating to loan and derivatives contracts, acceptance of collateral and overdraft monitoring, as well as pre-litigation and litigation. As already stated above, legal risk assessment is the responsibility of the Legal Department. Credit decision-making powers are currently divided between three separate structures:

- ***Mandates***: The decision authority that can be exercised is expressed in mandate levels. The mandates decide on the maximum credit lines granted to a client in the framework of the bank's commercial activity.

  All decisions are taken by a maximum of two mandates:
    - One advisory-level mandate, and
    - One decision-level mandate.

  A mandate level consists mostly of ('twins' principle):
    - One 'Approval Signatory' from Front and
    - One 'Approval Signatory' from Risk Management.

  Decisions beyond a certain level of commitments require the opinion of a credit analyst.

- ***Standardised loans***: The bank has developed an automatic system to assist with the decision-making process for the granting of standardised loans. The system is based on the rating of the client, its reimbursement capacity, internal and/or external notoriety information, total amount of his commitments and some specific rules linked to the type of debtor and product.

- ***Securities committees***: They decide on the bank's investment strategy for its own financial instruments portfolios. The Credit Risk Management Department compiles the analyses and documents for the Central Securities Committee.

Files with problems are closely monitored. When appropriate, specific mandates decide the rapid implementation of preventive measures. Problem cases are identified, among others, by a series of automated warning signs.

Diversification of risks

In accordance with the principles applied by the regulatory authorities for calculating major risks, no borrower (neither a corporate customer nor a financial institution or a group) represents a risk greater than 25% of the bank's own funds. Intercompany exposure is limited at 100% of own funds.

ING Group has developed a set of "Golden Rules", which determine at the level of the entire group the lending limits per consolidated borrower, expressed as notional amounts and economic capital. In addition ING Belgium has set a limit (Single Name Concentrations) expressed in maximum loss on a consolidated borrower. ING also aims to have its portfolio well diversified over economic sectors.

ING Belgium has set up limits on sector concentrations combining size and sensitivity to a negative migration of a sector (Systemic Risk).

ING Belgium credit portfolio: breakdown by economic sector [1]

In % of outstanding	2016	2015
Automotive	1.19%	1.05%
Builders and Contractors	3.72%	3.88%
Central Banks	4.02%	3.49%
Central Governments	7.77%	9.80%
Chemicals, Health and Pharmaceuticals	3.29%	2.93%
Civic, Religious and Social Organizations	0.26%	0.44%
Commercial Banks	7.32%	7.48%
Food, Beverages and Personal Care	3.57%	3.35%
General Industries	5.72%	5.80%
Lower Public Administration	5.56%	5.16%
Media	0.76%	0.79%
Natural Resources	12.44%	10.48%
Non-Bank Financial Institutions	3.69%	4.59%
Private Individuals	15.24%	15.95%
Real Estate	6.27%	6.09%
Retail	2.36%	2.29%
Services	10.41%	10.03%
Technology	0.52%	0.48%
Telecom	0.36%	0.40%
Transportation and Logistics	2.90%	2.94%
Utilities	1.22%	1.18%
Other	1.41%	1.40%
TOTAL	**100.00%**	**100.00%**

[1] Consolidated scope - Based on lending, money market and investment activities

Counterparty risks linked to derivative transactions

Derivative transactions concluded with customers are almost all covered by a transaction with as counterparty another entity of the ING Group. Moreover, the bank signs framework agreements with these institutions, based on the model provided by the International Swaps and Derivatives Association (ISDA).

In most developed countries, these contracts among others allow the debit and credit positions of a defaulting counterparty to be offset, which in many cases considerably reduces the risk. Certain contracts also require the deposit of a cover (collateralisation) if the net position exceeds a predetermined amount.

The bank applies a rigorous policy for monitoring the counterparty risk linked to such transactions:

- each derivative contract is associated with a real credit risk ('present value') and a potential credit risk ('potential future exposure', or 'PFE');
- the assessment of outstandings per counterparty takes account of existing offsetting and collateralisation agreements;
- each counterparty must have an adequate credit limit, granted by the appropriate decision-making level and managed globally in real time for all dealing rooms.

A computerised application monitors in real time the risks on the bank's counterparties and constantly updates the consolidated position of the use of credit limits in all the dealing rooms. This application is backed up by a legal database which enables automatic, real time recognition of new transactions which could be legally offset against other bank treasury transactions. With this instrument, the bank is able to efficiently calculate risk netting and thus make more productive use of credit limits.

ING Belgium follows and is compliant with the European Regulation on OTC derivative agreement, central counterparties and trade repositories (EU No. 648/2012), also known under the European Market Infrastructure Regulation name (EMIR). This text aims to reduce the risks of OTC derivative agreement or Over The Counter (OTC) by promoting transparency and standardization of such financial instruments.

Minimum capital adequacy requirements – Basel III/CRR

Different models for credit [Probability of Default (PD), Loss Given Default (LGD), Exposure At Default (EAD)] as well as market and operational risks have been elaborated in conformity with the European regulation implementing Basel III (CRR). They are used within the entire ING Group.

A reconciliation process has been worked out to obtain certitude on the completeness and accuracy of the reported figures. Moreover, the Internal Capital Adequacy Assessment Process (ICAAP) as required by the NBB (National Bank of Belgium) has been elaborated in close cooperation with ING Group.

Credit exposure

The credit exposure of ING Belgium mainly relates to traditional lending to individuals and businesses. Loans to individuals are mainly mortgage loans, secured by residential property. Loans to businesses are often collateralised, but can be unsecured based on internal analysis of the borrowers' creditworthiness. Pre-settlement credit exposure arises also from trading activities, for instance in derivatives, repurchase transactions and securities lending/borrowing.

The bank uses various market pricing and measurement techniques to determine the amount of credit risk on pre-settlement activities. These techniques estimate in particular ING Belgium's potential future exposure on individual and portfolios of trades. Master agreements and collateral agreements are frequently entered into with the aim of reducing these credit risks.

Credit exposure

In EUR thousands	2016	2015
Cash and balances with central banks	5,008,639	4,267,049
Amounts due from banks		
of which: loans and advances to banks	9,885,421	12,558,705
of which: cash advances, overdrafts and other balances	0	110,201
Trading assets		
of which: equity securities	8,026	2,319,984
of which: debt securities	22,935	59,415
of which: derivatives	8,643,306	12,124,522
of which: loans and receivables	505	806
Non-trading derivatives	4,413,044	4,419,223
Designated at fair value through profit and loss	87,950	94,541
Available for sale debt securities	16,967,509	18,730,988
Held to maturity debt securities	925,897	958,873
Available for sale equity securities	55,414	78,065
Loans and advances to customers	101,632,669	92,800,051
TOTAL	**147,651,315**	**148,522,423**

Risk classes are defined based upon the credit quality of the client, varying from investment grade to problem grade.

In the table below they are expressed in Moody's and S&P equivalents.

ING Belgium credit portfolio: breakdown by risk classes [(1)]		
In % of outstanding	**2016**	**2015**
AAA	5.44%	5.82%
AA	18.97%	19.53%
A	13.24%	13.40%
BBB	24.15%	25.05%
Subtotal investment grade	***61.81%***	***63.81%***
BB	25.19%	23.56%
B	8.91%	8.38%
Watch/Problem grade	4.09%	4.26%
TOTAL	**100.00%**	**100.00%**

[(1)] Consolidated scope - Based on lending, money market and investment activities

The ING Belgium credit portfolio is under constant review. Files above a certain amount are reviewed at least once a year. Moreover, portfolio committees per business with the participation of the management of risk and of front office are organized quarterly.

A formal analysis takes place quarterly to determine the provisions for possible bad debts, using a bottom-up approach. Conclusions are discussed by the ING Provisioning Committee, which advises the Executive Board on specific provisioning levels. ING Belgium identifies as 'impaired' those loans for which it is probable, based on current information and events that the principal and interest amounts contractually due will not be collected in accordance with the contractual terms of the loan agreements.

Off-balance sheet exposures of ING Belgium include given guarantees, letters of credit and credit lines. Guarantees relate both to credit and non-credit substitute guarantees. Credit-substitute guarantees are guarantees given by ING Belgium in respect of credit granted to customers by a third party. Many of them are expected to expire without being drawn on and therefore do not necessarily represent future cash outflows. The guarantees are generally of a short-term nature.

Irrevocable letters of credit mainly secure payments to third parties for a customer's foreign and domestic trade transactions in order to finance a shipment of goods. The bank's credit risk in these transactions is limited since these transactions are collateralized by the commodity shipped and are of a short duration.

Irrevocable facilities mainly constitute irrevocable credit facilities granted to corporate clients. Many of these facilities are for a fixed duration and bear interest at a floating rate. Irrevocable facilities also include commitments made to purchase securities to be issued by governments and private issuers.

Country risk

Country risk is the risk which is specifically attributable to events in a given country or group of countries. Country risk is identified in lending (corporate and counterparty), trading and investment activities. All transactions and trading positions generated by ING Belgium include country risk.

Country risk is further divided into economic and transfer risk:

- ***Economic risk*** is the risk resulting from any event in the country which may affect transactions and other exposure in that country, regardless of the currency.
- ***Transfer risk*** is the risk that debtors in a country are unable to ensure timely payments of foreign currency debt service due to transfer of exchange restrictions, or a general lack of foreign currency liquidity.

In countries where the bank is active, the relevant country's risk profile is regularly evaluated, resulting in a country rating. Country limits are based on this rating. Exposures derived from lending and investment activities are then measured and reported against these country limits on a daily basis.

ING Belgium credit portfolio: breakdown by country [1]		
In EUR billions (in outstanding)	**2016**	**2015**
Belgium	89.51	84.80
Luxembourg	8.90	7.64
Switzerland	7.64	6.10
The Netherlands	7.42	9.09
France	4.32	4.56
Germany	4.11	2.99
United States	3.02	2.34
United Kingdom	2.48	1.67
Singapore	1.29	0.87
Spain	1.12	1.15

[1] Consolidated scope - Based on lending, money market and investment activities: 10 largests

Collateral policies

As with all financial institutions and banks in particular, ING Belgium is in the business of taking credit risks. As such, the creditworthiness of its customers, trading partners and investments is continually evaluated for their ability to meet their financial obligations to ING Belgium. During the assessment process of creating new loans, trading limits or investments, as well as reviewing existing loans, trading positions and investments, ING Belgium determines the amount and type of cover, if any, that a customer may be required to give in order to secure its position.

Generally, the lower the perceived creditworthiness of a borrower or financial counterparty, the more cover the customer or counterparty will have to provide.

Within counterparty trading activities, ING Belgium actively enters into various legal arrangements whereby counterparties (or ING Belgium) may have to post collateral to one another to cover market fluctuations of their relative positions. Laws in various jurisdictions also affect the type and amount of collateral that ING Belgium can receive or pledge. Additionally, the bank will sometimes enter into credit default swaps and other similar instruments in order to reduce the perceived credit risk on a given borrower or portfolio.

Cover values

This section provides insight on the type of covers and to which extent a loan is collateralised. The cover disclosures are presented by risk category: Lending, Investment, Money-Market and Pre-settlement. The cover amounts are presented by the most relevant collateral forms, being mortgages and financial collateral (cash and securities), and the most relevant third party obligation being guarantees. ING obtains covers which are eligible for credit risk mitigation under CRR/CRDIV, as well as those that are not eligible.

The LTV for the mortgage book of ING Belgium nv/sa (standalone) is 64.4% and for Record Bank nv/sa (standalone) is 64.0 %.

Cover values including guarantees received - 2016						
		Cover type				
In EUR thousands	**Outstandings**	**Mortgages**	**Eligible Financial Collateral**	**Other CRR/CRDIV eligible**	**Guarantees**	**Non CRR/CRDIV eligible**
Consumer Lending	40,247,787	56,378,472	912,557	316,215	853,986	24,453,684
Business Lending	74,627,778	33,064,815	3,616,506	14,219,078	27,104,068	40,252,386
Money Markets and Investment	25,864,070	0	0	0	19,700	58,419
Pre-Settlement	6,629,952	0	19,683	0	0	244,186
TOTAL	**147,369,587**	**89,443,287**	**4,548,746**	**14,535,293**	**27,977,753**	**65,008,676**

Notes:

1. *Cover type 'Mortgages' includes mortgage mandates.*
2. *Cover amounts are based on ING internal valuation methods before haircuts per cover type.*
3. *In case multiple covers are received for a particular loan, the sum of the different cover amounts is displayed (this sum can be higher than the loan amount).*

Past due obligations

ING Belgium continually measures its portfolio in terms of payment arrears. Particularly the retail portfolios are closely monitored on a monthly basis to determine if there are any significant changes in the level of arrears.

Generally, an obligation is considered 'past due' if a payment of interest or principal is more than one day late. In practice, the first 5 to 7 days are considered to be an operational risk. After this period, letters will be sent to the obligor as a reminder of his/her (past due) payment obligations. If payment has not been made after 90 days, the obligation is considered impaired and is transferred to one of the 'problem loan' units. In order to reduce the number of arrears, most ING Belgium units encourage obligors to set up automatic debits from their accounts to ensure timely payments.

Loans with past due financial obligations of more than 90 days are automatically reclassified as impaired. However, there can also be other reasons for declaring a loan impaired prior to being 90 days past due. These include, but are not limited to, ING Belgium's assessment of the customer's perceived inability to meet its financial obligations or the customer filing for bankruptcy or bankruptcy protection. In some cases, a material breach of financial covenants will also trigger a reclassification of a loan to the impaired category. The table below provide information at year end on financial assets that are past due but not impaired.

Financial Assets past due but not yet impaired - 2016

In EUR thousands	Up to 30 days	Over 30 days up to 90 days	Over 90 days up to 180 days	Over 180 days up to 1 year	Over 1 year
Debt instruments					
Loans and advances	1,740,628	342,805			
Other financial assets					
TOTAL	**1,740,628**	**342,805**	**0**	**0**	**0**

Forbearance

Forbearance occurs when a client is considered to be unable to meet its financial commitments under the contract due to financial difficulties and ING decides to grant concessions towards the client. Forborne exposures are exposures in respect of which forbearance measures have been granted. Forbearance measures can be either modifications to existing contractual terms and conditions or total or partial refinancing. Examples include reduction of loan principal and/or interest payments, extended payment terms, debt consolidations and deferral of foreclosures. To identify forbearance, ING assesses clients with performing and non-performing outstanding amounts with one of following triggers: Early Warning Signals; Watch List; Regularization; Restructuring; Recovery; Risk Class 18, 19; Days past due ≥ 30 days.

For corporate customers, ING applies forbearance measures to support clients with fundamentally sound business models that are experiencing temporary difficulties. The aim is to maximise the repayment ability of the clients. For ING retail customers, clear criteria have been established to determine whether a client is eligible for forbearance, generally as part of an automated process. Specific approval mandates are in place to approve the measures, as well as procedures to manage, monitor and report the forbearance activities.

Exposures with forbearance measures can be either performing (Risk Ratings 1-19) or non-performing (Risk Ratings 20-22). ING applies criteria to move forborne exposures from non-performing to performing as well as criteria to remove the forbearance status that are consistent with the corresponding EBA standards. An exposure is reported as forborne for a minimum of two years, plus a probation period observed for forborne exposures to move from non-performing back to performing.

ING implemented its forbearance policy in 2014. In the course of 2016 based on a detailed re-assessment of the relevant standards set by EBA and subsequent regulatory guidance, ING Bank tightened the definitions under its forbearance policy. Key policy revisions that led to an increase in the scope of forbearance relate to the inclusion of concessions where the risk is significantly mitigated by the client and waivers or modifications of key financial covenants. As a result of these revisions in definition and scope, performing forborne exposure recognised by ING increased significantly as measures taken (in previous periods) were now recognised as forbearance.

Foreborne assets

In EUR thousands	2016			2015		
	Foreborne assets	of which: Performing	of which: Non-performing	Foreborne assets	of which: Performing	of which: Non-performing
TOTAL	**1,323,122**	**550,378**	**772,743**	**1,317,953**	**440,877**	**877,076**

Liquidity risk

Definition
Liquidity risk is the risk that ING Belgium or one of its subsidiaries cannot meet its financial liabilities when they come due, at reasonable costs and in a timely manner. Liquidity risk can materialise both through trading and non-trading positions. Within ING Belgium, the Assets and Liabilities Management Committee for ING Belgium Consolidated (ALCO BeLux) bears overall responsibility for the liquidity risk. The main objective of ING's liquidity risk framework is to maintain sufficient liquidity in order to ensure safe and sound operations. For this purpose liquidity risk is considered from three different angles: from a structural, tactical and contingency point of view.

Liquidity risk framework

Structural Liquidity Risk
Structural liquidity risk is the risk that the structural, long-term balance sheet cannot be financed timely or at a reasonable cost. In this view of liquidity risk, the total on- and off-balance sheet positions are considered from a structural asset and liability management perspective. The main objective is to maintain a sound liquidity profile by:
- maintaining a well-diversified mix of funding sources in terms of instrument types, fund providers, geographic markets and currencies;
- holding a broad portfolio of highly marketable assets that can be used to obtain secured funding;
- maintaining an adequate structural liquidity gap, taking into account the asset mix and both the secured and unsecured funding possibilities of ING Belgium;
- maintaining a funds transfer pricing methodology in which the cost of liquidity is adequately reflected both under a going concern and a contingency perspective.

Tactical Liquidity Risk
Tactical liquidity risk means considering the liquidity risk from a short-term perspective, i.e., by considering the short-term cash and collateral positions. Day-to-day liquidity management has been delegated to Bank Treasury, which is responsible for managing the overall liquidity risk position of ING Belgium.

Within Bank Treasury, the focus is mainly on the daily and intraday cash and collateral positions and on sufficiently staggering day-to-day funding requirements. For this purpose the Treasury function monitors all maturing cash flows along with expected changes in core business funding requirements.

The liquidity risk management function is delegated to Market Risk Management (MRM), which bears the responsibility for liquidity risk stress testing and for the identification, measurement and monitoring of the liquidity risk position. For the measurement and monitoring of the actual liquidity position, the focus is on the daily cash and collateral position. For stress testing purposes, the liquidity risk positions are calculated in line with the regulatory reporting requirements for liquidity risk of the Belgian National Bank. In addition to this, a framework is implemented within ING Belgium that sets limits on the overall weekly and monthly liquidity risk positions to ensure adequate buffers of liquidity.

The tables below provide a maturity analysis for financial assets and liabilities and show the remaining contractual maturities.

Assets

In EUR thousands	Less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Maturity not applicable	Total
Cash and balances with central banks	5,008,639						**5,008,639**
Amounts due from banks	6,754,934	246,383	1,237,499	925,300	721,305		**9,885,421**
Financials assets at fair value through profit and loss							**0**
- trading assets	741,729	418,148	921,769	2,711,155	3,881,971		**8,674,772**
- non-trading derivatives	148,956	132,494	367,373	1,520,462	2,243,759		**4,413,044**
- designated as at fair value through profit and loss	33,614	22,068	29,994	2,274			**87,950**
Investments:							**0**
- available-for-sale	355,780	194,569	1,739,097	8,199,040	6,479,024	55,414	**17,022,923**
- held-to-maturity		45,440	218,532	575,109	86,817		**925,897**
Loans and advances to customers	16,503,099	6,782,661	6,887,692	28,457,333	43,001,884		**101,632,669**
Intangible assets			33,308	66,617		2,557	**102,483**
Assets held for sale							**0**
Other assets	1,234,921	28,114	64,338	210,434	209,574		**1,747,381**
Remaining assets (where maturities are not applicable)						917,541	**917,541**
TOTAL ASSETS	**30,781,672**	**7,869,877**	**11,499,602**	**42,667,723**	**56,624,334**	**975,512**	**150,418,720**

Liabilities

In EUR thousands	Less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Maturity not applicable	Total
Subordinated loans			87,961	33,889	1,318,579		**1,440,429**
Debt securities in issue	214,016	270,278	789,536	4,652,614	1,816,807		**7,743,252**
Other borrowed funds							**0**
Amounts due to banks	9,579,213	778,285	70,781	2,182,714	722,636		**13,333,629**
Customer deposits and other funds on deposit	91,162,586	4,072,133	849,298	660,815	301,466		**97,046,298**
Financial liabilities at fair value through profit and loss							**0**
- other trading liabilities				73			**73**
- trading liabilities	633,535	444,450	1,004,082	2,635,469	4,091,265		**8,808,801**
- non trading derivatives	230,886	118,016	366,418	1,401,802	3,956,990		**6,074,112**
- designated as at fair value through profit and loss	19,100	102,683	272,029	1,206,482	189,036		**1,789,330**
Liabilities held for sale							**0**
Other liabilities	2,274,801	2,616	469,109	811,302	241,243		**3,799,071**
Remaining liabilities (where maturities are not applicable)						94,002	**94,002**
Non-financial liabilities							**0**
TOTAL LIABILITIES	**104,114,137**	**5,788,460**	**3,909,214**	**13,585,161**	**12,638,022**	**94,002**	**140,128,997**

Contingent liabilities and commitments - 2016

In EUR thousands	Less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Contingent liabilities in respect of:						
- Discounted bills						0
- Guarantees	464,229	510,517	834,185	1,039,847	2,996,185	5,844,963
- Irrevocable letters of credit	1,206,871	3,865,584	767,640	96,240	1,068	5,937,402
- Other						0
Subtotal	**1,671,100**	**4,376,101**	**1,601,824**	**1,136,087**	**2,997,253**	**11,782,365**
- Irrevocable facilities	2,809,627	386,621	2,282,216	12,753,372	4,784,421	23,016,256
TOTAL	**4,480,727**	**4,762,722**	**3,884,040**	**13,889,459**	**7,781,673**	**34,798,620**

Contingency Liquidity Risk

Contingency liquidity management relates to the organisation and planning for liquidity management in times of stress. ING Belgium has its own Contingency Funding Plan (CFP), which has been approved by the Assets and Liabilities Management Committee for ING Belgium Consolidated (ALCO BeLux). The CFP is also aligned with that of the ING Group via the functional lines that exist between global treasurers and local treasurers, and between global risk management and local risk managers.

The main objective of ING Belgium's CFP is to enable senior management to act effectively and efficiently at times of crisis. The CFP has been established to address temporary and long-term liquidity disruptions caused by a general event in the market or an ING-specific event. It ensures that all roles and responsibilities are clearly defined and all necessary management information is in place.

A specific liquidity crisis team is responsible for the liquidity management in times of crisis. The crisis team of ING Belgium is composed among others of the CRO, the CFO, the Board members in charge of Commercial and Retail Banking, the head of MRM ALM, the Head of Bank Treasury and the Head of Communications.

Market risk

Market risk is the risk of losses due to fluctuations in market risk factors, which include share prices, interest rates, exchange rates and commodity and property prices. Market risk arises from trading and non-trading activities. Trading market risks arise within ING Belgium Commercial Banking primarily through market-making and client facilitation in the fixed income, equities and foreign exchange markets, as well as in the directly related derivative markets. Non-trading market risk related to transactions over 1 year in euros is transferred to the Interest Rates Management (IRM) books. These are structural interest rate mismatch positions that result from commercial banking activities.

Decision-making structures and monitoring bodies

Twice a month, the Executive Committee meets in the Assets and Liabilities Management Committee (ALCO BeLux) to analyse among others the major gapping items relating to assets and liabilities (on- and off-balance sheet). Replicating models are used to set the theoretical maturities in respect of assets and liabilities for which maturities are not contractually known. The Strategic Liquidity and Interest Management Task Group (SLIM) meets each week. It advises the ALCO BeLux on interest rates, funding and balance sheet management issues.

The responsibility for and the approval of the management of the interest and liquidity risks and balance sheet management remain with the ALCO BeLux. Activities of Financial Markets and their support departments are reviewed by a weekly Financial Markets Committee, which is headed by the member of the Executive Committee in charge of all financial markets operations. The Market Risk Management Department coordinates the daily monitoring of market risks on a consolidated basis. It also compiles the analyses and documentation required for the smooth running of the ALCO BeLux and the Financial Markets Committee.

Value at risk

Potential risks relating to exchange rate, interest rate, credit spread risk, share price fluctuations and related risk factors must be kept under control.

Dealing room transactions are recorded, per strategic category, in dealer books, which in turn are grouped into market books according to the type of activity. Accounting rules are applied at the level of market books. These are classified as banking or trading books, pursuant to the Capital Adequacy Directive (CAD).

Market book positions are monitored daily by the Market Risk Management Department. Different limits are applied:

1) an open position risk limit is fixed on the basis of Value at Risk (VaR). VaR for market risk quantifies, with a one-sided confidence level of 99%, the maximum overnight loss that could occur due to changes in risk factors (e.g. interest rates, foreign exchange rates, equity prices, credit spreads, implied volatilities) if positions remained unchanged for a time interval of one day;
2) the sensitivities of the important market risk parameters are held against limit per market book in Trading. A sensitivity describes the impact of a change in a market risk parameter on the P&L.
3) stop loss and trigger point limits (expressed in term of VaR) are applied to the overall result per market book since the beginning of the year. As regards the trigger point limit, it leads to the analysis and the close monitoring of the position. When the stop loss limit is reached, the position should be liquidated upon decision of the Financial Markets Committee.

Precise requirements have been laid down as regards reporting to the Financial Markets Committee. In this respect, the bank applies best market practices by calculating its consolidated VaR daily. The bank uses a consistent approach to all risks. In addition, operators in the dealing rooms are provided with risk management information relating to their individual positions.

The bank also regularly estimates the possible repercussions of extraordinary market trends on VaR and on results ('stress testing'). These estimates supplement daily VaR and back-testing calculations.

The impact of historical market movements on today's portfolio is estimated based on equally-weighted, observed market movements of the previous 260 business days. The National Bank of Belgium (NBB) granted approval for the use of the Historical Value at Risk (HVaR) on 13 December 2011.

The approval of the NBB as regards the use of the Stressed Value at Risk (SVAR) and of the Incremental Risk Charge (IRC) was granted on 20 December 2011. The calculation of VaR through historical simulation is done by generating scenarios based on a sample of historical returns that are associated with each individual risk factor. These historical returns are applied to the current level of the risk factor in order to generate simulated scenarios.

The valuation of the portfolio under these various scenarios gives a distribution of possible portfolio values. The VaR is the loss figure at a predefined percentile. In the daily monitoring of the trading books, ING uses a VaR for a 1-day time horizon with a 99% confidence level.

Stressed VaR is calculated with the exact same settings as 10-day 99% HVaR, except for the historical market data period used. The period 31st March 2008– 31st March 2009 has been chosen for this 1-year period as this period was a stress period for the Trading activity of the bank. This stressed period is regularly reviewed.

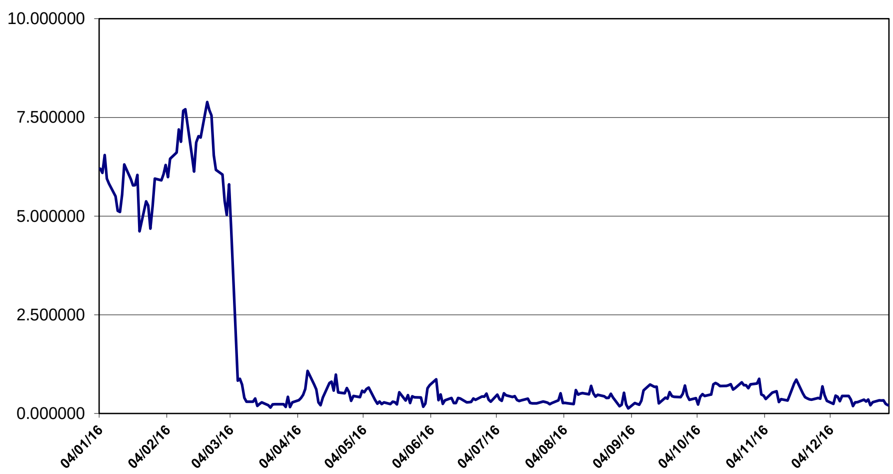
The Incremental Risk Charge (IRC) is defined as an estimate of default and migration risk of un-securitised credit products in the trading books over a one-year capital horizon at a 99.9% confidence level. Default risk is defined as the P&L impact due to an issuer defaulting. Migration risk is defined as the P&L impact due to a migration in credit rating of an issuer.

As per the recommendations of the Basel Committee, the calculation of the consumption in shareholders' funds (CAD), which was calculated for the first time for the situation date of as 31 December 2011, is based on the maximum either of the last day 10-day VaR or of the average 10-day VaR over the previous 60 days multiplied with a capital multiplication factor granted by the regulator (currently set to 3).

Furthermore, an additional charge for the Stressed VaR for a time interval of 10 days multiplied with a capital multiplication factor granted by the regulator (currently set to 3) and the Incremental Risk Charge must be taken into account.

The following chart shows the development of the overnight VaR for the bank's trading portfolio which was managed by trading risk management during 2016.

Consolidated Trading Hvar 1d 2016
(in EUR million)



The large fall appearing end of March 2016 is due to the move of the activity on equities from ING Belgium to the ING NV Belgian Branch.

Consolidated trading VaR 1d		
In EUR millions	**2016**	**2015**
VaR as at 31 December	0.21	4.78
Highest VaR	7.89	6.81
Lowest VaR	0.13	2.05
Average VaR	1.42	3.78
Backtest outliers	2.00	2.00

Although VaR models estimate potential future results, estimates are based on historical market data and the bank continuously monitors the plausibility and effectiveness of the VaR model in use. The technique for this purpose is generally known as back-testing, in which the actual daily result is compared with the daily VaR as calculated by the model. In addition to using actual results for back-testing, the bank also uses hypothetical results, which measure results excluding the effect of intraday trading, fees and commissions.

When the actual or hypothetical loss exceeds the VaR, an 'occurrence' has taken place. Based on ING Belgium's one-sided confidence level of 99%, an occurrence is expected, on average, once every 100 business days.

Since VaR in general does not produce an estimate of the potential losses that can occur as a result of extreme market movements, the bank uses structured stress testing to monitor the market risk under these extreme conditions. Stress scenarios are based on historical and hypothetical extreme events. The result of the stress testing is an event-risk number, which is an estimate of the income statement effect caused by a potential event and its worldwide impact for ING Belgium Commercial Banking.

The event-risk policy (and its technical implementation) is specific for ING Belgium, as there is no event risk calculation method that is generally accepted by other banks and regulators (unlike the Value-at-Risk model). The bank's event-risk policy basically consists of defined stress parameters per country and per market (fixed income, equity, foreign exchange and related derivative markets). Changes are based on relative (%) changes for equity and foreign exchange markets. For interest rates and credit spread markets, absolute shifts are used.

Per region/market different unwinding periods are assumed. Depending on the liquidity of the market, an unwinding period of two, three or four weeks is used for estimating the largest shift historically seen in the market. The basis for the setting of parameters is ten years of history, effectively taking into account all events that occurred in the past ten years. The scenarios and stress parameters are back-tested against extreme market movements that actually occur in the markets.

Interest rate risk in the non-Trading portfolio

The interest rate (or mismatching) risk results from gaps between maturing assets and liabilities (final maturities or rate review maturities) both on- and off-balance sheet. Depending on their nature and the trend in rates, they may have a positive or negative impact on the interest margin: if the bank is regularly a net daily borrower in times of falling rates, this will benefit its interest margin; should rates rise before the bank reverses its position, the opposite will occur.

As it is not possible to correctly forecast the trend in rates at all times, the interest rate risk must be managed through absolute authorised amounts of gaps for pre-defined periods in the future. At this level, there is a direct link between the volume and the remaining duration of the positions. ING Belgium uses several methods to control interest rate risk. The most important ones are Value at Risk (VaR), basis point value (BPV), Earnings at Risk (EaR) and Net present value (NPV) at Risk. The bank constantly monitors its maturity profiles, interest rate sensitivity and VaR, per dealer book and/or per activity.

P&L and equity sensitivity for interest rate shocks

In case of a 100 bps parallel downward interest rate shock, the impact on the earnings would remain stable mainly due to the fact that mortgage rates and non-maturing deposit rates are at historically low levels and will not further decrease in a scenario of decreasing interest rates. A parallel upward shock of 100 bps would increase the earnings by 50 mln.

The NPV impact for a 100 bps parallel downward and upward shock will be respectively -80 mln or -88 mln. This impact is almost fully linked to the mortgage portfolio.

Foreign exchange risk

The bank takes on exposure to foreign exchange fluctuations on its financial position and cash flows. Currency exposures in the non-trading books are transferred by way of internal transactions to Financial Markets, which performs the day-to-day management of all foreign currency positions.

ING Belgium is mainly a EUR driven bank, but has also originated assets and liabilities in USD and to a lesser extend in other currencies such as GBP and CHF. The USD risks are under control via a Funding & Liquidity USD Risk Appetite Statement and hence the FX exposure is very limited.

Operational risk

The ING Belgium Operational & Compliance Risk Department is the second line of defence department within ING Belgium for the management of the non-financial risks (Operational and Compliance risks).

Scope of operational risks

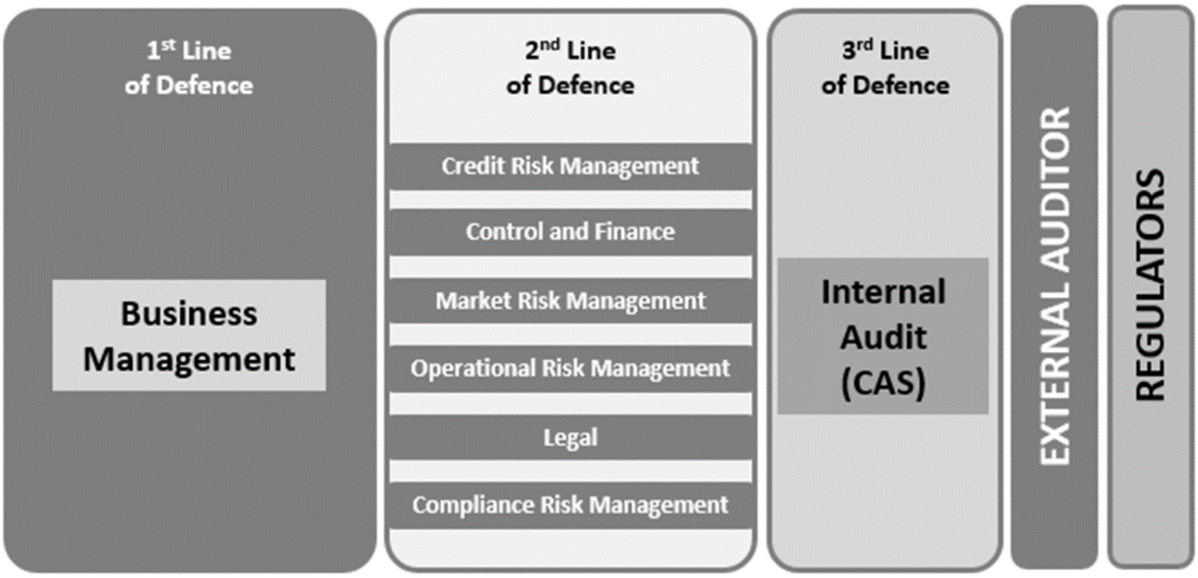
Operational risk is the risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems or from external events. It includes also reputational and legal risk. Strategic risk is not part of operational risk. Operational risk in general is an umbrella category for a number of sub-risks derived from Basel II:

- Control risk
- Unauthorized Activity risk
- Processing risk
- Employment Practice risk
- Personal & Physical Security risk
- Information (Technology) risk
- Continuity risk
- Compliance risk
- Internal Fraud risk
- External Fraud risk

Note that Compliance Risk is part of the Basel II definition of operational risk. However, within the ING setup, compliance risks are mentioned separately as different functional reporting lines, separate from Operational Risk Management.

Lines of Defence

For managing risks the ING Executive Board has chosen the three lines of defence risk governance model.



First line of defence

Heads of ING businesses have primary responsibility and accountability for the effective control of risks affecting their business (the 'first line of defence').

The first line of defence is responsible for the implementation and execution of ING's risk policies, minimum standards and the framework set by the second line of defence. Examples of typical first-line-of-defence activities are:

- perform Integrated Risk Assessments and evaluate related responses to ensure that only business acceptable risks remain;
- implement and maintain the applicable mandatory controls of the CORM (*) and Compliance policies, minimum standards, taking into account local laws and regulations;
- ensure the operating effectiveness of the key controls.

(*) Corporate Operational Risk Management (CORM) is part of the Corporate Risk Bank and reports to the Chief Risk Officer who is a member of the Executive Board. CORM has the specific mandate to:

- advise the Executive Board on the implementation of the ORM organisation, processes and systems;
- develop the operational risk strategies and policies, and set the objectives and minimum standards for the management of the operational risks. The general manager of CORM approves the policies and minimum standards;
- provide functional leadership regarding the ORM function, framework and processes, and take functional decisions if and when required;
- oversee the ORM function and set the objectives for ORM;
- determine the regulatory and economic operational risk capital charge;
- monitor the key risks of ING Group and ensure that ING's risk policies and minimum standards are fully implemented.

Second line of defence

Risk management functions (the 'second line of defence') are an independent partner of and support the first line of defence's risk management activities. Examples of typical second-line-of-defence activities are:

- oversee and objectively challenge the execution of risk management activities;
- monitor the key risks of the business;
- exercise the authority to escalate risk management issues to the next higher level and/or veto high-risk business activity;
- assist the first line of defence to ensure compliance with ING's risk policies and minimum standards.

Third line of defence

Corporate Audit Services (CAS) operates as the 'third line of defence'. CAS's mission is to provide an independent assessment of the design and effectiveness of internal controls over the risks to ING's business performance. In carrying out this work, CAS provides specific recommendations for improving the governance, risk and control framework.

Hierarchical organization

The ING Belgium Operational & Compliance Risk Department is organized in four main divisions:

1) Money Laundering Reporting (Officer) (MLRO);
2) Compliance Advisory and Monitoring;
3) ORM Advisory;
4) Information Risk Management.

The 'MLRO' division consists of the Money Laundering team managed by a Head (also the MLR/ FEC officer of ING Belgium) who reports directly to the Head of Compliance who reports directly to the CRO.

The 'Compliance Advisory and Monitoring' division consists of following operational centralized activities as: the monitoring of some Compliance rules, the central reporting, the '2nd line customer screening' activities. The Head of each team reports directly to the Head of Compliance who reports directly to the CRO.

The 'ORM Advisory' division consists of some specialized activities: Capital & Governance, NFR Data Management, NFR Asset Functional Management & Support, Advisory/Challenging & Testing, Physical Security (functional reporting line). The Head of each team reports directly to the Head of ORM. The team 'Special Investigations' (including Anti-Fraud) is an expert centre whose Head also directly reports to the Head of ORM who reports directly to the CRO.

The 'Information Risk Management' division consists of two teams that ensure that the data of ING is secured against cybercrime and that the correct policy is in place and applied. This division also includes the Business Continuity Management. The Head of each team reports to the Head of ORM (IRM) who reports directly to the CRO.

Functional organization

The ING Belgium Operational & Compliance Risk Department has a number of functional reporting lines. The MLRO has a functional reporting line to the MLRO of the bank. The Head of Compliance has a functional reporting line to the Compliance Officer of the bank. The Head of ORM has a functional reporting line to the ORM Officer of the bank and is also regional ORM Officer for all business units of ING BeLux. The Head of the 'Special Investigations' team has a functional reporting line to 'Corporate Security' division within the Corporate ORM department (bank). The Head of Information Risk Management (IRM) has a functional reporting line to the Information Security Officer of the bank.

Capital management

Objectives

The Capital Management department of ING Belgium is responsible for the sufficient capitalisation of ING Belgium and its subsidiaries at all times, in order to manage the risks associated with ING Belgium's business activities. This involves the management, planning and allocation of capital within ING Belgium.

Capital Management monitors and plans capital adequacy on a consolidated and stand-alone levels. ING Belgium takes an integrated approach to assessing the adequacy of its capital position in relation to its risk profile and its operating environment, including regulatory requirements.

ING applies the following main capital definitions:

- Common Equity Tier 1 (CET1): mainly composed of common stock and retained earnings, reduced by prudential filters and deductible elements;
- Tier 1 capital: composed of Common Equity Tier 1 and hybrid capital;
- Total capital: composed of Tier 1 and Tier 2 capital (subordinated term debt);
- CET1, Tier 1 and Total capital divided by Risk Weighted Assets equal the CET1, Tier 1 and Total capital ratios, respectively.

Developments

In January 2014, ING Belgium officially began reporting capital requirements and available capital as per the CRDIV and CRR1 (commonly referred to as Basel III). ING Belgium maintains healthy solvency ratios following the change.

In March 2015, ING Belgium proceeded with the issue of USD 600 mln subordinated Tier 2 capital. This CRD IV compliant instrument has an original tenor of 10 years, and was issued to parent company ING Bank NV. This issue, in addition to the previous issue of EUR 750 mln in June 2014, brings total Tier 2 to EUR 1.3 bln since 31 March 2015.

Policies

The activities of Capital Management are executed on basis of established policies, guidelines and procedures. The main documents that serve as guidelines for managing capital are the Capital Plan (comprising the approved internal targets and regulatory requirements for capital), the ING Bank Capital Investment Policy and the Local Capital Management Policy.

The above-mentioned capital definitions and policies have been approved by the ING Bank Executive Board or delegated authorities.

Processes for managing capital

Capital Management ING Belgium also ensures that sufficient capital is available by setting targets and limits relevant to the above-mentioned metrics for ING Belgium, and by ensuring adherence to the set limits and targets through planning and executing capital management transactions.

This process is supplemented by solvency stress testing and scenario analysis. The ongoing assessment and monitoring of capital adequacy is embedded in Capital Management's capital planning process and results in a quarterly capital update report. The main objective of the assessment is to ensure that ING Belgium as a whole has sufficient capital relative to its risk profile for both the short and medium term, in compliance with regulatory requirements.

Capital Adequacy Assessment

During 2016, the entities of ING Belgium were adequately capitalised in relation to their risk profile and strategic objectives.

Following the introduction of the Single Supervisory Mechanism (SSM) at the end of 2014, ING Bank and its subsidiaries file a single Internal Capital Adequacy Assessment Process (ICAAP) report to the European Central Bank (ECB).

On a yearly basis ING Belgium provides extensive documentation on the ICAAP to the ECB Joint Supervisory Team as prescribed in the Basel III framework. This documentation includes a description of ING's operating environment, banking operations, current and forward-looking capital position, risk appetite, stress testing and Economic Capital analysis.

Regulatory capital requirements

Capital is required to support credit, market and operational risks. The adequacy of ING Belgium's capital is monitored using, among other measures, the rules and ratios established by the Basel Committee on Banking Supervision ('BIS rules/ratios') and European Community Directives and Regulations as implemented by the NBB. The BIS solvency ratios compare the amount of eligible capital (CET1, Tier 1 and Total capital) with the total of risk-weighted assets (RWAs).

The revised capital adequacy directive (CRD IV) aims at strengthening the resilience of banks, in particular through the introduction of capital buffers. These buffers are phasing-in annually until they are fully implemented in 2019.

The Capital Conservation buffer (2.5% of RWA, fully loaded) is designed to ensure that banks build up capital buffers outside periods of stress, which can be drawn down as losses are incurred. This buffer has been phasing in since January 2016 (0.625%).

The Countercyclical buffer (ranges from 0% to 2.5% of RWA) aims to counter the adverse effects of a build-up of system-wide risk. The level of countercyclical buffer requirement per country of exposure and its time of application are determined by national authorities (NBB in Belgium), based on macroeconomic developments.

Banks may also be subject to a Systemic Bank buffer (currently 1% to 5%) determined to reflect their impact on the global economy (Global Systemically Important Banks – GSIB) or on the domestic economy (Domestic Systemically Important Banks – DSIB). The list of GSIBs is published annually by the Financial Stability Board. ING Bank NV is considered a GSIB resulting in a 3% additional capital requirement. ING Belgium is subject to a DSIB buffer of 1.5%, phasing in annually over 3 years since January 2016.

Excluding the impact of the capital buffers, in 2016 the minimum Pillar I capital requirements were as follows:

- Common Equity Tier 1 ratio: 4.5%,
- Tier 1 ratio: 6%
- Total Capital ratio: 8%.

These ratios need to be augmented with the combined buffer requirements, i.e. for ING Belgium, on a fully loaded basis: 2.5% Capital Conservation Buffer, 1.5% (DSIB) systemic buffer and 0.02% counter-cyclical buffer. This results in the following ratios:

- Core Tier 1 ratio: 8.52%
- Tier 1 ratio: 10.02%
- Total Capital ratio: 12.02%.

Consolidated annual accounts - continued

Hereunder the calculation of the Capital Position and the Capital Ratio of ING Belgium:

Capital Position - Capital Ratio	2016		2015	
In EUR millions	2016 rules (CRR/CRD IV phased in)	2019 rules (CRR/CRD IV fully loaded)	2015 rules (CRR/CRD IV phased in)	2019 rules (CRR/CRD IV fully loaded)
Shareholders' equity (parent)	10,290	10,290	9,792	9,792
Regulatory adjustments:				
Minority interests, counting as Common equity Tier 1	43	-21	57	-85
Goodwill and intangibles deducted from Tier 1 [1]	-102	-102	-149	-149
Provision shortfall [2]	-242	-242	-229	-229
Revaluation reserve debt securities	-316		-375	
Revaluation reserve equity securities				
Revaluation reserve real estate				
Revaluation reserve cash flow hedge	140	140	160	160
Prudent valuation adjustment	-19	-19	-21	-21
Investments >10% FI, exceeding 10% threshold				
Prudential filters:				
Profit of the year	-572	-572	-950	-950
Defined benefit remeasurement (IAS19R)				
Net defined benefit pension fund assets				
Deferred tax assets	-1	-1	-1	-1
Own credit risk adjustments to derivatives (DVA)	19	19	41	41
Foreseeable dividend	-858	-858	0	0
Available capital - Common equity Tier 1	8,381	8,633	8,327	8,559
Subordinated loans qualifying as Tier 1 capital				
Deduction of goodwill and other intangibles [1]				
Provision shortfall [2]				
Investments >10% FI, exceeding 10% threshold				
CRD-IV eligible Tier 1 Hybrids				
Investments >10% FI, exceeding 10% threshold				
Excess deductions allocated to CET1 capital				
Minority interests, counting as Additional Tier 1 capital				
Available capital - Tier 1	8,381	8,633	8,327	8,559
Supplementary capital - Tier 2	1,332	1,332	1,338	1,338
Provision shortfall [2]				
IRB excess provision	14	14	22	22
Investments >10 FIs, exceeding 10% threshold	-1	-1	-3	-3
Minority interests, counting as Tier 2 capital				
Available Tier 3 funds				
BIS capital	9,727	9,979	9,684	9,916
Risk-weighted assets	58,744	59,359	57,335	58,339
Common Equity Tier 1 ratio	14.27%	14.54%	14.52%	14.67%
Tier 1 ratio	**14.27%**	14.54%	**14.52%**	14.67%
Total Capital Ratio	**16.56%**	16.81%	**16.89%**	17.00%

[1] Intangibles: mainly capitalised software

[2] In Basel III the provision shortfall is deducted fully from Common Equity Tier 1, while the significant investments in financial institutions, conditionally to certain thresholds, are 250% risk weighted. During the phase-in period (2014-2017) they are gradually shifting from 50% deduction from Additional Tier 1 capital and 50% from Tier 2 capital towards full deduction from Common Equity Tier 1.

Statutory Auditor's report to the general meeting of shareholders of ING Belgium nv/sa on the Consolidated Financial Statements of the year ended 31 December 2016

The Auditor's report relates to the chapters up to 'Consolidated annual accounts'.

KPMG

Statutory auditor's report to the general meeting of ING Belgium NV/SA as of and for the year ended 31 December 2016

In accordance with the legal requirements, we report to you in the context of our statutory auditor's mandate. This report includes our report on the consolidated financial statements as of and for the year ended 31 December 2016, as defined below, as well as our report on other legal and regulatory requirements.

Report on the consolidated financial statements - Unqualified opinion

We have audited the consolidated financial statements of ING Belgium NV/SA ("the Company") and its subsidiaries (jointly "the Group"), prepared in accordance with International Financial Reporting Standards as adopted by the European Union, and with the legal and regulatory requirements applicable in Belgium. These consolidated financial statements comprise the consolidated balance sheet as at 31 December 2016, the consolidated income statement, consolidated statement of comprehensive Income, consolidated statement of changes in equity and consolidated cash flow statement for the year, and notes, comprising a summary of significant accounting policies and other explanatory information. The total of the consolidated balance sheet amounts to EUR 150,418,720 thousand, the consolidated Income statement shows a profit of the year of EUR 573,410 thousand, and the consolidated statement of comprehensive income shows a profit for the year of EUR 487,703 thousand.

Board of directors' responsibility for the preparation of the consolidated financial statements

The board of directors is responsible for the preparation of these consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union, and with the legal and regulatory requirements applicable in Belgium, and for such internal control as the board of directors determines, is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Statutory auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (ISAs) as adopted in Belgium. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the statutory auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the statutory auditor considers internal control relevant to the Company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the board of directors, as well as evaluating the overall presentation of the consolidated financial statements.

We have obtained from the Company's officials and the board of directors the explanations and information necessary for performing our audit.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our unqualified opinion.

Unqualified opinion

In our opinion, the consolidated financial statements give a true and fair view of the Group's equity and consolidated financial position as at 31 December 2016 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union, and with the legal and regulatory requirements applicable in Belgium.

Other matter

The consolidated financial statements of the Group as at and for the year ended 31 December 2015 were audited by another auditor who expressed an unqualified opinion on those statements on 8 April 2016.

KPMG

Report on other legal and regulatory requirements

The board of directors is responsible for the preparation and the content of the Report of the Management Board on the consolidated financial statements.

In the context of our mandate and in accordance with the Belgian standard which is complementary to the International Standards on Auditing as applicable in Belgium, our responsibility is to verify, in all material respects, compliance with certain legal and regulatory requirements. On this basis, we provide the following additional statement which does not modify the scope of our opinion on the consolidated financial statements:

— The Report of the Management Board on the consolidated financial statements includes the information required by law, is consistent with the consolidated financial statements and does not present any material inconsistencies with the information that we became aware of during the performance of our mandate.

Brussels, 12 April 2017

KPMG Réviseurs d'Entreprises / Bedrijfsrevisoren
Statutory Auditor
represented by

Olivier Macq
Réviseur d'Entreprises / Bedrijfsrevisor

Document Classification: KPMG Public 3

Basel III (Pillar 3 disclosure)

As a major subsidiary of ING Bank, ING Belgium is subject to mandatory through limited Pillar 3 disclosures (Market Discipline) by the local regulatory supervisor, whereas Pillar 3 is being implemented in full at the group level. Pillar 3 is a complement to Pillar 1 (Minimum Capital Requirements) and Pillar 2 (Supervisory Review Process) by allowing market participants to assess the capital adequacy of a bank by using key pieces of information.

Leverage ratio

Leverage Ratio			
		2016	
		CRR leverage ratio exposures	
In EUR millions		CRR/CRD IV phased in	CRR/CRD IV fully loaded
On-balance sheet exposures (excluding derivatives and SFTs)			
1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	133,387	133,387
2	(Asset amounts deducted in determining Tier 1 capital)	-503	-187
3	**Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets) (sum of lines 1 and 2)**	**132,884**	**133,200**
Derivative exposures			
4	Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin)	2,761	2,761
5	Add-on amounts for PFE associated with all derivatives transactions (mark-to-market method)	2,077	2,077
EU-5a	Exposure determined under Original Exposure Method		
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the applicable accounting framework		
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)		
8	(Exempted CCP leg of client-cleared trade exposures)		
9	Adjusted effective notional amount of written credit derivatives		
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)		
11	**Total derivative exposures (sum of lines 4 to 10)**	**4,838**	**4,838**
Securities financing transaction exposures			
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	1	1
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)		
14	Counterparty credit risk exposure for SFT assets		
EU-14a	Derogation for SFTs: Counterparty credit risk exposure in accordance with Article 429b (4) and 222 of Regulation (EU) No 575/2013		
15	Agent transaction exposures		
EU-15a	(Exempted CCP leg of client-cleared SFT exposure)		
16	**Total securities financing transaction exposures (sum of lines 12 to 15a)**	**1**	**1**
Other off-balance sheet exposures			
17	Off-balance sheet exposures at gross notional amount	37,127	37,127
18	(Adjustments for conversion to credit equivalent amounts)		
19	**Other off-balance sheet exposures (sum of lines 17 to 18)**	**37,127**	**37,127**
Exempted exposures in accordance with CRR Article 429 (7) and (14) (on and off balance sheet)			
EU-19a	(Exemption of intragroup exposures (solo basis) in accordance with Article 429(7) of Regulation (EU) No 575/2013 (on and off balance sheet))		
EU-19b	(Exposures exempted in accordance with Article 429 (14) of Regulation (EU) No 575/2013 (on and off balance sheet))		
Capital and total exposures			
20	Tier 1 capital	8,381	8,633
21	**Total leverage ratio exposures (sum of lines 3, 11, 16, 19, EU-19a and EU-19b)**	**174,850**	**175,166**
Leverage ratio			
22	**Leverage ratio**	**4.79%**	**4.93%**
Choice on transitional arrangements and amount of derecognised fiduciary items			
EU-23	Choice on transitional arrangements for the definition of the capital measure		
EU-24	Amount of derecognised fiduciary items in accordance with Article 429(11) of Regulation (EU) NO 575/2013		

Capital adequacy - Credit and transfer risk

Introduction

Economic Capital for credit risk is the amount of capital that ING believes it needs to hold to withstand unexpected losses inherent in the credit portfolios related to (unexpected) changes in the underlying creditworthiness of debtors or the recovery value of underlying collateral (if any). Credit risk capital is calculated on all portfolios which contain credit or counterparty risk, including investment portfolios. Economic Capital for credit risk is calculated using internally developed models with a 99.95% confidence level and a time horizon of one year, which represents ING's desired credit rating.

ING uses a series of credit risk models which can be grouped into three principal categories:

- **Probability of Default** (PD) models, which measure the creditworthiness of individual debtors;
- **Exposure at Default** (EAD) models, which estimate the size of the financial obligation at the moment of default in the future;
- **Loss Given Default** (LGD) models, which estimate the recovery value of the underlying collateral or guarantees received (if any) and the unsecured part.

The various models can be grouped into three categories: statistical, expert and hybrid. Each model is individually reviewed and validated annually by the Model Validation (MV) department in order to determine the continued viability or need to adjust each individual model.

The underlying models that are used for determining Economic Capital for credit risk are based on a similar methodology as those used for determining the level of regulatory capital as required under Basel II (Pillar 1). Despite the fact that the same underlying models are used, (internal) Economic Capital and regulatory capital are not the same due to various specific rules imposed by Basel III/CRR. The methodology has been updated in 2015 to take into account a downturn LGD and ING specific concentration factors.

For Economic Capital as from 2014, the following amendments are made to the Basel II framework:

- non-floored economic PD are used;
- the confidence level is set to 99.95% (fitting ING's target rating of AA) rather than 99.9%;
- for performing loans, the scaling factor of 1.06 is removed from the Basel III equation;
- for maturities lower than 1 year, the effective PD (and not the 1 year PD) is used; however the 1 year PD is used for lending exposures to non-investment grade customers (rated 11 or worse);
- capital is calculated for all sovereigns;
- ING internal add-ons are used for Bank Treasury Products;
- economic EAD is employed instead of regulatory EAD for all exposures;
- securitisations are treated using a PD/LGD approach;
- standardised portfolios are treated with the AIRB approach;
- different add-ons are applied to take future model changes, concentration risk and Incap model shortcomings into account;
- correlations scaled up taking into account current concentrations;
- inclusion of CVA capital and credit risk related ONCOA;
- generally speaking, regulatory requirements (such as: floors, supporting factors, add-ons,...) are not included in the economic capital computations.

Roughly speaking, economic (ING internal) capital is the amount of capital that ING believes it needs to hold. Regulatory (Basel II) capital is the amount of capital an institution is required to hold by its regulator. The Basel III framework via Pillar 2 states that the minimum required capital of an institution is the greater of its regulatory capital and economic capital (subject to regulatory add-ons).

Transfer risk is the risk that debtors in a country are unable to ensure timely payments of foreign currency debt service due to transfer and/or convertibility restrictions or a general lack of foreign currency liquidity. Transfer risk capital is explicitly calculated as additional risk on top of credit risk capital.

The Economic Capital levels for credit and transfer risk were calculated on a daily basis for most of the Commercial Banking portfolios and for the SME portfolios within the Retail Banking operations. For consumer loans and residential mortgages, the calculations are made on a monthly basis. On a quarterly basis, the Economic Capital for credit risk and transfer risk figures are consolidated with the corresponding Economic Capital components from other disciplines.

Governance of Economic Capital for Credit and Transfer Risk: All PD, EAD and LGD models are approved by the Credit Risk Committee (CRC) after thorough review of documentation by the Model Development Committee (MDC) and the Model Validation department (MV). In addition, each model is validated on an annual basis by MV. Each model has both a credit risk and a front office co-sponsor. Both the MDC and the CRC have participation from both credit risk officers as well as the front office to ensure maximum acceptance by the organization.

Basis and scope of credit risk presentation

In the credit risk section of Pillar III, data included in tables are related to ING Belgium's core credit risk activities in the areas of: Lending (both on- and off-balance); Securities Financing, Derivatives (collectively Pre-Settlement Risk), Money Market activities (including reserve deposits at Central Banks) and Investment Risks. Credit Risk in the trading book is excluded and covered in the Market Risk section of the Annual Accounts.

The amounts presented in this section relate to amounts used for Credit Risk Management purposes, which follow ING's interpretation of the definitions as prescribed under the CRR/CRD IV accords. Therefore, the numbers can be different from the accounting numbers as reported in the annual accounts under IFRS-EU. An example is the treatment of ONCOA items – while the accounting numbers include ONCOA, they are excluded from Pillar III overviews.

Unless stated otherwise, the tables included in this section focus on the measurement of Regulatory Exposure at Default (READ) and Credit Risk Weighted Assets (RWA) under the CRR/CRD IV definitions. READ is generally the sum of the on-balance and off-balance sheet: Lending, Investment, Money Market and Pre-Settlement activities plus an estimated portion of the unused credit facilities extended to the obligor. The amounts associated with Investment and Lending activities are based on the original amount invested less repayments. Additionally, the risk weighting amounts (plus add-ons) are included. RWA include e.g. macro-prudential 5% add-on on Belgian residential mortgages and RWA on central governments and central banks that would have been exempted under the Standardized Approach. Multiplying RWA by 8% will result in the level of Regulatory Capital (RC) that is required to be held against these portfolios (for the Credit Risk portion of the activities).

Figures for Derivatives and Securities Financing are based on 'risk weighted amounts', which generally is equal to the market-to-market value of the underlying trades plus a (regulatory defined) 'add-on' which represents estimated potential future exposure. The amounts are then further modified by an adjustment that is related to the underlying collateral (market) values (after a haircut is applied) and any legal netting or compensation that may be permitted under various master agreement arrangements such as ISDA master agreements and Credit Support Annexes (CSAs).

Off-balance sheet exposures include letters of credit and guarantees, which are associated with the Lending Risk category. Additionally, off-balance sheet exposures include a portion of the unused limits, associated with the expected use of the unused portion of the limit between the moment of measurement and the theoretical moment of statistical default. Collectively, these amounts are called 'Credit Risk outstandings'.

Exposures associated with Securitisations (Asset Backed Financing, Commercial / Residential Mortgage Backed Securities) are included in 'Credit Risk outstandings'.

Approaches applied

On 1 January 2008, ING Belgium adopted the Advanced Internal Ratings Based (AIRB) approach for the majority of its significant portfolios that contain credit risk in accordance with the approvals granted by NBB (Belgian Central Bank), as required. However, there remains a small portion of the portfolio that is subject to the Standardised Approach (SA). Depending on the regulatory landscape, ING will continue to explore opportunities to transition additional portfolios from SA to AIRB. ING Belgium does not have any portfolios that use the Foundation Internal Ratings Based (FIRB) Approach.

Basel III introduced an additional regulatory capital charge for material increases in the CVA, the market price of the credit risk of derivatives. In particular, as credit spreads of ING Belgium's counterparties increase, CVA will increase as well and ING Belgium will incur a loss. ING Belgium follows the standardised approach for calculation of the capital charge to cover CVA Risk (CVA Capital) in accordance with the CRR/CRD IV. The scope of the products and counterparties that the CVA Capital charge is applied to also follows those regulations. In order to make CVA comparable to credit RWA, we use in some of the tables below the concept of "CVA RWA", which is the product of CVA capital requirement by 12.5.

ING Belgium uses the AIRB and the Internal Assessment Approach (IAA) for liquidity lines provided to Asset Back Commercial Paper programmes.

Credit Risk Weighted Assets Migration Analysis

The table below explains the changes in Credit RWA during the reporting period and provides additional information by linking the impact on Credit RWA of changes in portfolio composition, model changes and shifts in the risk environment. The table reconciles movements in Credit RWA for the period for each Credit RWA risk type of ING Belgium for the SA and AIRB portfolio including securitisations.

Flow statement for Credit RWA		
In EUR billions	**2016**	**2015**
Opening Amount	**40.0**	**40.5**
Regulatory Requirements [1]	5.9	0.2
Portfolio Change		-1.0
Model Change [2]	0.8	-0.6
Volume Change	3.0	1.0
Currency impact	0.2	0.7
Other	-0.5	-0.5
Total Credit RWA movement excluding CVA RWA	**9.4**	**-0.2**
CVA RWA movement [3]	-0.3	-0.3
Total Credit RWA movement	**9.1**	**-0.5**
CLOSING AMOUNT	**49.1**	**40.0**

Excluding equities and ONCOA.

1. Regulatory Requirements: the increase of € +5.7 billion in 2016 is due to the fact that the add-on for Mortgages and the 35% penalty for the local SME and SBF LGD models are no longer reported in ONCOA, as they were in 2015, but are included in these figures.
2. Model Change: model implementation, change in model scope or any change to address model malfunctions including changes through model calibrations / realignments.
3. CVA RWA is the CVA capital requirement multiplied by 12,5

Overall, RWA management has a very high priority throughout ING Belgium in all aspects of our business. From product design, to pricing, to divestment decisions, RWA management is extensively monitored, reported, and managed at all levels of the organisation.

Advanced IRB and Standardised Approach

ING Belgium uses two methods to calculate Regulatory Capital for Credit Risk within its portfolio: the Advanced Internal Rating Based (AIRB) approach and the Standardised Approach (SA). The AIRB approach is permitted by the Regulator if there are regulatory approved rating models (PD, EAD and LGD) in place, if the Legal Entity is AIRB compliant and if the (local) management understands and uses these rating models (Basel Use Test) in their credit decision making processes. ING Belgium does not use the Basel Foundation IRB Approach (FIRB) for any of its portfolios. This section is to be read in conjunction with the Risk Management paragraph.

Exposure classes

The Basel Accord has developed the concept of 'Exposure Classes'. These are essentially groupings of credit risks associated with a common obligor type or product type. For the AIRB and Standardised Approach, most of the exposure classes have subcategories. ING has applied the following definitions to determine Exposure Classes:

- C***entral Governments and Central Banks*** (hereafter ***Sovereigns***) include Sovereign Government entities, Central Banks, CRR/CRD IV recognized Local / Regional Authorities and Public Sector entities as well as Supranational Organisations;
- ***Institutions*** include all Commercial Banks and non-Bank Financial Institutions;
- ***Corporates*** include all legal entities, that are not considered to be Governments, Institutions or Retail;
- ***Retail*** includes the following classes:
  - ***Residential Mortgages*** include loans secured by mortgages on residential properties that are not part of a securitisation investment; and
  - ***Retail Other*** includes all other credit obligations related to Retail SMEs (such as partnerships and one-man businesses) and private individuals (such as consumer loans, car loans and credit cards). Under these exposure class definitions, it is possible for a private individual to be included under both Residential Mortgages and Retail Other.

In the tables below, the official Basel subcategories for the AIRB and SA approach are given, together with their mappings to the ING exposure classes.

Additional information - continued

Basel AIRB exposure classes	ING Bank exposure class
Central governments and central banks	Sovereigns
Institutions	Institutions
Corporates - Specialised Lending	Corporates
Corporates - SME	Corporates
Corporates - Other	Corporates
Retail - Secured by immovable property SME	Retail (Other)
Retail - Secured by immovable property non-SME	Retail (Residential Mortgages)
Retail - Qualifying revolving	N/A
Retail - Other SME	Retail (Other)
Retail - Other non-SME	Retail (Other)
Securitisations	SEC AIRB

Basel SA exposure classes	ING Bank exposure class
Central governments or central banks	N/A
Regional governments or local authorities	Sovereigns
Public sector entities	N/A
Multilateral developments banks	N/A
International organisations	N/A
Institutions	Institutions
Corporates	Corporates
Retail	Retail (Other)
Secured by mortgages on immovable property	Retail (Residential Mortgages)
Exposures in default	All
High risk items	N/A
Covered bonds	N/A
Claims on institutions and corporate with a short-term credit assessment	N/A
Claims in the form of CIU	N/A
Equity Exposures	N/A
Other items	N/A

The SA exposure class 'Exposures in default' is mapped to the ING exposure class in which the exposure would have been if performing.

Credit risk per exposure type and exposure class

The table below shows the total READ and RWA for ING Belgium by Basel defined exposure types for both the SA and AIRB portfolio per exposure class. CVA has been reported separately.

Model approaches per exposure class

In EUR millions		Sovereigns		Institutions		Corporates		Residential Mortgages		Other Retail		Total 2016		Total 2015	
Model approach	Exposure type	READ	RWA	READ	RWA	READ	RWA	READ	RWA	READ	RWA	READ	RWA	READ	RWA
SA approach	On-balance	4	1	30	6	1,084	1,073	0	0	236	253	1,353	1,332	1,103	1,031
	Off-balance	0	0	0	0	73	72	0	0	0	0	74	72	155	153
Total SA		**4**	**1**	**30**	**6**	**1,158**	**1,145**	**0**	**0**	**236**	**253**	**1,428**	**1,405**	**1,257**	**1,184**
AIRB approach	On-balance	19,377	1,120	16,283	2,640	46,894	21,848	31,226	5,918	11,963	3,784	125,743	35,310	117,807	27,199
	Off-balance	2,322	94	1,988	357	18,090	7,211	1,169	205	1,683	575	25,252	8,441	23,786	6,803
	Securities Financing	0	0	1	0	0	0	0	0	0	0	1	0	485	3
	Derivatives	368	57	2,836	891	1,624	939	0	0	11	4	4,838	1,891	7,755	2,359
Total AIRB		**22,067**	**1,271**	**21,107**	**3,887**	**66,608**	**29,998**	**32,395**	**6,124**	**13,657**	**4,363**	**155,833**	**45,642**	**149,833**	**36,364**
SEC AIRB	On-balance											2,254	317	2,651	426
	Off-balance											417	35	475	40
Total SEC AIRB		**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**2,671**	**353**	**3,125**	**466**
Total Bank		**22,071**	**1,272**	**21,136**	**3,893**	**67,765**	**31,143**	**32,395**	**6,124**	**13,894**	**4,616**	**159,932**	**47,400**	**154,215**	**38,015**
CVA	SA Portfolio											0	0		
	AIRB Portfolio		1		1,689		11					0	1,702		2,034
Total CVA		**0**	**1**	**0**	**1,689**	**0**	**11**	**0**	**0**	**0**	**0**	**0**	**1,702**	**0**	**2,034**
TOTAL BANK INCLUDING CVA		**22,071**	**1,273**	**21,136**	**5,582**	**67,765**	**31,154**	**32,395**	**6,124**	**13,894**	**4,616**	**159,932**	**49,101**	**154,215**	**40,049**

Includes both AIRB and SA portfolios; excludes equities and ONCOA.
Default Fund Contribution to Central Clearing Parties is included under exposure class Institutions.

Additional information - continued

Sovereign credit risk disclosure

The table below presents the READ and RWA (excl. CVA RWA), segmented by relevant factors for the exposure class 'Sovereigns'. According to article 10 of NBB regulation implementing the CRR, which removes the RWA exemption for sovereigns exempted under the Standardized Approach, RWA are calculated under the IRB approach and included for 40% in 2015 and for 60% in 2016.

The figures per geography for each exposure class are based on the country of residence of the obligor. The definitions associated with ING Belgium's transfer risk positions and economic country risk exposure can be found in the Risk Management paragraph.

Sovereigns - credit risk disclosure in READ and RRWA

In EUR millions		READ			RRWA		
		2016	2015	Delta %	2016	2015	Delta %
Sovereigns	**Total per rating**	22,071	22,597	-2.3%	1,272	1,166	9.1%
	01. Performing	22,071	22,597	-2.3%	1,272	1,166	9.1%
	02. Non-performing	0	0	13.4%	0	0	13.4%
Sovereigns	**Geography/business units**	22,071	22,597	-2.3%	1,272	1,166	9.1%
	Africa	20	1	3,843.9%	2	0	1,598.5%
	Asia	39	0	17,026.3%	21	0	4,124.2%
	Europe	22,012	22,596	-2.6%	1,249	1,165	7.2%
Sovereigns	**Europe ***	22,012	22,596	-2.6%	1,249	1,165	7.2%
	1. Belgium	13,480	13,267	1.6%	805	591	36.2%
	2. Germany	2,108	2,137	-1.4%	81	63	28.2%
	3. Luxembourg	2,025	2,008	0.8%	13	11	17.6%
	X. Other Europe	4,400	5,184	-15.1%	350	500	-30.0%
Sovereigns	**Product type ***	22,071	22,597	-2.3%	1,272	1,166	9.1%
	1. Bond Investments	11,200	13,141	-14.8%	836	878	-4.8%
	2. Money Market	4,955	3,884	27.6%	54	27	97.8%
	3. Revolving	3,704	3,244	14.2%	88	53	68.1%
	4. Term Loans	1,792	1,456	23.1%	215	165	30.5%
	5. Derivatives	368	385	-4.6%	57	40	43.7%
	X. Other	53	486	-89.2%	22	4	436.8%
Sovereigns	**PD bands**	22,071	22,597	-2.3%	1,272	1,166	9.1%
	01. <0.05%	21,591	21,850	-1.2%	1,091	809	34.9%
	02. 0.05% to 0.5%	420	744	-43.5%	157	354	-55.5%
	03. 0.5% to 5%	31	1	2,993.0%	2	1	340.9%
	04. 5% to 10%	28	0	8,811.8%	21	1	1,834.8%
	05. 10% to 20%	0	1	-93.4%	0	2	-93.9%
	06. 20% to 50%	0	0	-100.0%	0	0	-100.0%
	07. more than 50%	0	0	13.4%	0	0	13.4%
Sovereigns	**LGD bands**	22,071	22,597	-2.3%	1,272	1,166	9.1%
	01. <10%	98	49	102.2%	4	1	359.0%
	02. 10% to 20%	383	508	-24.6%	33	26	25.0%
	03. 20% to 30%	398	439	-9.3%	7	13	-40.7%
	04. 30% to 40%	21,084	21,167	-0.4%	1,173	891	31.6%
	05. 40% to 50%	99	434	-77.1%	35	234	-85.0%
	06. 50% to 60%	0	0	-	0	0	-
	07. more than 60%	9	0	2,168.3%	20	1	1,456.6%

Includes both AIRB and SA portfolios; excludes equities, CVA RWA and ONCOA.
* Top 3/top 5 countries/product types determined with 2016 data as reference.

Additional information - continued

Financial institutions credit risk disclosure

This table presents the READ and RWA (excluding CVA RW), segmented by relevant factors for the exposure class 'Institutions'.

Institutions - credit risk disclosure in READ and RRWA

In EUR millions		READ			RRWA		
		2016	2015	Delta %	2016	2015	Delta %
Institutions	**Total per rating**	21,136	24,404	-13.4%	3,893	4,798	-18.9%
	01. Performing	21,135	24,402	-13.4%	3,891	4,797	-18.9%
	02. Non-performing	1	2	-29.7%	2	1	82.8%
Institutions	**Geography/business units**	21,136	24,404	-13.4%	3,893	4,798	-18.9%
	Africa	1	193	-99.3%	1	255	-99.7%
	America	1,196	1,365	-12.4%	112	174	-35.4%
	Asia	379	317	19.5%	78	89	-12.4%
	Australia	41	40	2.6%	1	3	-55.4%
	Europe	19,519	22,488	-13.2%	3,700	4,276	-13.5%
Institutions	**Europe**	19,519	22,488	-13.2%	3,700	4,276	-13.5%
	1. Belgium	8,678	8,009	8.4%	1,726	1,571	9.8%
	2. Netherlands	5,461	6,923	-21.1%	1,264	1,320	-4.2%
	3. France	1,383	1,605	-13.8%	151	246	-38.5%
	X. Other Europe	3,997	5,952	-32.9%	560	1,140	-50.9%
Institutions	**Product type**	21,136	24,404	-13.4%	3,893	4,798	-18.9%
	1. Term Loans	7,773	7,597	2.3%	1,534	1,475	4.0%
	2. Bond Investments	3,968	4,309	-7.9%	324	393	-17.6%
	3. Money Market	4,421	4,596	-3.8%	770	658	17.0%
	4. Derivatives	2,836	5,342	-46.9%	891	1,378	-35.4%
	5. Revolving	1,492	1,984	-24.8%	259	717	-63.9%
	X. Other	648	576	12.4%	116	177	-34.3%
Institutions	**PD bands**	21,136	24,404	-13.4%	3,893	4,798	-18.9%
	01. < 0.05%	8,734	7,971	9.6%	1,458	1,314	11.0%
	02. 0.05% to 0.5%	12,195	15,729	-22.5%	2,253	2,951	-23.6%
	03. 0.5% to 5%	177	637	-72.2%	142	448	-68.2%
	04. 5% to 10%	8	20	-57.0%	8	11	-29.0%
	05. 10% to 20%	19	42	-55.3%	28	64	-56.7%
	06. 20% to 50%	1	3	-49.0%	2	9	-80.8%
	07. more than 50%	1	2	-29.7%	2	1	82.8%
Institutions	**LGD bands**	21,136	24,404	-13.4%	3,893	4,798	-18.9%
	01. < 10%	4,064	4,128	-1.5%	175	236	-25.9%
	02. 10% to 20%	1,561	2,464	-36.7%	167	308	-45.7%
	03. 20% to 30%	198	857	-76.9%	39	211	-81.5%
	04. 30% to 40%	15,051	15,891	-5.3%	3,277	3,230	1.5%
	05. 40% to 50%	3	30	-88.9%	4	30	-86.6%
	06. 50% to 60%	125	631	-80.2%	84	384	-78.0%
	07. more than 60%	134	402	-66.7%	146	398	-63.4%

Includes both AIRB and SA portfolios; excludes equities, CVA RWA and ONCOA.
* Top 3/top 5 countries/product types determined with 2016 data as reference.

Additional information - continued

Corporate credit risk disclosure

This table presents the READ and RWA (excluding CVA RWA), segmented by relevant factors for the exposure class ‘Corporates’. The Industry breakdown for this table is based on the NAICS system (North American Industry Classification System).

Corporates - credit risk disclosure in READ and RRWA

In EUR millions		READ			RRWA		
		2016	2015	Delta %	2016	2015	Delta %
Corporates	**Total per rating**	67,765	58,910	15.0%	31,143	22,765	36.8%
	01. Performing	66,443	57,608	15.3%	29,865	21,786	37.1%
	02. Non-performing	1,322	1,302	1.6%	1,278	979	30.6%
Corporates	**Geography/business units**	67,765	58,910	15.0%	31,143	22,765	36.8%
	Africa	939	613	53.3%	688	284	142.1%
	America	4,412	3,344	31.9%	1,225	1,058	15.8%
	Asia	3,001	2,486	20.7%	1,049	702	49.6%
	Australia	83	130	-35.9%	47	102	-53.8%
	Europe	59,330	52,338	13.4%	28,133	20,620	36.4%
Corporates	**Europe**	59,330	52,338	13.4%	28,133	20,620	36.4%
	1. Belgium	36,118	33,701	7.2%	19,549	14,485	35.0%
	2. Switzerland	6,286	4,903	28.2%	1,878	1,326	41.6%
	3. Luxembourg	4,848	4,639	4.5%	1,630	1,298	25.6%
	X. Other Europe	12,077	9,096	32.8%	5,076	3,511	44.6%
Corporates	**Industry type**	67,765	58,910	15.0%	31,143	22,765	36.8%
	1. Natural Resources	17,190	13,930	23.4%	6,325	4,500	40.6%
	2. Real Estate	9,448	8,273	14.2%	4,875	3,365	44.8%
	3. Services	7,580	6,076	24.8%	4,408	2,544	73.3%
	4. Food, Beverages & Personal Care	5,429	6,247	-13.1%	2,514	2,426	3.6%
	5. General Industries	4,515	4,104	10.0%	2,085	1,644	26.8%
	X. Other	23,603	20,280	16.4%	10,936	8,285	32.0%
Corporates	**PD bands**	67,765	58,910	15.0%	31,143	22,765	36.8%
	01. < 0.05%	4,797	4,013	19.5%	540	467	15.8%
	02. 0.05% to 0.5%	38,238	34,701	10.2%	12,702	10,536	20.6%
	03. 0.5% to 5%	20,442	16,587	23.2%	13,298	8,655	53.6%
	04. 5% to 10%	1,400	1,139	22.9%	1,416	850	66.7%
	05. 10% to 20%	1,110	891	24.6%	1,334	1,014	31.5%
	06. 20% to 50%	456	278	64.0%	573	264	117.4%
	07. more than 50%	1,322	1,302	1.6%	1,278	979	30.6%
Corporates	**LGD bands**	67,765	58,910	15.0%	31,143	22,765	36.8%
	01. < 10%	12,937	11,042	17.2%	1,500	1,142	31.3%
	02. 10% to 20%	9,783	10,156	-3.7%	3,405	2,970	14.6%
	03. 20% to 30%	10,812	10,393	4.0%	4,710	3,458	36.2%
	04. 30% to 40%	21,607	17,268	25.1%	13,319	9,146	45.6%
	05. 40% to 50%	9,218	8,410	9.6%	5,019	4,367	14.9%
	06. 50% to 60%	1,494	499	199.7%	1,228	402	205.7%
	07. more than 60%	1,915	1,144	67.5%	1,962	1,280	53.2%

Includes both AIRB and SA portfolios; excludes equities, CVA RWA and ONCOA.
* Top 3/top 5 countries/industry types determined with 2016 data as reference.

Retail credit risk disclosure

This table presents the READ and RWA, segmented by relevant factors, and the analysis for the exposure class 'Retail'.

Retail * - credit risk disclosure in READ and RRWA

In EUR millions		READ			RRWA		
		2016	2015	Delta %	2016	2015	Delta %
Retail	**Total per rating**	46,289	45,179	2.5%	10,739	8,820	21.8%
	01. Performing	44,745	43,509	2.8%	8,467	6,562	29.0%
	02. Non-performing	1,543	1,670	-7.6%	2,273	2,257	0.7%
Retail	**Geography/business units**	46,289	45,179	2.5%	10,739	8,820	21.8%
	Africa	41	45	-10.2%	8	10	-16.2%
	America	45	37	21.1%	20	17	20.3%
	Asia	49	41	17.5%	9	10	-6.4%
	Australia	4	4	3.7%	1	1	5.6%
	Europe	46,151	45,052	2.4%	10,701	8,783	21.8%
Retail	**Europe** **	46,151	45,052	2.4%	10,701	8,783	21.8%
	1. Belgium	42,922	42,061	2.0%	9,975	8,044	24.0%
	2. Luxembourg	2,447	2,223	10.1%	442	456	-3.1%
	3. France	377	355	6.4%	162	166	-2.3%
	X. Other Europe	405	414	-2.0%	122	116	5.0%
Retail	**Customer Segment** **	46,289	45,179	2.5%	10,739	8,820	21.8%
	1. Private Persons	35,535	34,123	4.1%	7,539	5,996	25.7%
	2. Small Mid-sized Enterprises	9,222	9,495	-2.9%	2,872	2,474	16.1%
	3. Private Banking	1,365	1,362	0.2%	253	264	-4.2%
	X. Other	167	200	-16.5%	75	85	-12.5%
Retail	**PD bands**	46,289	45,179	2.5%	10,739	8,820	21.8%
	01. < 0.05%	2,784	2,607	6.8%	161	45	254.3%
	02. 0.05% to 0.5%	25,757	25,284	1.9%	2,610	1,565	66.8%
	03. 0.5% to 5%	12,789	12,098	5.7%	3,622	2,973	21.9%
	04. 5% to 10%	1,148	1,300	-11.7%	589	637	-7.6%
	05. 10% to 20%	1,453	1,307	11.1%	924	761	21.3%
	06. 20% to 50%	753	693	8.7%	524	463	13.2%
	07. more than 50%	1,605	1,890	-15.1%	2,309	2,375	-2.8%
Retail	**LGD bands**	46,289	45,179	2.5%	10,739	8,820	21.8%
	01. < 10%	22,540	21,293	5.9%	2,966	1,779	66.8%
	02. 10% to 20%	16,717	16,163	3.4%	3,827	3,018	26.8%
	03. 20% to 30%	1,461	1,649	-11.4%	752	870	-13.5%
	04. 30% to 40%	511	575	-11.2%	263	272	-3.3%
	05. 40% to 50%	1,438	1,536	-6.4%	600	567	5.8%
	06. 50% to 60%	3,447	3,780	-8.8%	2,081	2,078	0.1%
	07. more than 60%	175	182	-4.0%	250	236	5.9%

Includes both AIRB and SA portfolios; excludes equities, CVA RWA and ONCOA.
* Retail class = Residential Mortgages + Other Retail classes
** Top 3 countries/customer segments determined with 2016 data as reference.

The Advanced Internal Rating Based approach (AIRB)

The AIRB approach has five elements that drive the CRR/CRD IV 'risk-based approach' for the determination of RWA. RWA times the BIS ratio of 8% leads to Regulatory Capital. The elements are: the CRR/CRD IV exposure class, Probability of Default (PD), Exposure at Default (EAD), Loss Given Default (LGD) and Maturity (M).

Probability of Default (PD): The first element is the counterparty's probability of default, which measures a counterparty's creditworthiness in terms of likelihood to go into default. The result of this calculation attempts to measure the senior, unsecured standalone creditworthiness of an organisation without consideration of structural elements of the underlying transactions, such as collateral, pricing or maturity. Each borrower should have a rating which translates into a PD.

Exposure at Default (EAD): The second element is the counterparty's exposure at default. These models are intended to estimate the outstanding amount or obligation at the moment of default in the future. Since the fact that a counterparty will go into default is not known, and the level of outstanding that may occur on that date is also not known, ING uses a combination of statistical, expert and hybrid models to estimate the Exposure at Default. With the exception of guarantees and letters of credit, the EAD is always equal to or higher than the associated credit risk outstanding, under the assumption that counterparties tend to absorb liquidity from available credit resources before financial problems become apparent to the counterparty's creditors. The EAD is largely a function of the type of credit facility (revolving, overdraft, term) offered to the borrower.

Loss Given Default (LGD): The third element is the loss given default. These models are intended to estimate the amount ING will lose when liquidating collateral pledged in association with a given loan or financial obligation, or alternatively, liquidating the company as a whole, as part of a workout process. LGD models are based on cover types, estimated recovery rates given orderly liquidation, and (in) direct cost of liquidation. For financial collateral, ING uses the Financial Collateral Comprehensive Method to allow for mitigation effects.

Maturity (M): The fourth element is the time to the maturity of the underlying financial obligation. Regulations (CRR/CRD IV) cap the maturity element at five years, despite the fact that many obligations extend their facilities for longer than five years.

Expected Loss (EL): The expected loss provides a measure of the value of the credit losses that ING may reasonably expect to incur on its portfolio. In its basic form, the expected loss can be represented as:

$$EL = PD \times EAD \times LGD$$

ING Belgium must maintain a capital buffer against unexpected losses in order to protect itself against credit losses associated with unusual market events outside of the statistical norms.

AIRB models per exposure class

Within ING internal Basel models are used to determine the PD, EAD and LGD for regulatory and economic capital. Bank wide, ING Bank has implemented around 90 models, including various sub models for specific portfolios. A model may be applicable for various exposure classes. In the table below, the number of PD, EAD, and LGD models per exposure class are shown.

Number of AIRB rating models per exposure class

	2016		
	PD models	EAD models	LGD models
Sovereigns	4	4	4
Institutions	6	9	9
Corporate	11	14	22
Residential mortgages	1	3	8
Other retail	8	10	17
Securitisation	2	4	3
TOTAL *	**12**	**23**	**30**

* As the same model can be used in different exposure classes, the total doesn't equal the sum of the individual exposure classes

Additional information - continued

Number of AIRB rating models per exposure class	2015		
	PD models	EAD models	LGD models
Sovereigns	4	4	4
Institutions	8	9	9
Corporate	9	10	18
Residential mortgages	1	3	8
Other retail	8	10	17
Securitisation	2	4	3
TOTAL *	**13**	**23**	**30**

* As the same model can be used in different exposure classes, the total doesn't equal the sum of the individual exposure classes

AIRB credit exposures by rating model

The table below shows the AIRB portfolio per exposure class and the underlying rating models.

Exposures (READ) per AIRB rating model per exposure class [1]		2016	2015
Sovereigns	Government Central	10,206	12,161
	Government Implied	7,684	7,271
	Government Local	3,789	2,773
	Other	389	390
Institutions	Bank Commercial	8,142	11,358
	Government Local	8,544	8,038
	Bank Implied	3,522	3,442
	Other	898	1,553
Corporate	SME Belgium	24,985	22,368
	Corporates Large	17,846	15,438
	Corporate TCF	10,026	8,204
	Other	13,751	11,914
Residential mortgages	Private Individuals Belgium	18,183	17,510
	Record Bank Consumer	12,182	11,523
	Private Individuals Luxembourg	2,014	1,713
	Other	16	13
Other retail	Private Individuals Belgium	7,396	7,426
	SME Belgium	3,455	3,891
	Record Bank Consumer	2,081	2,101
	Other	725	745
Securitisation	Securitisation Combined	813	1,017
	Finance Companies	421	627
	Securitisation (Standard & Poor's leading)	567	408
	Other	870	1,074
TOTAL *		**158,504**	**152,958**

[1] Implied ratings are Risk Ratings derived from another organisation (usually from the same Legal or Economic One Obligor Group, but not always, for which the appropriate Rating Model has been used) but not directly given.

Additional information - continued

AIRB credit exposures by internal rating grade

The table below shows the AIRB portfolio per internal rating grade. Under CRR/CRD IV rules, the nominal exposures are weighted to determine the RWA (and regulatory capital) of a portfolio, under a 'risk-based approach'. This approach dictates that less capital is required for credit exposures which are well-rated, while progressively more capital is required as an obligor's risk (rating) deteriorates. This effect can cause RWA to increase or decrease together with risk rating migration without a significant change in the size of the underlying financial assets, in terms of financial accounting. As such, rating migrations are closely monitored within ING.

Exposure (READ) per internal rating grade and corresponding PD, LGD and RWA - 2016

In EUR millions

Internal rating grade	PD min	PD max	READ	Average RPD	Number of obligors	Average RLGD	Average maturity	RRWA	Risk weight	REL	External rating equivalent
01. Performing											
1	0.01%	0.01%	6,106	0.01%	28	30.05%	24.63	124	0.02	0	AAA
2	0.02%	0.02%	956	0.03%	25	29.16%	50.33	130	0.14	0	AA+
3	0.03%	0.03%	18,485	0.03%	67,709	31.70%	26.59	1,216	0.07	1	AA
4	0.04%	0.04%	11,534	0.04%	71,901	23.98%	51.16	1,649	0.14	1	AA-
5	0.05%	0.06%	10,408	0.05%	31,202	30.50%	32.91	1,886	0.18	2	A+
6	0.06%	0.08%	3,105	0.06%	12,311	22.69%	32.76	401	0.13	0	A
7	0.09%	0.11%	10,129	0.10%	119,229	22.77%	47.49	1,662	0.16	2	A-
8	0.13%	0.16%	13,908	0.14%	134,599	19.94%	46.55	2,290	0.16	4	BBB+
9	0.18%	0.22%	10,647	0.21%	113,246	25.54%	34.73	2,722	0.26	6	BBB
10	0.29%	0.36%	14,455	0.31%	109,244	22.81%	38.42	3,712	0.26	10	BBB-
11	0.44%	0.56%	16,299	0.46%	137,818	21.93%	41.39	5,076	0.31	16	BB+
12	0.59%	0.95%	11,545	0.81%	98,502	24.01%	39.49	5,038	0.44	22	BB
13	1.09%	1.71%	9,304	1.41%	135,289	21.64%	36.94	4,288	0.46	28	BB-
14	1.90%	3.07%	5,918	2.54%	73,716	20.88%	40.66	3,427	0.58	31	B+
15	3.85%	5.38%	4,635	4.49%	50,109	24.73%	40.45	3,744	0.81	52	B
16	6.11%	11.04%	2,507	8.61%	42,567	20.72%	42.02	1,980	0.79	45	B-
17	15.12%	18.92%	1,883	15.98%	26,051	18.84%	41.04	1,804	0.96	56	CCC
18	23.86%	28.82%	672	25.09%	8,734	16.95%	47.49	632	0.94	28	CC
19	33.68%	52.61%	598	41.22%	10,059	16.70%	45.40	503	0.84	42	C
02. Non-performing											
20	100.00%	100.00%	1,834	100.00%	16,451	17.08%	44.48	2,397	1.31	248	Default
21	100.00%	100.00%	552	100.00%	6,855	26.67%	30.69	702	1.27	131	Default
22	100.00%	100.00%	352	100.00%	1,109	30.58%	20.99	262	0.74	191	Default
TOTAL			**155,833**	**2.86%**	**1,229,193**	**24.45%**	**38.69**	**45,642**	**0.29**	**916**	

Includes the AIRB portfolio only; excludes securitisations, CVA RWA, equities and ONCOA.

ING's Probability of Default (PD) rating models are based on a 1-22 scale, which corresponds to the same rating grades that are assigned by external rating agencies. Risk Ratings (PD) for performing loans (1-19) are calculated in ING with regulatory approved models. Risk Ratings for non-performing loans (20-22) are set on the basis of an approved discretionary methodology by the Global or Regional Restructuring unit. Overall the risk weights of the ING Belgium portfolio are a mixture of low risk weights for Sovereigns and Residential Mortgages combined with higher risk weights for Corporates and Securitisations. Mortgages generally benefit from large levels of (over) collateralisation.

As of October 2015, PD values of the ING Masterscale are adjusted using both internal and external default data, covering the period 1981 until 2013. External data from Standard & Poor's is used. Internal default experience is reflected for a better fit of ING's portfolios compared to the predominantly US based Standard & Poor´s data.

Additional information - continued

Disclosures of model outcomes

The table next, shows the PD, LGD, READ, RWA and RWA density per exposure class.

Model approaches per exposure class for the AIRB portfolio

In EUR millions	Sovereigns	Institutions	Corporate	Residential mortgages	Other retail	Total 2016	Total 2015
Average RPD	0.04%	0.10%	3.28%	4.49%	5.71%	2.86%	2.94%
Average RLGD	29.61%	27.13%	28.23%	10.48%	26.67%	24.45%	24.41%
READ	22,067	21,107	66,608	32,395	13,657	155,833	149,990
RRWA	1,271	3,887	29,998	6,124	4,363	45,642	35,707
RRWA density (RRWA/READ)	5.76%	18.42%	45.04%	18.90%	31.94%	29.29%	23.81%

Includes the AIRB portfolio only; excludes securitisations, CVA RWA, equities and ONCOA.

Standardised Approach

A subset of the ING Belgium portfolio is treated with the Standardised Approach. The SA approach applies fixed risk weights to each exposure class, split into credit quality steps (based on external ratings) as dictated by the Capital Requirement Directive (CRD). The SA Approach is the least sophisticated of the CRR/CRD IV methodologies and is not as risk sensitive as the risk-based AIRB Approach.

Exposures before and after risk mitigation for the SA portfolio

The table below shows how credit risk mitigation (CRM) in the SA portfolio is distributed over the exposure classes. There are two principal methods for reducing or mitigating Credit Risk: i) by reduction of Credit Risk through the acceptance of pledged financial assets as collateral or ii) mitigation or shifting of credit risks to a lower risk weighting group by accepting guarantees from unrelated third parties. ING uses both methods to take CRM effects into account. For financial collateral, ING uses the Financial Collateral Comprehensive Method to allow for mitigation effects.

Exposures and RWA before and after risk mitigation and conversion factors

In EUR millions	Exposures before CCF and CRM [a]		CRM and CCF effects on exposures [b]		RWA & RWA density	
SA exposure class	On balance sheet amount	Off balance sheet amount	On balance sheet amount	Off balance sheet amount	RWA [c]	RWA density [c/(a-b)]
Regional governments or local authorities	4	1	-0	-0	1	16.45%
Institutions	26	0	4	0	6	26.91%
Corporates	1,088	146	-5	-73	1,143	87.15%
Retail	109	1	-0	-0	63	57.06%
Secured by mortgages on immovable property	0	0	-0	0	0	41.69%
Exposures in default	142	1	-13	-0	192	122.99%
TOTAL 2016	**1,368**	**148**	**-15**	**-74**	**1,405**	**87.52%**
Total 2015	1,142	302	-40	-147	1,184	72.60%

Risk weights per exposure class

The table below gives more insight in how the SA portfolio per exposure class is broken down into the regulatory risk weight buckets.

Exposures per risk weight bucket per exposure class

SA exposure class	0%	10%	20%	35%	50%	75%	100%	150%	Others	Total
Regional governments or local authorities			4							4
Institutions			30							30
Corporates							1,156			1,156
Retail						110				110
Secured by mortgages on immovable property				0			0			0
Exposures in default							2	127		129
TOTAL 2016			**34**	**0**		**110**	**1,158**	**127**		**1,428**
Total 2015			11		3	141	1,098	3		1,257

Note that the Bank of International Settlements (BIS) requires an exposure class breakdown in this table which differs from the ING Bank exposure classes shown in previous tables.

Additional information - continued

Exposure by industry and geographic area

ING uses a common industry classification methodology based on the NAICS system (North American Industry Classification System). This methodology has over 1,500 detailed industry descriptions, which are aggregated into 22 industry classes at the highest level.

The tables below show the non-performing exposure per NAICS industry and per main geographic area for the total portfolio, for portfolios and for defaulted portfolios.

Total portfolio

Total exposure (READ) by industry

In EUR millions	Sovereigns	Institutions	Corporate	Residential mortgages	Other retail	SEC	Total 2016	Total 2015
1. Private Individuals	0	0	113	19,878	2,753	0	22,744	21,923
2. Natural Resources	0	0	17,190	19	54	0	17,263	14,042
3. Services	104	424	7,580	5,501	2,767	0	16,375	14,504
4. Commercial Banks	399	11,456	815	58	8	0	12,736	14,298
5. Central Governments	10,653	45	0	305	43	0	11,047	13,029
6. Real Estate	44	186	9,448	46	589	0	10,313	9,283
7. Lower Public Administration	2,684	5,727	0	611	98	0	9,120	7,878
8. General Industries	0	2	4,515	3,485	908	0	8,911	8,468
9. Central Banks	7,490	0	0	2	0	0	7,492	6,863
10. Food, Beverages & Personal Care	0	1	5,429	355	971	0	6,755	7,586
11. Non-Bank Financial Institutions	0	1,035	2,506	111	171	2,671	6,493	8,123
12. Chemicals, Health & Pharmaceuticals	536	1,250	3,534	334	683	0	6,336	5,088
13. Builders & Contractors	25	105	4,470	310	1,019	0	5,929	5,547
14. Transportation & Logistics	0	3	4,112	206	261	0	4,582	4,609
X. Other	137	903	8,053	1,174	3,568	0	13,834	12,975
TOTAL	**22,071**	**21,136**	**67,765**	**32,395**	**13,894**	**2,671**	**159,932**	**154,215**

Includes both AIRB and SA portfolios; excludes equities and ONCOA.

Total exposure (READ) by geographic area

In EUR millions	Sovereigns	Institutions	Corporate	Residential mortgages	Other retail	SEC	Total 2016	Total 2015
1. Belgium	13,480	8,678	36,118	30,068	12,854	0	101,198	97,038
2. Luxembourg	2,025	657	4,848	1,755	692	36	10,013	9,351
3. Netherlands	793	5,461	2,404	65	24	1,382	10,128	11,583
X. Other Europe	5,714	4,722	15,959	414	280	815	27,906	27,122
1. America	0	1,196	4,412	26	18	438	6,090	5,252
2. Asia	39	379	3,001	40	9	0	3,468	2,844
Y. Rest of world	20	43	1,022	27	17	0	1,129	1,025
TOTAL	**22,071**	**21,136**	**67,765**	**32,395**	**13,894**	**2,671**	**159,932**	**154,215**

Includes both AIRB and SA portfolios; excludes equities and ONCOA.

SME exposure classes

SME exposure classes include companies, classified as Corporate or Retail, where the total annual sales for the consolidated group for which the firm is part is less than EUR 50 million.

SME Exposure (READ) by industry

In EUR millions	Corporate	Retail	Mortgages	Total 2016	Total 2015
1. Private Individuals	39	43	243	325	301
2. Natural Resources	438	24	25	488	610
3. Services	2,951	777	1,370	5,098	5,501
4. Commercial Banks	0	1	2	3	2
5. Central Governments	0	1	1	2	2
6. Real Estate	3,958	116	468	4,542	5,271
7. Lower Public Administration	0	1	2	3	3
8. General Industries	1,265	166	204	1,635	1,854
9. Central Banks	0	0	0	0	0
10. Food, Beverages & Personal Care	1,056	321	592	1,969	2,254
11. Non-Bank Financial Institutions	266	78	79	424	543
12. Chemicals, Health & Pharmaceuticals	715	232	410	1,357	1,650
13. Builders & Contractors	2,242	396	586	3,225	3,365
14. Transportation & Logistics	708	106	126	940	1,030
X. Other	2,543	860	2,573	5,976	6,261
TOTAL	**16,182**	**3,124**	**6,680**	**25,986**	**28,648**

Includes both AIRB and SA portfolios; excludes securitisations, equities and ONCOA.

SME Eposure (READ) by geographic area

In EUR millions	Corporate	Retail	Mortgages	Total 2016	Total 2015
1. Belgium	15,750	2,965	6,428	25,143	27,700
2. Luxembourg	110	129	149	388	382
3. Netherlands	75	6	6	86	70
X. Other Europe	180	19	82	281	357
1. America	1	2	12	14	14
2. Asia	40	0	1	42	29
Y. Rest of world	26	3	3	32	97
TOTAL	**16,182**	**3,124**	**6,680**	**25,986**	**28,648**

Includes both AIRB and SA portfolios; excludes securitisations, equities and ONCOA.

Additional information - continued

Non-performing

Non-performing exposure (READ) by industry							
In EUR millions	Sovereigns	Institutions	Corporate	Residential mortgages	Other retail	Total 2016	Total 2015
1. Private Individuals				424	185	609	635
2. Services			222	183	64	469	439
3. General Industries			128	185	33	346	367
4. Builders & Contractors			217	13	68	298	315
5. Real Estate			231	1	29	261	297
6. Retail			95	56	46	197	170
7. Food, Beverages & Personal Care			114	14	51	179	189
8. Natural Resources			128	0	2	130	127
9. Transportation & Logistics		0	45	15	24	84	95
10. Chemicals, Health & Pharmaceuticals			45	10	9	64	69
11. Unknown			8		50	58	69
12. Automotive			32	4	10	46	53
13. Media			25	3	9	37	44
14. Lower Public Administration		0		29	1	30	29
X. Other	0	1	32	11	16	60	75
TOTAL	**0**	**1**	**1,322**	**947**	**596**	**2,867**	**2,974**

Includes both AIRB and SA portfolios; excludes securitisations, equities and ONCOA.

Non-performing exposure (READ) by geographic area							
In EUR millions	Sovereigns	Institutions	Corporate	Residential mortgages	Other retail	Total 2016	Total 2015
1. Belgium	0	1	1,149	887	567	2,605	2,675
2. France		0	21	25	13	59	56
3. Luxembourg		0	23	8	10	40	59
X. Other Europe			6	25	4	35	55
1. Africa			88	1	1	89	86
2. America			36	1	1	38	41
Y. Rest of world				1	0	1	2
TOTAL	**0**	**1**	**1,322**	**947**	**596**	**2,867**	**2,974**

Includes both AIRB and SA portfolios; excludes securitisations, equities and ONCOA.

Past due loans

The calculation of days past due vary depending on the type of exposure. ING Belgium considers past due loans to be those loans where any payment of interest of principal is more than one day past due on the reporting date (usually monthly). The number of days past due is based on the number of payments overdue. A number of “months in arrears” for each loan, being the total arrear in principal amount (thus including capital and normal monthly interests, but excluding overdue interests and fees) divided by the amount of the current monthly instalment. For accounts and cards however the number of days past due is calculated as the real number of days in arrears. This methodology is currently being reviewed in anticipation of IFRS9.

The table below is based on the country of residence of the obligor and on credit risk outstandings. Credit Risk outstandings include amounts associated with both on- and off- balance sheet products, but exclude amounts related to unused limits.

Past due but not non-performing consumer loans by geographic area (based on outstandings)

In EUR millions	Sovereigns	Institutions	Corporate	Residential mortgages	Other retail	Total 2016	Total 2016
1. Belgium			2	901	546	1,449	1,729
2. Luxembourg				1	52	53	54
3. France				16	1	17	20
X. Other Europe				4	1	5	5
1. Asia				0	0	0	0
2. Africa				0	0	0	0
Y. Rest of world				1	0	1	1
TOTAL	**0**	**0**	**2**	**923**	**600**	**1,525**	**1,810**

Includes both AIRB and SA portfolios; excludes securitisations, equities and ONCOA.

Aging Analysis

The table below gives insight in the aging of the Consumer exposures and includes both the performing and non-performing portfolio. All exposures which are not past due have been excluded. The bucket 0-3 months comprises mainly of performing exposures.

Aging analysis of past due Consumers exposures

In EUR millions	0-3 months *	> 3-6 months	> 6-9 months	> 9-12 months	> 12-24 months	> 24 months
Residential Mortgages	1,300	89	37	25	44	183
Other Retail	702	29	17	12	21	51
Corporate	3	0	0	0	0	0
TOTAL 2016	**2,005**	**118**	**54**	**37**	**65**	**234**

Excludes the business portfolio, includes both AIRB and SA portfolios; excludes securitisations, equities and ONCOA.
* excl. 0 days

Counterparty credit risk

The main activities that qualify under counterparty credit risk are derivatives trading activities and securities financing. As part of these activities, ING Belgium enters into master agreements such as ISDA master agreements and Global Master Repurchase Agreements (GMRAs). Under the terms contained in sections related to Minimum Threshold Amounts and Minimum Transfer Amounts of Credit Support Annexes (CSA) or other similar clauses, both ING Belgium and it counterparties may agree to pledge additional collateral to each other in the event that either party is downgraded by one of the established rating agencies. ING has determined that under prevailing market conditions, a one notch downgrade would only have a limited effect on the amount of additional collateral that ING would be required to pledge under these agreements. However, the actual amount that ING Belgium may be required to pledge in the future may vary based on ING Belgium's portfolio composition of both derivatives and securities pledged in securities financing transactions, market circumstances, the number of downgrade notches as well as the terms and conditions of future CSAs or other similar agreements entered into.

CVA risk

Basel III introduced an additional regulatory capital charge for material increases in the CVA, the market price of the credit risk of derivatives. In particular, as credit spreads of ING Belgium's counterparties increase, CVA will increase as well and ING Belgium will incur a loss. ING Belgium follows the standardised approach for calculation of the capital charge to cover CVA Risk (CVA Capital) in accordance with the CRR/CRD IV. The scope of the products and counterparties that the CVA Capital charge is applied to also follows those regulations. The most important factors in the calculation of CVA Capital according to the standardised approach are the CVA Exposure, the CVA Risk Weight and the Maturity. The CVA exposure is similar to the READ, but includes collateral held under collateral agreements. The CVA Risk Weight is prescribed in regulation and depends directly on the risk rating of the counterparty. The Maturity is similar to the Maturity used in the calculation of Counterparty Default Risk, but contrary to its use there not capped at 5 years.

In order to make CVA comparable to credit RWA, we use in the table below the concept of "CVA RWA", which is the product of CVA capital requirement by 12.5.

CVA Risk

In EUR millions	2016			
Derivatives Product Buckets	CVA Exposure	Average CVA Risk Weight	Average Maturity	CVA RWA
Interest Rate Derivatives	1,484	0.80%	5.7	1,304
Equity Derivative	381	0.93%	4.6	294
FX Derivative	116	0.82%	4.2	78
Commodity Derivative	25	0.80%	4.6	18
Inflation Linked Derivatives	6	0.81%	5.3	5
Fixed Income Derivative	2	0.80%	10.5	2
Credit Derivative	1	0.88%	6.0	1
TOTAL 2016	**2,014**	**0.83%**	**5.2**	**1,702**
Total 2015	2,985	0.83%	5.2	2,034

Includes both AIRB and SA portfolios; excludes securitisations, equities and ONCOA.

Derivatives by product type

The table below is based on the market-to-market (MtM) plus (regulatory) add-on methodology used for calculating CRR/CRD IV RWA for determining the gross exposures. This means that the READ figure listed hereunder is significantly below the notional amount. The market-to-market plus (regulatory) add-on is recalculated daily to reflect both changes in the markets as well as portfolio composition. The Current Exposure Method (the methodology to calculate the READ) together with the other building blocks (PD, LGD and Maturity), allow ING Belgium to classify a large part of its derivatives exposures under the AIRB approach.

Derivatives by product type in READ

In EUR millions	2016						Total 2015
Derivatives Product Buckets	Sovereigns	Institutions	Corporate	Residential mortgages	Other Retail	Total	
Interest Rate Derivatives	351	2,272	812		1	3,437	5,056
Equity Derivative	3	412	256		9	680	751
FX Derivative	9	122	336		1	468	1,021
Commodity Derivative	4	21	220		0	245	182
Inflation Linked Derivatives	0	6	0			6	5
Fixed Income Derivative		2				2	3
Credit Derivative		1				1	0
Exchange Traded						0	736
TOTAL	**368**	**2,836**	**1,624**	**0**	**11**	**4,838**	**7,755**

Includes both AIRB and SA portfolios; excludes securitisations, equities and ONCOA.

Capital adequacy - Market risk

In general

Economic Capital for market risk is the economic capital necessary to withstand unexpected value movements due to changes in market variables, such as interest rates, equity prices, foreign exchange rates, real estate prices and volatility in these rates and prices. Economic Capital for market risk is calculated for exposures both in trading portfolios and non-trading portfolios.

Measurement

Economic Capital for market risk is calculated using internally developed methodologies with a 99.95% confidence interval and a horizon of one year, which represent extreme events and ING's desired rating. The Economic Capital for market risk for non-trading portfolios is calculated for each risk type, while for trading portfolios it is calculated on a portfolio level. The calculations for Economic Capital market risk include foreign exchange rate risk, equity price risk, interest rate risk and real estate risk.

For the direct market risks, the actual VaR (measured at a 99% confidence interval and a one-day holding period) of the trading and non-trading portfolios is taken as a starting point for the Economic Capital calculations for market risk. To arrive at the Economic Capital for market risk, a simulation-based model is used which includes scaling to the required confidence interval and holding period. In determining this scaling factor, several other factors are also taken into account such as the occurrence of large market movements (events) and management interventions. Economic Capital for market risk for the large non-trading portfolios is calculated for embedded option risk (e.g. the prepayment option in mortgages).

The model risk is calculated by stressing the underlying assumptions in the models for behavioural assets and liabilities. For example, for the model applied to mortgage portfolios, the quality of the hedge depends on assumptions with respect to the prepayment behaviour. If these assumptions are wrong, the funding may be either too long or too short-term.

Similar to the above, the Economic Capital for model risk is based on the estimated 99% confidence interval for the prepayment model error and the 99% confidence interval for adverse interest rate movements. It is assumed that combining these two 99% confidence levels results in a 99.95% confidence level for the mortgage loan portfolio value change as a result of the prepayment modelling error. The prepayment model risk for mortgage loans and the model risk for on-demand client deposits are included in the Business Risk category.

Buildings owned by ING that are not managed by ING Real Estate are referred to as 'Property In Own Use'. Economic Capital for Property in Own Use is included in the Economic Capital for market risk. While aggregating the different Economic Capital market risk figures for the different types of risks, diversification benefits are taken into account, as it is not expected that all extreme market movements will appear at the same moment. The nature of market risk Economic Capital, which evaluates the impact of extreme stress with a 99.95% confidence level, can sometimes be difficult to evidence in a statistically sound manner with the available historical data. The Economic Capital figures disclosed by ING Belgium are a best-effort estimate based on available data and expert opinions.

Capital adequacy - Operational risk

While operational risk can be limited through management controls some incidents still have a substantial impact on the profit and loss account of financial institutions. As for the other risk domains, regulatory and economic capital for operational risk is calculated and maintained.

ING has chosen for the "Advanced Measurement Approach (AMA)" for the calculation of the regulatory and economic capital, called the AMA 2.0 model.

The goal of the modelling is to estimate appropriate risk parameters for a Unit of Measurement (UoM). A risk refers to a set of frequency and severity distributions. When modelling a risk, a distinction is made between body risk and tail risk. The point of the split between body and tail is denoted as tail threshold. Body risk describes the high frequency - low severity events. In contrast, the tail risk describes the low frequency - high severity events.

Additional information - continued

Lack of sufficient internal loss events makes the use of Internal Loss Data (ILD) for tail severity modelling difficult. Therefore, other sources of data more appropriate for tail are used. External data (ELD/ORX) and scenarios (SA) are two available alternatives. In the modelling approach both data sets will be used as complementary inputs.

Capital requirements				
	2016		2015	
In million EUR	Regulatory Capital	Risk-Weighted Assets	Regulatory Capital	Risk-Weighted Assets
	CRR/CRD IV phased in 2015 rules		CRR/CRD IV phased in 2014 rules	
Credit risk				
Total portfolios subject to standard approach	**112.4**	**1,404.8**	**94.7**	**1,184.1**
Portfolios subject to AIRB approach				
- Sovereigns	*27.9*	*348.4*	*39.7*	*496.1*
- Institutions	*302.0*	*3,774.5*	*384.5*	*4,806.6*
- Corporate	*2,400.4*	*30,005.4*	*1,743.8*	*21,797.5*
- Residential mortgages	*626.4*	*7,829.7*	*469.8*	*5,871.9*
- Other Retail	*212.5*	*2,656.6*	*219.6*	*2,745.0*
Total portfolios subject to AIRB approach	**3,569.2**	**44,614.6**	**2,857.4**	**35,717.1**
Credit Value Adjustment	136.1	1,701.6	162.7	2,034.3
Securitisation exposures	28.2	352.5	37.3	466.2
Equity portfolios in the banking book under the simple risk weight approach	21.0	263.0	27.7	346.8
Other non credit-obligation assets	272.0	3,400.4	494.9	6,185.8
Other own fund requirement	73.8	922.5	203.0	2,538.0
Total Credit Risk	**4,212.8**	**52,659.4**	**3,877.8**	**48,472.3**
Market Risk				
Internal models approach - trading book	13.3	166.1	175.2	2,190.3
Total Market risk	**13.3**	**166.1**	**175.2**	**2,190.3**
Operational risk				
Advanced measurement approach	473.5	5,918.8	533.8	6,672.7
Total Operational Risk	**473.5**	**5,918.8**	**533.8**	**6,672.7**
Total Basel III required Regulatory Capital	**4,699.5**	**58,744.3**	**4,586.8**	**57,335.3**
Basel I floor [1]	**6,577.1**	**82,213.8**	**6,262.1**	**78,276.7**

[1] The floor is 80% of Basel I required Regulatory Capital

ING Belgium nv/sa
Avenue Marnix / Marnixlaan 24
B-1000 Brussels
Belgium

www.ing.be

Register of legal persons n° 0403 200 393

ING Belgium NV/SA
Annual Report
2017

Transformation
towards **Unite**

ING Belgium NV/SA Annual Report 2017

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Information about the company on 31 December 2017

Registered name

In Dutch, ING België NV; in French, ING Belgique SA; in English, ING Belgium NV/SA; in German, ING Belgien Ag.

Registered office

Avenue Marnix / Marnixlaan 24
B-1000 Brussels, Belgium

Company registration

The bank is registered in the Register of legal persons n° 0403 200 393.

Form of incorporation, Articles of Association and their publication

ING Belgium NV/SA is incorporated under Belgian law as a public limited company (naamloze vennootschap - société anonyme) by notarial act drawn up on 30 January 1935, witnessed by Mr Pierre De Doncker, Public Notary of Brussels, and published in the appendices to the Belgian Official Journal of 17 February 1935, under n° 1.459.

The Articles of Association of the company have been amended regularly, most recently by notarial act of 30 March 2015, witnessed by Mr Stijn Joye, associated Public Notary of Brussels, and published in the appendices to the Belgian Official Journal of 15 April 2015, under n° 0054382 and n° 0054383.

ING Belgium NV/SA is a credit institution within the scope of Article 1 of the Law of 25 April 2014 on the status and control of credit institutions.

Duration

The company has been established for an unlimited duration.

Corporate object

Under Article 3 of its Articles of Association, the company's business is to carry out, for itself or for third parties, in Belgium or overseas, all transactions coming under the banking activity, in the broadest sense, inter alia, all operations relating to cash and securities deposits, credit transactions of any kind, all financial, stock market, foreign exchange, issue, commission and brokerage transactions.

The company may also exercise all other activities which are or shall be authorised in respect of credit establishments in Belgium or overseas, such as, in particular, but not restricted to, any insurance brokerage and commission, any capital leasing and leasing in any form whatsoever of any real or movable property, any consultancy and research on behalf of third parties in the context of its activities.

Through contribution, transfer, merger, subscription, acquisition of holdings or any other form of investment in securities or personal property rights, through financial participation or any other participation, the company may participate in all businesses, undertakings, associations or companies with company business identical, analogous, similar or related to its own or likely to directly or indirectly favour realisation or development of that company business.

The company may carry out all commercial, industrial, financial and movable or real property transactions, which are directly or indirectly related to its company business or may contribute to realisation of that company business.

Issued share capital

The issued share capital of ING Belgium NV/SA is EUR 2.35 billion currently represented by 55,414,550 ordinary shares, without par value.

The bank has not issued any other class of shares. The bank's shares have not been listed on the Brussels Stock Exchange since 1 July 1998. Since 6 August 2004, they are all held by the ING Group.

External functions exercised by directors and senior management of the bank

The exercise of external functions by directors and senior management of Belgium-based financial institutions is subject to rules set out in the Circular PPB-2006-13-CPB-CPA issued by the Belgian Banking, Finance & Insurance Commission on 13 November 2006. This Commission is now called the Financial Services and Markets Authority.

Each institution is required to publish details of any such mandates by the means described in point I(4)(e) of the circular.

ING Belgium NV/SA has decided to make this information available to the public on its website.

Supervisory and Executive bodies

Composition of the Board of Directors [1]

Situation per 31 December 2017

Eric Boyer de la Giroday (2018)
Chairman of the Board of Directors

Erik Van Den Eynden (2023)
Chief Executive Officer
Managing Director

Krista Baetens (2023)
Managing Director

Philippe Wallez (2020)
Managing Director

Frank Stockx (2019)
Managing Director

Johan Kestens (2020)
Managing Director

Emmanuel Verhoosel (2020)
Managing Director

Tanate Phutrakul (2022)
Managing Director

Baron Luc Bertrand (2018)
Non-executive Director
Chairman of the Board, Ackermans & van Haaren

Baron Philippe de Buck van Overstraeten (2018)
Non-executive Director
Senior Executive Advisor Hill+Knowlton Strategies
Member of the European Economic and Social Committee

Count Diego du Monceau de Bergendal (2020)
Non-executive Director
Managing Director, Rainyve NV/SA

Christian Jourquin (2018)
Independent Non-executive Director
Member of the Royal Academy of Belgium

Paul Mousel (2020)
Independent Non-executive Director
President, Arendt & Medernach Lawyers

Koos Timmermans [2] (until 1 September 2017)
Non-executive Director
Vice Chairman of the Supervisory Board, ING Bank NV

Roland Boekhout [2] (as from 1 September 2017) (2023)
Non-executive Director
Member of the Management Board, ING Bank NV

Pinar Abay (2022)
Non-executive Director
CEO, ING Bank Turkey

Sonja Rottiers (as from 1 July 2017) (2023)
Independent Non-executive director
Director of companies

Swee-Im Ung (as from 1 July 2017) (2023)
Independent Non-executive director
Director of companies

[1] Normal expiry dates are shown opposite each Director's name
[2] Non-Executive Director who represents the sole shareholder

Composition of the Audit Committee

Situation per 31 December 2017

Chairman Diego du Monceau de Bergendal

Members Philippe de Buck van Overstraeten
Christian Jourquin [3]
Sonja Rottiers [3]
Swee-Im Ung [3]

[3] Member of the Audit Committee independent of the legal organ of administration within the meaning of article 526ter of the Companies Code and independent in accounting and/or auditing

Composition of the Remuneration Committee

Situation per 31 December 2017

Chairman	Eric Boyer de Giroday	***Members***	Paul Mousel Roland Boekhout

Composition of the Risk Committee

Situation per 31 December 2017

Chairman	Diego du Monceau de Bergendal	***Members***	Philippe de Buck van Overstraeten Christian Jourquin [3] Sonja Rottiers [3] Swee-Im Ung [3]

[3] Member of the Audit Committee independent of the legal organ of administration within the meaning of article 526ter of the Companies Code and independent in accounting and/or auditing

Composition of the Nomination Committee

Situation per 31 December 2017

Chairman	Eric Boyer de Giroday	***Members***	Paul Mousel Roland Boekhout

Composition of the Executive Committee

Areas of responsibility per 31 December 2017

Erik Van Den Eynden Managing Director	Chief Executive Officer
Tanate Phutrakul Managing Director	Chief Financial Officer
Krista Baetens Managing Director	Chief Risk Officer
Frank Stockx Managing Director	Head of Product Management & Client Services
Emmanuel Verhoosel Managing Director	Head of Wholesale Banking
Philippe Wallez Managing Director	Head of Retail & Private Banking
Johan Kestens Managing Director	Head of Information Technology Services

Registered auditor

KPMG, Bedrijfsrevisoren – Réviseurs d'Entreprises burg. CVBA/SCRL civile
Represented by **Olivier Macq**, company auditor / partner Financial Services

Brussels
23 March 2018
Financial Report 2017

Comments on Financial Statements

Changes in scope during 2017

There has been no changes in scope for ING Belgium NV/SA nor its subsidiaries during the financial year 2017.

Highlights

Solid business performance
while being on track with the transformation to the new business model
and demonstrating robust ratios

- The 2017 profit after tax of ING Belgium NV/SA consolidated amounted to **EUR 739 million** given challenging circumstances;
- Customer deposits increase with **EUR 3.9 billion** (+4%);
- Customer loan growth of **EUR 4.8 billion** (+5%).

- More than **100,000 new ING Lion accounts** opened;
- Net increase of **32,000 active clients** and **22,000 primary customers**;
- Net growth of **225,000 new active mobile users**.

- **Redeployment process** for 5,000 employees in respectful job-to-job approach;
- 2,200 employees trained and started in the **One Agile way of working** in January 2018;
- New business model with launch of new branch concept "**ING Client house**".

- Continued **margin pressure** on savings and current accounts as a result of the low interest rate environment;
- Balance Sheet position remains strong with **solid liquidity and capital ratios**.

Highlights		
In EUR billions	2017	2016
Profit after tax	0.739	0.573
Customer deposits	101	97
Customer loans	106	102
In %		
Tier 1 (Basel III)	15.5	14.3
Total capital ratio	17.6	16.6
Leverage ratio	5.1	4.8

Strong business performance

ING Belgium has managed to lay the foundations of this model while at the same time achieving excellent business results:

- Continued success of the free **ING Lion Account**-formula, with over 103,000 new accounts opened;
- The total number of **active clients** went up with 32,000 to 2,483,000 (+1.30%);
- The number of **primary customers** (customers who have a current account with ING that has regular flows coming in and at least one additional product) increased in 2017 with almost 22,000 to a total of just under 1,250,000 (+1.77%);
- **Digital adoption**, a key pillar for the success of ING's strategy, is accelerating exponentially. In 2017 a net growth of 225,000 new active mobile users was registered, making a total of 786,000 (+40.10%).

ING also closed some remarkable deals with some Midcorp and Corporate clients:

- ING was approached by **Mediahuis** in order to advise them on the envisaged delisting of Telegraaf Media Group;
- In June 2017, **Sonaca SA** acquired its US-based listed peer LMI Aerospace. ING took the lead in the underwriting, structuring and further syndication of the acquisition financing.
- ING coordinated for **bpost** the first Belgian syndicated Sustainability Improvement Loan transaction.

Next to that ING pays lots of attention to "Digital" and to "Innovation":

- **Smart and personal digital services**: contributing to the differentiating customer experience, ING has delivered extremely easy and extremely personal services by investing in smart and personal digital services;
- **Innovation through partnership**: Innovation can come from within the organization, but ING also strongly believes in open collaboration and supporting ambitious start-ups as well. For the third year in a row ING Belgium is hosting the ING Fintech Village, the accelerator for start-ups in the Fintech field.

New business model

The year 2017 was marked by the start of the transformation towards the new business model. For every individual at ING, it was an intense year.

Redeployment process on track

5,000 colleagues were in scope of the redeployment process (applying for a function in the new organisation). ING strived for a maximal number of matches, which has so far resulted in almost 90% being matched. Several options have been developed to allow people to leave the company. In short:

- 138 have left the organization by means of the 'early leave' measure (55+), another 759 have decided to make use of this arrangement before the end of 2021;
- 55 employees have decided to 'start their own business' with ING support;
- 448 employees were granted voluntary or recognized leave;
- ING was able to limit the number of dismissals to 120 in 2017.

Training employees in the One Agile way of working

In 2017 about 2,200 employees were trained on the principles of the One Agile way of working. This to prepare them for the Agile way of working that is the norm for the delivery organization of ING as from January 2018. This new way of working has as a consequence that teams are organized in a completely different way with Agile squads instead of hierarchical vertical structures:

- Autonomous and self-steering;
- Maximum nine multidisciplinary members;
- Advantage that innovation can be deployed more quickly for customers.

New distribution model

Bankers fully focused on advice: The launch of the new retail organization will be in effect as from March 2018. It will allow ING to completely change the direction of the branch concept, with the local bankers fully focused on advice;

Revision of the branch network: In 2017 the first ING Client House was officially opened. A new branch concept that aims to be a reflection of what is happening in society: far-reaching digitization + an urge for personal contact and local anchoring.

In April 2018, Record Bank will join forces with ING. Migration for the majority of the Record Bank customers will happen automatically They will experience a larger network coverage and an improved service using the digital ING platform;

Customer Loyalty Teams: With the Customer Loyalty Teams (CLT's), ING is also aiming resolutely for a differentiating customer experience. The deployment of the CLT's will take place as from March 2018.

Solvency

All of the above happens while maintaining a strong capital basis:

- the solvency ratio remains very solid with a Tier 1 ratio of 15.5% (Basel III definition) and a total capital ratio of 17.6%;
- a comfortable leverage ratio at 5.1%;
- a solid liquidity position, supported by a strong balance in liquidity profile of both assets and liabilities.

Consolidated balance sheet

Assets

ING Belgium NV/SA - Consolidated assets

In EUR millions	2017	2016	%
Cash and balances with central banks	9,558	5,009	+90.8
Amounts due from banks	10,216	9,885	+3.3
Financial assets at fair value through profit and loss	8,292	13,176	-37.1
Investments	15,162	17,949	-15.5
Loans and advances to customers	106,444	101,633	+4.7
Remaining assets	2,146	2,767	-22.4
Total consolidated assets	**151,818**	**150,419**	**+0.9**

The total assets of ING Belgium NV/SA increased with EUR 1,399 million or 0.9% to EUR 151.8 billion. At the level of the 'Cash and balances with central banks' an increase is seen linked to the increase in the TLTRO as well as the higher remaining liquidity at the end of the financial year.

The "Financial assets at fair value through profit & loss" decreased by 37% to amount to EUR 8.3 billion mainly due to the Balance sheet optimisation exercise ongoing between July and September 2017. Because prior to the migration of FM related operations from FM Branch Brussels to FM Branch London (both branches of ING Bank NV in The Netherlands), a reduction exercise on the number of deals and operations was held. This exercise lowered the number of B/S positions between ING Belgium and the FM Branch and thus also the B/S outstandings (on both Assets and Liabilities side).

Also the "Investments" decreased by 2.8 billion because of investments arriving at maturity date as well as a number of selected sales during the year. The loan portfolio of the bank grew in 2017 with EUR 4.8 billion. This increase is located in several client segments and products, mainly in the loans secured by mortgage.

Report of the Management Board - continued

Liabilities and equity

ING Belgium NV/SA - Consolidated liabilities and Equity

In EUR millions	2017	2016	%
Deposits from banks	16,645	13,334	+24.8
Customer deposits	100,896	97,046	+4.0
Financial liabilities at fair value through profit and loss	10,916	16,672	-34.5
Remaining liabilities	13,175	13,077	+0.7
Shareholders' equity	10,168	10,268	-1.0
Non-controlling interests	18	21	-14.3
Total consolidated liabilities and equity	**151,818**	**150,419**	**+0.9**

The shareholders equity amounts to EUR 10.2 billion and decreased by approximately 1% compared to end 2016. The profit of the year 2017 (approx. 740 mio) has been as good as compensated by the interim dividend (approx. 720 mio) paid in June 2017. The decrease in Shareholders' equity originates is an decrease of the Revaluation reserves.

The "Financial liabilities at fair value through profit & loss" decreased by 34.5% to EUR 10.9 billion mainly due to the Balance sheet optimisation exercise in 2017 (see also above under: "Assets"). The customer deposits increased in 2017 with EUR 3.8 billion to an amount of 100.9 billion in total. In spite of the low interest rates environment, ING Belgium NV/SA saw its savings accounts at an almost stable level (-0.5%). Also corporate deposits remained stable. The credit balances on deposits from banks increased on the other hand, by approximately EUR 3.3 billion. In this amount the increase of the TLTRO (being EUR 3 billion towards a total amount of EUR 4.6 billion) is embedded.

Consolidated income statement

ING Belgium NV/SA - Consolidated income statement

In EUR millions	2017	2016	%
Financial and operational income/expenses	**3,351**	**3,455**	**-3.0**
of which: net interest income	*2,393*	*2,547*	*-6.0*
of which: commissions and fees	*626*	*560*	*+11.7*
of which: other income	*332*	*348*	*-4.5*
Total expenses (-)	**-2,187**	**-2,686**	**-18.6**
of which: staff expenses	*-1,086*	*-1,053*	*+3.2*
of which: administration expenses	*-609*	*-393*	*+55.0*
of which: bank levies	*-218*	*-221*	*-1.3*
of which: depreciations	*-105*	*-116*	*-10.1*
of which: loan loss provisioning	*-165*	*-209*	*-21.0*
of which: other provisions and impairments	*-5*	*-695*	*-99.3*
Profit before tax	**1,164**	**769**	**+51.3**
Taxation (-)	-425	-196	+117.0
Profit after tax	**739**	**573**	**+28.9**
Third party interest (-)	2	-1	-232.2
Consolidated net profit (attributable to the equity holders of the parent)	**741**	**572**	**+29.5**

ING Belgium posted in 2017 on a consolidated level a profit after tax of EUR 739 million. The total income in 2017 of EUR 3.351 billion decreased slightly compared to previous years (-3%). The interest result reduced by 6.0% compared to 2016. The year 2017 was still an environment in which the market interest rates continued to be low, leading to a further decrease of interest margins despite higher volumes.

The salary expenses increased slightly (+3.2%) mainly due to an increase in costs for externals. The administration expenses in 2017 increased by EUR 216 million which is linked to small increases of multiple operating costs (about EUR 100 million in total), combined with the one-off procured cost savings during 2016 of EUR 115 million. The Regulatory costs (bank levies) during 2017 remained stable (EUR 218 million). The provisions and impairments decreased substantially compared to previous year, as 2016 contained a reorganisation provision of EUR 615 million. This leads to a profit before tax amount of EUR 1,164 million (or 51% higher than last year).

Finally, the increase in income taxes by EUR 229 million (+117.0%) leads to a profit after tax of EUR 739 million (+28.9%). The effective tax rate increased from 25.5% to 36.5% (lowering of the corporate tax rate leading to a decrease in deferred tax assets, less non-taxable revenues and a lower notional interest deduction rate).

Profile of the company

ING in Belgium

ING Group is a global financial institution of Dutch origin offering banking services through its operating company ING Bank. ING Bank's more than 51,000 employees offer retail and wholesale banking services to customers in over 40 countries.

ING Belgium NV/SA is a financial institution focusing its core activities on Retail & Private Banking and Wholesale Banking. The bank caters over 2.5 million clients in Belgium with a wide range of financial products via the distribution channel of their choice.

Record Bank -ING Belgium's second Belgian retail banking network- is a 100 % subsidiary of ING Belgium. Record Bank serves over 800,000 retail and small business customers with a full range of safe, simple and transparent products in daily banking, lending, savings and investments.

ING Luxembourg -also a fully owned subsidiary of ING Belgium NV/SA- is an universal bank with more than 120,000 customers serviced in retail agencies and 13,000 wholesale clients. It is a key challenger in mass markets (free online current account, Orange Account), an international Wealth Management centre and a main actor in wholesale banking services (cash facilities, lending, securities custody) for Large & Mid-size Corporate and Financial Institutions.

Staff evolution

In the course of 2017, the total number of staff (in full time equivalent, or FTE's) of ING Belgium NV/SA consolidated decreased by 6% from 9,843 FTE's to 9,236 FTE's.

While overall staffing members declined in 2017, the bank was able to continue to recruit new staff equal to 446 FTE's to meet its strategic goals.

Risk management

See the specific chapter "Consolidated annual accounts".

Post-balance-sheet events

No material financial events occurred between the close of the financial year and the date of issue of this report.

Information on branches

ING Belgium NV/SA has a branch in Switzerland: Geneva, with a representative office in Zurich.

Research and development

Not applicable.

Information concerning the use of financial instruments

See the specific chapter "Consolidated annual accounts".

Outlook

ING Belgium NV/SA complied with the position adopted since 2004 by ING Group's Executive Board: the Board decided not to formulate any further results forecasts.

Legal stipulations regarding the composition of the Audit Committee

In compliance with article 526bis of the Company Code, half of the members of the Audit Committee of ING Belgium should be an independent director (according to the definition in article 526ter).

These persons are Christian Jourquin, Swee-Im Ung and Sonja Rottiers. Their curriculum vitae and active participation in ING Belgium's Board of Directors demonstrate their capabilities in accounting and audit.

The rules of Corporate Governance

Current state of affairs

In Belgium, corporate governance is partly regulated by the law of 25 April 2014 (hereafter: the Banking Act) and partly by the Circular PPB-2007-6CPB-CPA. The Banking Act and this circular describe the prudential expectation of the supervisor regarding good governance of a financial institution.

In addition, ING Belgium respects the 'Belgian Corporate Governance Code', effective since 1 January 2005. In accordance with the 'comply or explain' approach adopted in the Anglo-Saxon world, the Code's recommendations lack binding force, though companies are urged to provide reasons if they refuse to comply.

ING Belgium's position regarding the Belgian Corporate Governance Code

The shares representing ING Belgium's share capital are no longer listed on the Brussels Stock Exchange since 1 July 1998. They have been held in their entirety by ING Group since 2004. However, ING Belgium continues to engage in all the activities permitted to Belgium-based financial institutions, including public debt issues. ING Belgium is also responsible for steering its Belgian and foreign subsidiaries. For these reasons, the bank continues to meet the requirements applicable for listed companies with regards to corporate communication and governance.

The Board of Directors approved the Governance memorandum and the charters of the Board of Directors, the Executive Committee, the Audit Committee, the Risk Committee, the Remuneration Committee and the Nomination Committee on 20 November 2015. The Governance memorandum and the Charters are updated on a regular basis.

ING Belgium currently satisfies the main recommendations of the Belgian Corporate Governance Code. The bank diverges from the Code on the following points:

1. Its internal governance charter is mainly based on article 21 of the Banking Act and the Circular PPB-2007-6CPB-CPA of the former Banking, Financial and Insurance Commission (CBFA), role taken over by the National Bank of Belgium (NBB), related to the prudential expectations of NBB regarding good governance of a financial institution.
2. The term of mandates to the Board of Directors remains uniformly fixed at six years, including for independent directors.
3. The bank also believes it should not have to personalise information concerning the remuneration it pays to its leading managers. An analysis of the breakdown of remuneration paid to the executive and non-executive members of the Board of Directors, together with overall figures for each of the items in the budget, is provided in the chapter "Consolidated annual accounts".

Corporate Governance and the Board of Directors

Composition

Under the terms of Article 12 of the Articles of Association, the ING Belgium Board of Directors must comprise at least 7 members. On 23 March 2018 the Board has 17 members.

Responsibilities

The main responsibility of the Board of Directors is to define the bank's general policy and supervise the Executive Committee. The Board of Directors appoints and dismisses the Chief Executive Officer and the members of the Executive Committee after having consulted the Executive Committee and obtained the approval of the National Bank of Belgium.

It delegates day-to-day management to the Executive Committee, ensures that this is carried out and oversees the general state of affairs. The Board of Directors convenes General Meetings and decides on their agenda. It sets the date for payment of dividends.

The Board may decide to pay interim dividends for the current period, subject to the conditions laid down by law. It also sets the amounts and dates of such payments.

Provisions in the Articles of Association relating to terms of office

The General Assembly of Shareholders appoints directors to sit on the Board and may dismiss them at any time. In accordance with Article 12 of the Articles of Association, the term of office of outgoing directors expires at the end of the Annual General Assembly. Outgoing directors are eligible to stand for re-election, unless the total term of office of a non-executive director would exceed 12 years due to his re-election (This rule is only applicable to non–executive directors appointed since 30 March 2015).

The order of rotation of mandates is decided by the Board of Directors in order to ensure that no term exceeds six years and that at least one member of the Board is (re-)elected each year.

As stated in Article 14 of the Articles of Association, the Board of Directors chooses a chairman amongst its members who are not members of the Executive Committee (non–executive directors), after having consulted the supervisory body NBB.

Board decisions

The Board's decision-making powers are explained in Article 15 of the Articles of Association.

Except in case of force majeure, resulting from war, unrest or other disasters affecting public life, the Board may only deliberate and reach valid decisions if most of its members are present or represented, on the understanding that any director present may not exercise more than two mandates by delegation.

However, if the Board fails to reach a quorum at a meeting, it may duly deliberate at a follow-up meeting, to be held within 15 days at the latest, on the items on the agenda of the previous meeting, regardless of the number of members present or represented.

Board decisions are taken by simple majority vote. Where there is a requirement, under Articles 523 of the Belgian Companies Code, for one or more members to abstain from voting, resolutions may be validly decided upon by a simple majority vote of all eligible members present or represented. In the event of a tied vote, the presiding member has the casting vote.

Remuneration

Under Article 13 of the Articles of Association, the General Assembly of Shareholders determines the amount of the remuneration of the members of the Board of Directors until a new decision is taken by such a meeting. For more information, see also the paragraph on Remuneration of the members of the Board of Directors and the Executive Committee (in chapter “Consolidated annual accounts”).

Specific committees

The Board of Directors has four permanent committees: the Audit Committee, the Risk Committee, the Remuneration Committee and the Nomination Committee. Each Committee shall be comprised of at least three non-executive members of the Board of Directors, of which at least one member needs to be independent within the context of article 526ter of Company Law.

Risk committee

The Risk Committee assists and advises the Board of Directors in monitoring, among other things, the risk profile of the company as well as the structure and operation of the internal risk management and control systems. The risks of the bank must remain within the limits defined by its risk appetite framework.

A risk appetite framework must be defined for the following risk categories: market, operational, credit, compliance, strategic, reputational and liquidity risk.

The purpose of the Risk Committee is to advise the Board of Directors in matters related to the risk strategy and risk tolerance, as well for the current as for the future risks. The risks for the bank must remain within the risk limits. The Risk Committee met 4 times in 2017.

Audit committee

The Audit Committee assists the Board of Directors in monitoring, among other things, the integrity of the financial statements of ING Belgium, the compliance with legal and regulatory requirements, and the independence and performance of ING's internal and external auditors. The Audit Committee's responsibilities extend to ING Belgium and its Belgian and foreign subsidiaries. It met 5 times in 2017. Matters it dealt with included examination of the bank's financial statements for 2016 and the interim results for 2017.

The Committee also analysed the reports prepared by the bank's General Auditor and the Global Compliance Officer. It reviewed the loans placed under special surveillance as well as legal disputes. The Audit Committee reports to the Board of Directors at the Board meeting following each of its own meetings.

Remuneration committee

The Remuneration Committee advises the Board of Directors, among other things, on the terms and conditions of employment (including their remuneration) of Executive Board members and the policies and general principles on which the terms and conditions of employment of Executive Board members and of senior managers of ING and its subsidiaries are based. The Remuneration Committee met 4 times in 2017.

Nomination committee

The Nomination Committee advises the Board of Directors, among other things, on the composition and functioning of the Board of Directors and Executive Board. The Committee also looks at the composition of the Board of Directors and develops the policy to increase the diversity in the Board (gender, age, cultural background…). The Nomination Committee met 3 times in 2017.

Corporate Governance and the Executive Committee

Composition and responsibility

Currently comprising seven members, the Executive Committee is responsible for conducting the bank's day-to-day management in line with the general policy set by the Board of Directors. Its members are Executive Directors and its president is the bank's Chief Executive Officer.

Assignment of responsibilities & decision-making

Each member of the Executive Committee is directly in charge of a number of the bank's entities. These responsibilities are detailed in the section 'ING Belgium's Supervisory, Executive and External Audit bodies' in the next chapter. All decisions by the Executive Committee are taken on a collective basis; each decision is binding on all members of the Committee.

The Executive Committee, in turn, delegates the management of areas of the bank's business to a number of individuals whose rank, responsibilities, authority and remuneration are determined by the Committee.

As mentioned above, the activities of the Executive Committee have been governed by a charter since 9 March 2006 and reviewed on 20 November 2015.

Remuneration

Article 13 of the bank's Articles of Association stipulates that the Board of Directors determines, on the advice of the Remuneration Committee and in accordance with the remuneration policy of the bank, the remuneration of the Executive Committee members. For more information, see also the paragraph on Remuneration of the members of the Board of Directors and the Executive Committee (in chapter "Consolidated annual accounts").

Activities

The Executive Committee generally meets once a week. Additional meetings are convened if there are a large number of items to be discussed, or if there is an urgent matter.

In addition to specific decisions relating to the day-to-day management of the bank, the Executive Committee reviews a detailed annual account of the performance and prospects of each of the bank's central units (profit centres and support services) and of all the main Belgian and foreign subsidiaries. The Executive Committee studies the bank's monthly results, broken down by segment. The results are examined in detail once a quarter.

It examines also the periodic report drawn up by the General Auditor every other month.

At the closing dates of 30 June and 31 December, the Executive Committee and the senior managers of the Credit Department review loan facilities requiring special attention.

The Executive Committee also regularly looks into issues affecting personnel management.

Corporate Governance and Special Committees

Several special committees report directly to the Executive Committee. These are e.g. the Assets and Liabilities Management Committee (ALCO BeLux), the Bank Treasury Committee (BTC), the Non-Financial Risk Committee (NFRC), the Credit Risk Committee, the Product Committee and the Financial Market Committee.

The Executive Committee remains the bank's sole decision-making body.

Corporate Governance and Diversity

Diversity and the Board of Directors

Diversity in the composition of the Board of Directors is assessed on a yearly basis by the Nomination Committee.

The diversity needed for a well-functioning board is more than just gender diversity, and also relates to the percentage of independent and non-executive members, as well as the different professional backgrounds of the members. Target is to have at least two independent members and a majority of non-executive members. The gender diversity of the Board of Directors has improved considerably in the last three year, coming from 12.5% end of 2015, to 18.75% in 2016 to 23.5% end 2017 with 4 out of 17 members being women. The target for next year is to have at least 30% women on the board.

The Board of Directors is actively helping ING Belgium to scout women for both the Board of Directors as the Executive Committee.

Article 12 of the Articles of Association stipulates that the term of office of a director expires at the end of the annual general meeting held the year in which the director in question reaches the age of 70. An ordinary or extraordinary General assembly of Shareholders may, based on the proposal of the Chairman of the Board, extend or renew for one additional term the mandate of a director who has reached the age limit. The additional term may not be longer than 2 years.

Diversity and the Executive Committee

ING Belgium is convinced that Diversity is a strategic priority and that a good balance of feminine and masculine leadership skills adds value to decision making on the highest level. The executive committee currently has seven members of which one woman, however the succession pipeline is heavily steered on identifying and developing women to be ready to take position.

Differences in Nationality and Business Background are equally valued and positively contribute to the diversity of our Executive Committee. Additionally Age and Language Diversity are monitored.

The executive members themselves are engaged in Diversity actions of the company, acting as mentors for underrepresented employee-groups and sponsors for our employee networks:

- LIONESS network to improve the visibility of women in the organization;
- CrossING network focused on cultural diversity;
- GALA network to support the Lesbian, Gay, Bisexual and Transgender community;
- Ring network for young professionals.

ING Belgium has been going through a large transformation in which Diversity, Inclusion and Unconscious Bias have been priorities of the executive committee in the redeployment of both employees and managers.

Non-financial information

As for the “Non-financial information” regarding ING Belgium NV/SA, we refer to the “Non-financial appendix” chapter (pages 337 to 353) in the 2017 Annual report of ING Group NV, parent company of ING Bank NV and thus also of ING Belgium NV/SA and its subsidiaries.

Consolidated statement of financial position

Consolidated statement of financial position (as per 31 December)

In EUR thousands	Note	2017	2016
Assets			
Cash and balances with central banks	1	9,558,201	5,008,639
Loans and advances to banks	2	10,215,689	9,885,421
Financial assets at fair value through profit or loss	3	8,291,932	13,175,766
of which: trading assets		*4,775,721*	*8,674,772*
of which: non-trading derivatives		*3,433,293*	*4,413,044*
of which: designated as at fair value through profit or loss		*82,918*	*87,950*
Investments	4	15,161,892	17,948,820
of which: available-for-sale		*14,523,823*	*17,022,923*
of which: held-to-maturity		*638,069*	*925,897*
Loans and advances to customers	5	106,444,117	101,632,669
Investments in associates	6	54,887	67,431
Real estate investments	7	49,014	48,358
Property and equipment	8	676,621	801,750
Intangible assets	9	102,700	102,483
Current tax assets		50,365	59,643
Deferred tax assets	10	214,175	192,419
Other assets	11	998,250	1,495,319
Assets held for sale		0	0
Total assets		**151,817,843**	**150,418,720**
Liabilities			
Deposits from banks	12	16,644,960	13,333,629
Customer deposits	13	100,896,245	97,046,298
Financial liabilities at fair value through profit or loss	14	10,915,533	16,672,317
of which: trading liabilities		*4,867,955*	*8,808,874*
of which: non-trading derivatives		*4,744,668*	*6,074,113*
of which: designated as at fair value through profit or loss		*1,302,910*	*1,789,330*
Current tax liabilities		36,200	53,467
Deferred tax liabilities	15	183,072	177,090
Provisions	16	732,236	780,794
Other liabilities	17	3,205,175	2,787,720
Debt securities in issue	18	6,961,453	7,743,252
Subordinated loans	18	1,969,372	1,440,429
Liabilities held for sale		0	0
Share capital repayable on demand	19	87,208	94,002
Total liabilities		**141,631,455**	**140,128,998**
Equity			
Share capital and share premium		2,801,511	2,801,511
Other reserves		48,129	207,226
Retained earnings		7,318,372	7,259,676
Shareholders' equity	20	**10,168,012**	**10,268,413**
Non-controlling interests		18,377	21,309
Total equity		**10,186,389**	**10,289,722**
Total liabilities and equity		**151,817,843**	**150,418,720**

Consolidated annual accounts - continued

Consolidated statement of profit or loss

Consolidated statement of profit or loss (as per 31 December)					
In EUR thousands	Note	2017	2017	2016	2016
Continuing operations					
Interest income		5,068,327		5,720,674	
Interest expense (-)		-2,675,504		-3,173,888	
Net interest income	21		2,392,823		2,546,786
Commission income		907,619		839,760	
Commission expense (-)		-281,975		-279,408	
Net commission income	22		625,645		560,351
Investment income	23		32,672		49,763
Valuation results on non-trading derivatives	24		-498		4,555
Net trading income	25		184,886		150,204
Share of profit from associates			19,088		29,230
Other income			96,123		114,169
Total income			**3,350,738**		**3,455,059**
Addition to loan loss provisions (-)	5		-164,777		-208,584
Staff expenses (-)	27		-1,086,389		-1,052,683
Other operating expenses (-)	28		-935,490		-1,424,465
Total expenses			**-2,186,656**		**-2,685,732**
Result before tax from continuing operations			**1,164,082**		**769,327**
Taxation (-)	29		-425,109		-195,917
Net result from continuing operations			**738,973**		**573,410**
Profit or Loss (-) for the year			**738,973**		**573,410**
Net result attributable to Non-controlling interests			-1,858		1,405
Net result attributable to Equity holders of the parent			740,831		572,005
Dividend per ordinary share (in EUR)			12.99		0
Total amount of dividend paid (In EUR millions)			720		0

Consolidated statement of comprehensive income

Consolidated statement of comprehensive income (as per 31 December)		
In EUR thousands	2017	2016
Net result (before non-controlling interests)	**738,973**	**573,410**
Other comprehensive income, net of tax	**-159,097**	**-85,707**
Items that will not be reclassified to the statement of profit or loss:	***32,314***	***-18,235***
Remeasurement of the net defined benefit asset/liability	54,424	-25,067
Unrealised revaluations property in own use	-8,690	-2,748
Related tax	-13,420	9,580
Items that may subsequently be reclassified to the statement of profit or loss:	***-191,410***	***-67,472***
Unrealised revaluations available-for-sale investments and other revaluations	-62,738	-55,475
Realised gains/losses transferred to the statement of profit or loss	-15,724	-58,719
Changes in cash flow hedge reserve	-203,174	29,728
Exchange rate differences	0	0
Share of other comprehensive income of associates and other income	-3,932	2,423
Related tax	94,158	14,571
Total comprehensive income	**579,876**	**487,703**
Comprehensive income attributable to:		
Non-controlling interests	-1,856	1,405
Equity holders of the parent	581,733	486,298
	579,876	**487,703**

Consolidated statement of cash flows

Consolidated statement of cash flows (as per 31 December)		Note	2017	2016
In EUR thousands				
Cash flows from operating activities				
Result before tax			**1,164,082**	**769,327**
Adjusted for:	– depreciation and amortisation		104,506	116,309
	– addition to loan loss provisions		164,777	208,584
	– other		32,400	730,212
Taxation paid			-376,254	-377,283
Changes in:	– loans and advances to banks, not available on demand		-2,134,592	3,333,688
	– trading assets		3,919,446	5,829,955
	– non-trading derivatives		-349,196	6,179
	– other financial assets at fair value through profit or loss		5,032	6,591
	– loans and advances to customers		-4,990,787	-8,832,618
	– other assets		803,961	691,259
	– deposits from banks, not payable on demand		3,152,222	3,622,565
	– customer deposits and other funds on deposit		3,851,675	251,048
	– trading liabilities		-3,940,846	-3,710,593
	– other financial liabilities at fair value through profit or loss		-487,098	-582,195
	– provisions and other liabilities		27,239	168,217
Net cash flow used in / from operating activities			**946,567**	**2,231,245**
Cash flows from investing activities				
Investments and advances:	– associates		-3,263	-14,414
	– available-for-sale investments		-3,536,317	-1,677,231
	– real estate investments		-6	0
	– property and equipment		-42,953	-40,806
	– other investments		-30,591	-33,119
Disposals and redemptions:	– associates		21,752	7,950
	– available-for-sale investments		5,657,458	3,445,517
	– held-to-maturity investments		255,000	
	– property and equipment		128,884	21,468
	– loans		977,221	0
	– other investments		-874,759	1,351
Net cash flow used in / from investing activities			**2,552,426**	**1,710,716**
Cash flows from financing activities				
Proceeds from debt securities		30	598,858	505,636
Repayments of debt securities		30	-1,311,900	-1,274,200
Proceeds from issuance of subordinated loans		30	717,118	0
Repayments of subordinated loans		30	-119,531	197
Dividends paid			-719,835	0
Net cash flow used in / from financing activities			**-835,290**	**-768,367**
Net cash flow			**2,663,703**	**3,173,594**
Cash and cash equivalents at beginning of year			**3,350,641**	**177,047**
Effect of exchange rate changes on cash and cash equivalents			0	0
Cash and cash equivalents at end of year				
Treasury bills and other eligible bills			0	874,779
Amounts due from / to banks			-3,543,857	-2,532,777
Cash and balances with central banks			9,558,201	5,008,639
Cash and cash equivalents at end of year			**6,014,344**	**3,350,641**
Evolution of the cash and cash equivalents during the year			**+2,663,703**	**+3,173,594**

Consolidated statement of changes in equity

Consolidated statement of changes in equity (2017)

In EUR thousands	Share capital and share premium	Revaluation and other reserves	Retained earnings	Net profit current year	Non-controlling interests	Total equity
Balance as at 1 January 2017	**2,801,511**	**207,226**	**6,687,671**	**572,005**	**21,309**	**10,289,722**
Net profit transferred to reserves	0	0	572,005	-572,005	0	**0**
Reclassification between reserves	0	0	0	0	0	**0**
Currency translation reserve	0	-3,932	0	0	0	**-3,932**
Net change in hedge of net investments in foreign operations reserve	0	0	0	0	0	**0**
Net change in tangible fixed assets revaluation reserve	0	3,175	0	0	0	**3,175**
Net change in the revaluation reserve available for sale	0	-33,463	0	0	0	**-33,463**
Net change in cash flow hedges	0	-154,016	0	0	0	**-154,016**
Net change in actuarial gains / losses on pension defined benefit plans	0	29,138	0	0	0	**29,138**
Other changes	0	0	0	0	0	**0**
Total amount recognised in other comprehensive income	0	-159,098	572,005	-572,005	0	**-159,098**
Net result from continuing and discontinued operations	0	0	0	740,831	-1,856	**738,975**
Total comprehensive income	**0**	**-159,098**	**572,005**	**168,826**	**-1,856**	**579,877**
Dividends (previous year)	0	0	0	0	0	**0**
Interim dividends (current year)	0	0	-719,836	0	0	**-719,836**
Changes in capital	0	0	0	0	0	**0**
Changes in treasury shares	0	0	0	0	0	**0**
Employee stock option and share plans	0	0	9,409	0	0	**9,409**
Other changes	0	0	28,292	0	-1,076	**27,216**
Balance as at 31 December 2017	**2,801,511**	**48,129**	**6,577,541**	**740,831**	**18,377**	**10,186,389**

Consolidated statement of changes in equity (2016)

In EUR thousands	Share capital and share premium	Revaluation and other reserves	Retained earnings	Net profit current year	Non-controlling interests	Total equity
Balance as at 1 January 2016	**2,801,511**	**292,932**	**5,726,965**	**950,266**	**20,392**	**9,792,066**
Net profit transferred to reserves	0	0	942,652	-950,266	0	**-7,614**
Reclassification between reserves	0	0	7,614	0	0	**7,614**
Currency translation reserve	0	6,983	0	0	0	**6,983**
Net change in hedge of net investments in foreign operations reserve	0	3,314	0	0	0	**3,314**
Net change in tangible fixed assets revaluation reserve	0	-1,706	0	0	0	**-1,706**
Net change in the revaluation reserve available for sale	0	-97,771	0	0	0	**-97,771**
Net change in cash flow hedges	0	20,002	0	0	0	**20,002**
Net change in actuarial gains / losses on pension defined benefit plans	0	-16,529	0	0	0	**-16,529**
Other changes	0	0	0	0	0	**0**
Total amount recognised in other comprehensive income	0	-85,707	950,266	-950,266	0	**-85,707**
Net result from continuing and discontinued operations	0	0	0	572,005	1,405	**573,410**
Total comprehensive income	**0**	**-85,707**	**950,266**	**-378,261**	**1,405**	**487,703**
Dividends (previous year)	0	0	0	0	0	**0**
Interim dividends (current year)	0	0	0	0	0	**0**
Changes in capital	0	0	0	0	0	**0**
Changes in treasury shares	0	0	0	0	0	**0**
Employee stock option and share plans	0	0	10,440	0	0	**10,440**
Other changes	0	0	0	0	-488	**-488**
Balance as at 31 December 2016	**2,801,511**	**207,226**	**6,687,671**	**572,005**	**21,309**	**10,289,722**

Corporate information

ING Belgium NV/SA is an international financial institution active in banking, insurance and asset management and a subsidiary of ING Bank NV. ING Belgium has organised its commercial network into two business lines: Retail & Private Banking and Wholesale Banking. Both report functionally to the equivalent business lines at ING Group. ING Belgium NV/SA is a limited liability company and its registered office is Marnix Avenue 24, 1000 Brussels.

These consolidated financial statements were approved for issue by the Board of Directors on 23 March 2018. Amounts in the notes to the financial statements are in thousands of euros unless otherwise stated.

Basis for preparation of the consolidated annual accounts

Preliminary remark: The format and layout of the 2017 Annual Report of ING Belgium NV/SA has been adapted to the format and layout of the Annual Report of ING Group NV and ING Bank NV, to increase comparability with the parent's financial statements.

The ING Belgium Consolidated annual accounts have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) and the supplementary disclosures required by Belgian law.

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

Under the EU carve out, ING applies fair value hedge accounting to portfolio hedges of interest rate risk (macro hedging). For further information, reference is made to "Consolidated annual accounts - Accounting policies" hereafter.

ING Belgium NV/SA Consolidated annual accounts have been prepared on a going concern basis.

Accounting policies

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

Changes in IFRS-EU effective in 2017

ING Belgium has applied a number of amendments to standards for the first time during the year ended 31 December 2017. The implementation of these changes had an insignificant impact on the consolidated financial position, net result, other comprehensive income, cash flows and related disclosures of ING Belgium. The amendment to IAS 7 now requires a disclosure of changes in liabilities arising from financing activities.

ING Belgium has not early adopted any other standard, interpretation or amendment which has been issued, but is not yet effective.

Upcoming changes in IFRS-EU after 2017

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

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

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

- Effective in 2018 (not yet endorsed by the EU, except for "Annual improvements cycle 2014–2016"):
  - Amendments to IFRS 2 'Share-based Payment': Classification and Measurement of Share-based payment transactions
  - Amendments to IAS 40 'Investment Property': Transfers of Investment Property;
  - Annual improvements cycle 2014–2016: Amendments to IAS 28 'Investments in Associates and Joint Ventures'; and
  - IFRIC 22 'Foreign Currency Transactions and Advance Consideration'.
- Effective in 2019 (not yet endorsed by the EU):
  - IFRIC 23 'Uncertainty over Income Tax Treatments';
  - Amendments to IAS 28: 'Investments in Associates and Joint Ventures': Long-term Interests in Associates and Joint Ventures;
  - Annual improvements cycle 2015 – 2017: Amendments to IFRS 3 'Business Combinations', IFRS 11 'Joint Arrangements', IAS 12 'Income Taxes', IAS 23 'Borrowing Costs'; and
  - Amendments to IAS 19: 'Employee Benefits': Plan Amendment, Curtailment or Settlement.

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

IFRS 9 'Financial Instruments'

IFRS 9 'Financial Instruments' was issued by the IASB in July 2014 and endorsed by the EU in November 2016. IFRS 9 replaces IAS 39 'Financial Instruments: Recognition and Measurement' and includes requirements for the classification and measurement of financial assets and liabilities, impairment of financial assets, and hedge accounting. The new requirements are effective for annual periods beginning on or after 1 January 2018 and will be applied by ING as of 1 January 2018. ING applies the classification, measurement, and impairment requirements retrospectively by adjusting the opening balance sheet and opening equity at 1 January 2018. ING has decided not restate comparatives as permitted by IFRS 9 but will take into account the impact of initial application of the new standard by adjusting the opening balance of its retained earnings. ING also decided not to early apply the changed own credit risk requirements, as allowed by IFRS 9.

In October 2017, the IASB issued an amendment to IFRS 9 with regard to prepayment features with negative compensation. Negative compensation arises where the contractual terms permit the borrower to prepay the instrument before its contractual maturity, but the prepayment amount could be less than unpaid amounts of principal and interest. The October 2017 amendment allows these financial assets to be measured at amortised cost if the negative compensation is a reasonable compensation for early termination of the contract. This amendment is effective for annual periods beginning on or after 1 January 2019. However, early adoption is permitted. ING will early adopt the amendment, subject to endorsement by the EU. Based on the assessments carried out, ING does not expect that this change will have an impact.

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

IFRS 9 program governance and status

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

In 2017 the program's focus was on:

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

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

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

Classification and measurement

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

Two criteria are used to determine how financial assets should be classified and measured at amortised cost (AC), fair value through other comprehensive income (FVOCI) or fair value through profit or loss (FVPL):

1. The business model assessment, performed to determine how a portfolio of financial instruments as a whole is managed in order to classify the business model as Hold to Collect (HtC), Hold to Collect & Sell (HtC&S), or other; and
2. The contractual cash flow characteristics test, performed to determine whether the financial instruments give rise to cash flows that are Solely Payments of Principal and Interest (SPPI). Principal is defined as the fair value of the financial asset on initial recognition. Interest is defined as consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period and for other basic lending risk and costs as well as margin.

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

ING's business models are based on the existing management structure of the bank, and refined based on an analysis of how businesses are evaluated and reported, how their specific business risks are managed and on historic and expected future sales. The SPPI testing was carried out on a sample basis conducted after the financial assets within the business models were stratified based on an analysis of product characteristics. In performing the SPPI testing, ING considered the contractual terms of the instruments. This included assessing whether the financial assets contained a contractual term that would change the amount or timing of contractual cash flows such that they would no longer be SPPI compliant.

In making the assessment, terms such as the following were considered:

- Prepayment terms. For example a prepayment of an outstanding principal amount plus a penalty capped to three or six months of interest;
- Leverage features, which increase the variability of the contractual cash flows with the result that they do not have the economic characteristics of interest: an example is a Libor contract with a multiplier of 1.3.
- Terms that limit the groups claim to cash flows from specified assets – e.g. non-recourse asset arrangements. This could be the case if payments of principal and interest are met solely by the cash flows generated by the underlying asset, for example in real estate, shipping and aviation financing.
- Features that modify consideration for the time value of money. These are contracts with for example an interest rate which is reset every month to a one-year rate.

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

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities. However, under IAS 39 all fair value changes of financial liabilities designated at FVPL are recognised in the statement of profit or loss (SOPL), whereas under IFRS 9 the fair value changes are presented as follows:

- The amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in the statement of Other comprehensive income (SOCI). Upon derecognition this Debt Valuation Adjustment (DVA) impact shall not be recycled from Other comprehensive income (OCI) to SOPL; and
- The remaining amount of change in the fair value is presented in the SOPL.

The impact of this change is that an amount of approximately EUR 23.6 million (pre-tax) will be reclassified within equity from Retained earnings to OCI.

Impact
As a result of the combined application of the business model analysis and SPPI test, the classification and measurement of the following portfolios will change:

- The most significant change is the reclassification of a part of the available for sale (AFS) investment portfolio, which will be split into a portfolio classified at amortised cost (AC) and a portfolio at FVOCI. Approximately EUR 8.5 billion of debt securities previously classified at AFS under IAS 39 will be measured at AC based on the IFRS 9 HtC business model. The reclassification from AFS to AC will result in a reduction of the unrealised revaluation gains in equity at transition date of approximately EUR 209 million (pre-tax);
- Approximately EUR 330 million of debt securities and loans previously booked at AC or AFS will be measured at FVPL as the cash flows do not meet the SPPI test. This measurement change has a negative impact on equity at transition date of EUR 72 million (pre-tax).

Furthermore, there are a few portfolios for which only the classification on ING's Consolidated statement of financial position will change without impacting equity.

ING has a portfolio of equity securities amounting to EUR 66 million. For strategic equity instruments amounting to EUR 43 million, ING has decided to apply the option to irrevocably designate these at FVOCI, instead of the IFRS 9 default measurement of FVPL. FVOCI equity investments will have no recycling of the revaluation reserve anymore to the SOPL upon disposal. For these instruments only dividend income continues to be recognised in SOPL.

Impairment

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

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

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

Stage 1: 12 month ECL – No significantly increased credit risk.
Financial instruments that have not had a significant increase in credit risk since initial recognition require, at initial recognition a provision for ECL associated with the probability of default events occurring within the next 12 months (12 month ECL). For those financial assets with a remaining maturity of less than 12 months, a Probability of Default (PD) is used that corresponds to the remaining maturity.

Stage 2: Lifetime ECL – significantly Increased credit risk
In the event of a significant increase in credit risk since initial recognition, a provision is required for the lifetime ECL representing losses over the life of the financial instrument (lifetime ECL).

Stage 3: Lifetime ECL – Defaulted
Financial instruments that move into Stage 3 once credit impaired and purchases of credit impaired assets will require a lifetime provision.

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

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

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

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

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

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

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

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

Impact
As a result of the new IFRS 9 impairment requirements, ING expects that the loan loss provisions (LLP) increase by approximately EUR 128 million (pre-tax). The split of the ECL to different stages of our portfolio is further detailed in the table below. The increase observed on the performing portfolio (Stage 1 and Stage 2) is explained by the period used to calculate the ECL (12 months for Stage 1 and lifetime for Stage 2) under IFRS 9.

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

In EUR millions	IAS 39 LLP		IFRS 9 Impairment stages	
			Estimated IFRS 9 ECL	Estimated IFRS 9 ECL increase
Incurred but not reported (IBNR)	105	Stage 1: 12 month ECL – No significantly increased credit risk	53	98
		Stage 2: Lifetime ECL – Significantly increased credit risk	150	
Individual provisions (ISFA and INSFA)	616	Stage 3: Lifetime ECL - Defaulted	646	30
Total	**721**	**Total**	**849**	**128**

1. Includes provisions for contingent liabilities.

IFRS 9 Impact on capital and other regulatory requirements
IFRS 9 will impact ING's reported capital as a result of the transition adjustments recording in shareholders' equity on transition date. The BCBS pointed out that the treatment of provisions under both the Standardized Approach and the Advanced Internal Ratings based frameworks remains, but allows jurisdictions the option to choose whether to apply a transitional arrangement for the impact of impairment under IFRS 9. As a result, the EU introduced transitional arrangements for mitigating the impact of the introduction of IFRS 9 impairment on own funds in the Capital Requirements Regulations (CRR). ING has decided not to apply the IFRS 9 impairment transitional arrangements. The increase in provisions will have limited impact on ING's CET1 ratio as for the IRB portfolios it will be offset by the existing regulatory provision shortfall per 31 December 2017. The estimated impact of the adoption of IFRS 9 on shareholders' equity is approximately EUR 315 million at implementation date 1 January 2018, consisting of:

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

In EUR millions	Estimated impact on shareholders' equity
Loan loss provisions[1]	-93
Investment portfolio[2]	-148
Others[3]	-74
Total	**-315**

1. The EUR 93 million is the post-tax impact on equity of the estimated IFRS 9 ECL increase amounting to EUR 128 million. The capital impact is for the AIRB portfolios offset by the release of expected loss elements currently included in the calculation of regulatory capital per 31 December 2017.
2. Main impact of approximately EUR 148 million from the reclassification of a part of the investment portfolio from the AFS (FVOCI) debt securities under IAS 39 to the HtC portfolio (AC) under IFRS 9.
3. This transition impact is mainly related to the reclassification of assets from Amortised Cost to Fair Value through the SOPL because their cash flows do not represent Solely Payments of Principal and Interest (SPPI).

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

IFRS 15 'Revenue from Contracts with Customers'
IFRS 15 'Revenue from Contracts with Customers' is effective for annual periods beginning on or after 1 January 2018 and has been endorsed by the EU. IFRS 15 introduces a 5-step approach for recognizing revenue as and when the agreed performance obligations are satisfied. Agreed performance obligations are individual promises made to customer that delivers benefit from the customers perspective. Revenue should either be recognized at a point-in-time or over-time depending on the service being delivered to the customer. ING assessed the impact of IFRS 15 and expects that it will have no significant effect on ING Group's Net result and/or Other comprehensive income and Shareholders' equity.

IFRS 16 'Leases'

IFRS 16 'Leases' is effective for annual periods beginning on or after 1 January 2019 and has been endorsed by the EU. IFRS 16 is the new accounting standard for leases and will replace IAS 17 'Leases' and IFRIC 4 'Determining whether an Arrangement contains a Lease'. The new standard removes the distinction between operating or finance leases for lessee accounting, resulting in all leases being treated as finance leases. All leases will be recognized on the statement of financial position with the optional exceptions for short-term leases with a lease term of less than 12 months and leases of low-value assets (for example mobile phones or laptops). A lessee is required to recognize a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments.

The main reason for this change is that this approach will result in a more comparable representation of a lessee's assets and liabilities in relation to other companies and, together with enhanced disclosures, will provide greater transparency of a lessee's financial leverage and capital employed. The standard permits a lessee to choose either a full retrospective or a modified retrospective transition approach. Furthermore the standard provides some practical options and exemptions to ease the costs of transition. Lessor accounting remains substantially unchanged. ING will adopt the standard at its effective date planning to use the modified retrospective approach, however ING is still currently assessing the detailed impact of this standard.

Significant judgements and critical accounting estimates and assumptions

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

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

- the determination of the fair values of financial assets and liabilities;
- loan loss provisions; and
- provisions.

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

Consolidation

Subsidiaries

Subsidiaries are all entities (including Variable Interest Entities) over which ING Belgium has the power to govern the financial and operating policies, generally accompanying a shareholding of more than 50% of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether ING Belgium controls another entity. Subsidiaries are fully consolidated from the date on which control is exercised by ING Belgium. They are deconsolidated from the date on which control ceases.

ING Belgium has also shareholding above 50% of the voting rights in companies which are not fully consolidated. Considering IFRS 10 requirements, the bank effectively exercises a control on those companies but given the low materiality for the bank, these companies have not been consolidated. Those participations are considered as investments. Further details can be found in note 6. As regards fully consolidated subsidiaries, the bank ensures that, within the limits of percentages of equity controlled and with the exclusion of political risk, fully consolidated shareholdings are able to meet their commitments.

The purchase method of accounting is used to account for the acquisition of subsidiaries by ING Belgium. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed on the exchange date. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are initially measured at their fair value on the acquisition date, irrespective of the extent of any non-controlling interest (or minority interest). The excess of the acquisition cost over the fair value of the bank's share in the identifiable net assets acquired is recorded as goodwill. If the acquisition cost is less than the fair value of the bank's share in the net assets of the subsidiary acquired, the difference is directly recognised in the income statement. The badwill is only recognised in the income statement after reassessment that all assets acquired and liabilities assumed were correctly identified.

Consolidated annual accounts - continued

Balances and unrealised gains on transactions between ING Belgium companies are eliminated. Unrealised losses are also eliminated, unless the transaction provides evidence of an impairment of the asset transferred. When necessary, the accounting policies used by subsidiaries are been changed to ensure consistency with the policies adopted by ING Belgium.

Consolidated subsidiaries (as per 31 December 2017)

In EUR thousands / In %

				Entity's financial statement at the most recent reporting date				
Entity name	Registered office	Activity	Company code	Accumulated Equity interest (%)	Assets	Liabilities	Net result	Equity (excluding net result)
Cell Data Services	Brussels	IT	BE 0435 463 880	100.0	8,594	2,047	269	6,278
Immo Globe	Brussels	Real estate	BE 0414 585 512	100.0	12,701	224	163	12,314
ING Belgium International Finance Luxemburg	Luxemburg	Finance	LU	100.0	1,716,843	1,730,760	1,998	-15,915
ING Contact Center	Brussels	Finance	BE 0452 936 946	100.0	9,948	6,658	-478	3,768
ING Luxemburg	Luxemburg	Finance	LU	100.0	15,328,674	14,149,586	101,215	1,077,873
- ING Lease Luxemburg	Luxemburg	Leasing	LU	100.0	298,654	293,459	2,759	2,436
ING Lease Belgium	Brussels	Leasing	BE 0402 918 402	100.0	1,379,902	1,327,573	28,664	23,665
- ING Equipment Lease Belgium	Brussels	Leasing	BE 0427 980 034	100.0	1,959,918	1,883,219	14,062	62,637
- ING Asset Finance Belgium	Brussels	Leasing	BE 0429 070 986	100.0	633,074	606,981	4,716	21,377
- ING Truck Lease Belgium	Brussels	Leasing	BE 0440 360 895	100.0	297,161	285,989	1,122	10,050
- ING Commercial Finance	Brussels	Factoring	BE 0470 131 086	100.0	1,121,787	1,096,682	7,891	17,214
- D'ieteren Vehicle Trading	Brussels	Leasing	BE 0428 138 994	51.0	6,037	3,665	303	2,069
New Immo Schuman	Brussels	Real estate	BE 0428 361 797	100.0	7,066	61	83	6,922
Record Bank	Brussels	Banking	BE 0403 263 642	100.0	18,797,366	17,918,101	81,280	797,985
- Fiducré	Brussels	Finance	BE 0403 173 372	100.0	128,639	124,936	19,791	-16,088
- Logipar	Brussels	Real estate	BE 0439 526 103	100.0	4,259	4	-343	4,598
Record Credit Services	Liège	Finance	BE 0403 257 407	19.2	1,473,689	1,330,703	6,606	136,380
Sogam	Brussels	Finance	BE 0402 688 075	100.0	573	126	116	331
Soges-Fiducem	Brussels	Finance	BE 0403 238 304	100.0	40,738	37,471	331	2,936
- Belgian Overseas Agencies	Montreal	Finance	CA 0403 202 967	100.0	23,968	23,978	-10	0
- Belgian Overseas Issuing Corp	New York	Finance	CA 0403 203 066	100.0	27,124	27,243	-27	-92

PM: Amounts before intercompany eliminations. Assets are not equal to liabilities because equity is not included.

Structured entities

ING Belgium's activities involve transactions with various structured entities ('SE') in the normal course of its business. A structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual arrangements.

The structured entities over which ING Belgium can exercise control are consolidated. ING may provide support to these consolidated structured entities as and when appropriate, and this is fully reflected in the consolidated financial statements of ING Belgium as all assets and liabilities of these entities are included and off-balance sheet commitments are disclosed. ING Belgium's activities involving structured entities are explained below in the following categories:

1) Consolidated ING originated Liquidity management securitization programs (Belgian Lions);
2) Consolidated Record Bank originated Liquidity management securitization programs (Record Lions).

Associates and Joint ventures

Associates are all entities over which the Group has significant influence but not control. Significant influence is the ability to participate in the financial and operating policies of the investee. It generally results from a shareholding of between 20% and 50% of the voting rights or through situations including, but not limited to one or more of the following:

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

Joint ventures are entities over which the Group has joint control. Joint control is the contractually agreed sharing of control over an arrangement or entity, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control. Joint control means that no party to the agreement is able to act unilaterally to control the activity of the entity. The parties to the agreement must act together to control the entity and therefore exercise the joint control.

Investments in associates and joint ventures are initially recognised at cost and subsequently accounted for using the equity method of accounting.

The Group's investment in associates and joint ventures (net of any accumulated impairment loss) includes goodwill identified on acquisition. The Group's share of its associates and joint ventures post-acquisition profits or losses is recognised in the statement of profit or loss, and its share of post-acquisition changes in reserves is recognised in equity. The cumulative post-acquisition changes are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate or joint venture equals or exceeds its interest in the associate or joint venture, including any long-term interests in the associate like uncollateralised loans that are neither planned nor likely to be settled in the foreseeable future, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate or joint venture.

Unrealised gains on transactions between the Group and its associates and joint ventures are eliminated to the extent of the Group's interest in the associates and joint ventures. Unrealised losses are also eliminated unless they provide evidence of an impairment of the asset transferred. Accounting policies of associates and joint ventures have been changed where necessary to ensure consistency with the policies adopted by the Group. The reporting dates of all significant associates and joint ventures are consistent with the reporting date of the Group.

Subsidiaries and Associates accounted for under the equity method (as per 31 December 2017)

In EUR thousands / In %					Entity's financial statement at the most recent reporting date			
Entity name	Registered office	Activity	Company code	Accumulated Equity interest (%)	Assets	Liabilities	Net result	Equity (excluding net result)
A.E.D. Rent	Willebroek	Audiovision	BE 0451 899 343	31.3	56,250	37,445	-190	18,995
Aigle Aviation SA	Luxembourg	Finance	LU	75.0	49,615	47,809	32	1,774
Ark Angels Activator Fund	Hasselt	Priv equity fund	BE 0843 728 962	33.1	5,193	6	-912	6,099
Ark Angels Activator Fund Beheer	Hasselt	Priv equity fund	BE 0843 353 929	31.9	522	26	89	407
Bancontact/Mistercash (Brand & Licence Comp)	Brussels	Finance	BE 0884 499 250	20.0	8,860	3,371	-575	6,064
BIENCA Biotechnological Enzymatic Catalyse	Seneffe	Bio-technology	BE 0446 755 472	20.8	1,448	563	338	547
Europay Belgium	Brussels	Services	BE 0434 197 536	20.5	3,853	2,781	102	970
European Marketing Group SA	Luxembourg	Leasing	LU	40.0	5,197	4,364	335	498
Immomanda	Brussels	Finance	BE 0417 331 315	100.0	1,211	1,031	467	-287
ING Activator	Brussels	Priv equity fund	BE 0878 533 255	50.1	2,639	85	855	1,699
Innotec International	Dessel	Commerce	BE 0534 724 475	36.7	18,450	2,951	2,641	12,858
Isabel	Brussels	Finance	BE 0455 530 509	25.3	32,727	14,759	3,435	14,533
ISIM (ING Solutions Investment Management)	Luxembourg	Holding	LU	100.0	2,226	1,245	242	739
IMEC I-Start Fund	Leuven	Holding	BE 0672 768 937	20.0	n/a (created in March 2017)			
M Brussels Village	Brussels	Services	BE 0473 370 886	24.6	377	198	4	175
Sherpa Invest	Brussels	Holding	BE 0878 752 692	20.0	737	10	1,754	-1,027
Sherpa Invest II	Brussels	Holding	BE 0835 148 719	25.0	2,133	29	-731	2,835
Stardekk	Bruges	IT	BE 0474 598 036	37.5	3,949	1,151	120	2,678
Tasco	Antwerp	Consultancy	BE 0656 874 397	30.1	n/a (created in June 2016)			
Unibioscreen	Brussels	Biology	BE 0466 013 437	25.5	152	362	-59	-151
Vesalius Biocapital I SICAR	Luxembourg	Investments	LU	21.4	32,432	75	-2,763	35,120
Vesalius Biocapital Partners SARL	Luxembourg	Finance	LU	20.0	3,477	2,827	604	46
Vesalius Biocapital II Partners SARL	Luxembourg	Finance	LU	20.0	4,701	3,962	294	445
Visa Belgium	Brussels	Finance	BE 0435 551 972	18.1	68,806	28,383	182	40,241

PM: Amounts before intercompany eliminations. Assets are not equal to liabilities because equity is not included.

Segment reporting

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

Foreign currency translation

Functional and presentation currency
Items included in the accounts of all ING Belgium entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are drawn up in thousands of euros, which is the presentation currency.

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

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

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

Exchange rate differences in the statement of profit or loss are generally included in 'Valuation results and net trading income'. Exchange rate differences relating to the disposal of available-for-sale debt and equity securities are considered to be an inherent part of the capital gains and losses recognised in Investment income. As mentioned below, in Group companies relating to the disposals of group companies, any exchange rate difference deferred in equity is recognised in the statement of profit or loss in 'Result on disposal of group companies'. Reference is also made to Note 20 'Equity', which discloses the amounts included in the statement of profit or loss.

Group companies
The results and financial position of ING Belgium companies that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- Assets and liabilities included in each statement of profit or loss are translated at the closing rate, at the date of that statement of financial position;
- Income and expenses included in each statement of profit or loss are converted at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- All resulting exchange rate differences are recognised in a separate component of equity.

On consolidation, exchange differences arising from the translation of a monetary item that forms part of the net investment in a foreign operation, and of borrowings and other instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold, the corresponding exchange rate differences are recognized in the statement of profit or loss as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the exchange rate prevailing at the balance sheet date.

Recognition and derecognition of financial instruments

Recognition of financial assets
All purchases and sales of financial assets classified as at fair value through profit or loss, held-to-maturity and available for sale that require delivery within the timeframe established by regulation or market convention ('regular way' purchases and sales) are recognized at trade date, which is the date on which ING Belgium commits to purchase or sell the asset. Loans and receivables are recognized at settlement date, which is the date on which ING Belgium receives or delivers the asset.

Derecognition of financial assets
Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or where ING Belgium has transferred substantially all risks and rewards of ownership. If ING Belgium neither transfers nor retains substantially all the risks and rewards of ownership of a financial asset, it derecognizes the financial asset if it no longer has control over the asset.

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

Recognition of financial liabilities
Financial liabilities are recognised on the date that the entity becomes a party to the contractual provisions of the instrument.

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

Classification of financial instruments

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

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

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

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

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

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

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

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

Financial liabilities at amortised cost
Financial liabilities at amortised cost include the following sub-categories: preference shares classified as debt, debt securities in issue, subordinated loans, and deposits from banks and customer deposits. Financial liabilities at amortised cost are recognised initially at their issue proceeds (fair value of consideration received) net of transaction costs incurred. Liabilities in this category are subsequently stated at amortised cost; any difference between proceeds, net of transaction costs, and the redemption value is recognised in the statement of profit or loss over the period of the liability using the effective interest method. If the Group purchases its own debt, it is removed from the statement of financial position, and the difference between the carrying amount of the liability and the consideration paid is included in the statement of profit or loss.

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

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

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

For certain financial assets and liabilities quoted market prices are not available. For these financial assets and liabilities, fair value is determined using valuation techniques. These valuation techniques range from discounting of cash flows to various valuation models, where relevant pricing factors including the market price of underlying reference instruments, market parameters (volatilities, correlations and credit ratings), and customer behaviour are taken into account. ING maximises the use of market observable inputs and minimises the use of unobservable inputs in determining the fair value. It can be subjective dependent on the significance of the unobservable input to the overall valuation. All valuation techniques used are subject to internal review and approval. Most data used in these valuation techniques are validated on a daily basis. When a group of financial assets and financial liabilities are managed on the basis of their net risk exposures, it measures the fair value of a group of financial assets and liabilities on net portfolio basis.
To include credit risk in the fair value, ING applies both credit and debit valuation adjustments (CVA, DVA). Own issued debt and structured notes that are measured at fair value are adjusted for credit risk by means of a DVA. Additionally, derivatives valued at fair value are adjusted for credit risk by a CVA. The CVA is of a bilateral nature as both the credit risk on the counterparty as well as the credit risk on ING are included in the adjustment. All input data that is used in the determination of the CVA is based on market implied data. Additionally, wrong-way risk (when exposure to a counterparty is increasing and the credit quality of that counterparty deteriorates) and right-way risk (when exposure to a counterparty is increasing and the credit quality of that counterparty improves) are taken into account in the measurement of the valuation adjustment. ING applies an additional ‘funding valuation adjustment’ (FVA) to the uncollateralised derivatives based on the market price of funding liquidity.

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

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

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

Credit risk management classification
Credit risk management disclosures are provided in the section 'Risk management – Credit risk' paragraph. The relationship between credit risk classifications in that section and the consolidated statement of financial position classifications above is explained below:

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

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

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

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

Certain derivatives embedded in other contracts are measured as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract, the host contract is not carried at fair value through profit or loss, and if a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative. These embedded derivatives are measured at fair value with changes in fair value recognised in the statement of profit or loss. An assessment is carried out when the Group first becomes party to the contract. A reassessment is carried out only when there is a change in the terms of the contract that significantly modifies the expected cash flows.

The method of recognising the resulting fair value gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as hedges of the fair value of recognised assets or liabilities or firm commitments (fair value hedge), hedges of highly probable future cash flows attributable to a recognised asset or liability or a forecast transaction (cash flow hedge), or hedges of a net investment in a foreign operation. Hedge accounting is used for derivatives designated in this way provided certain criteria are met.

At the inception of the transaction ING Group documents the relationship between hedging instruments and hedged items, its risk management objective, together with the methods selected to assess hedge effectiveness. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of the hedged items.

ING Group applies fair value hedge accounting to portfolio hedges of interest rate risk (macro hedging) under the EU carve out. The EU carve-out macro hedging enables a group of derivatives (or proportions) to be viewed in combination and jointly designated as the hedging instrument and removes some of the limitations in fair value hedge accounting relating to hedging core deposits and under-hedging strategies. Under the EU carve-out, hedge accounting may be applied to core deposits and ineffectiveness only arises when the revised estimate of the amount of cash flows in scheduled time buckets falls below the designated amount of that bucket.

ING Group applies fair value hedge accounting for portfolio hedges of interest rate risk (macro hedging) under the EU carve-out to its retail operations. The net exposures of retail funding (savings and current accounts) and retail lending (mortgages) are hedged. The hedging activities are designated under a portfolio fair value hedge on the mortgages. Changes in the fair value of the derivatives are recognised in the statement of profit or loss, together with the fair value adjustment on the mortgages (hedged items) insofar as attributable to interest rate risk (the hedged risk).

Fair value hedges

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognised in the statement of profit or loss, together with fair value adjustments to the hedged item attributable to the hedged risk. If the hedge relationship no longer meets the criteria for hedge accounting, the cumulative adjustment of the hedged item is, in the case of interest bearing instruments, amortised through the statement of profit or loss over the remaining term of the original hedge or recognised directly when the hedged item is derecognised. For non-interest bearing instruments, the cumulative adjustment of the hedged item is recognised in the statement of profit or loss only when the hedged item is derecognised.

Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the statement of profit or loss. Amounts accumulated in equity are recycled to the statement of profit or loss in the periods in which the hedged item affects net result. When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the statement of profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is transferred immediately to the statement of profit or loss.

Net investment hedges

Hedges of net investments in foreign operations are accounted for in a similar way to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in equity and the gain or loss relating to the ineffective portion is recognised immediately in the statement of profit or loss. Gains and losses accumulated in equity are included in the statement of profit or loss when the foreign operation is disposed.

Non-trading derivatives that do not qualify for hedge accounting

Derivative instruments that are used by the Group as part of its risk management strategies, but which do not qualify for hedge accounting under ING Group's accounting policies, are presented as non-trading derivatives. Non-trading derivatives are measured at fair value with changes in the fair value taken to the statement of profit or loss.

Offsetting of financial assets and liabilities

Financial assets and liabilities are offset, and the net amount reported, in the statement of financial position when ING Belgium has a current legally enforceable right to set off the recognized amounts and intends to either settle on a net basis or to realize the asset and settle the liability simultaneously. Offsetting is applied to certain interest rate swaps for which the services of a central clearing house are used. Offsetting is also applied to certain clients subject to cash pooling arrangements where the intention to settle net is demonstrated via a physical transfer of cash balances into a single netting account on a period end basis.

Repurchase and reverse repurchase transactions

Securities sold subject to repurchase agreements ('repos') are retained in the consolidated financial statements. The counterparty liability is included in Deposits from banks, subordinated loans, customer deposits, or Trading, as appropriate.

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

Impairment of financial assets at amortised cost (loan loss provisions)

ING Belgium assesses periodically and at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or group of assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset, but before the balance sheet date, (a loss event) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The following circumstances, among others, are considered objective evidence that a financial asset or group of assets is impaired:

- The borrower has sought or has been placed in bankruptcy or similar protection, and this leads to the avoidance of or delays in repayment of the financial asset;
- The borrower has failed in the repayment of principal, interest or fees, and the payment failure has remained unsolved for a certain period;
- The borrower has demonstrated significant financial difficulty, to the extent that it will have a negative impact on the expected future cash flows of the financial asset;
- The credit obligation has been restructured for non-commercial reasons. ING Belgium has granted concessions, for economic or legal reasons relating to the borrower's financial difficulty, the effect of which is a reduction in the expected future cash flows of the financial asset; and
- Historical experience, updated for current events where necessary, provides evidence that a proportion of a group of assets is impaired although the related events that represent impairment triggers are not yet captured by the Group's credit risk systems.

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

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

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

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

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

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

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

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

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

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

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated. The collective evaluation of impairment includes the application of a loss emergence period to default probabilities (also referred to as loss identification period). The loss emergence period is a concept which recognises that there is a period of time between the emergence of impairment triggers and the point in time at which those events are captured by ING's credit risk systems. Accordingly, the application of the loss emergence period ensures that impairments that are incurred but not yet identified are adequately reflected in ING's loan loss provision. Although the loss emergence periods are inherently uncertain, ING applies estimates to sub-portfolios (e.g. large corporations, small and medium size enterprises, and retail portfolios) that reflect factors such as the frequency with which customers in the sub-portfolio disclose credit risk sensitive information and the frequency with which they are subject to review by ING's account managers. Generally, the frequency increases in relation to the size of the borrower. Loss emergence periods are based on historical experience and are validated, and revised where necessary, through regular back-testing to ensure that they reflect recent experience and current events.

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

Impairment of available for sale financial assets

With regard to equity investments classified as available for sale, a significant (25%) or prolonged decline (6 months) in the fair value of the assets linked to the quality of the debtor, below their acquisition cost, is considered in determining whether the assets are impaired.

If any objective evidence exists for available-for-sale debt and equity investments, the cumulated loss -measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in net result- is removed from equity and recognised in the statement of profit or loss. Impairment losses recognised on equity instruments can never be reversed through the income statement. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the statement of profit or loss, the impairment loss is reversed through the statement of profit or loss.

Tangible assets

Property and equipment
Land and buildings held for own use are stated at fair value on the balance sheet date. The cost of an item of property, plant and equipment comprises its purchase price, including non-refundable purchase taxes, after deducting trade discount and rebates. The fair value of land and buildings is their market value.

ING Belgium measures at fair value property at each reporting date and obtains a valuation from an independent, professionally qualified appraiser on a sufficiently regular basis, or at least every five years.

Increases in the carrying amount arising from a revaluation of land and buildings held for own use are credited to the revaluation reserves in shareholders' equity. Decreases in the carrying amount that offset previous increases of the same asset are charged against the revaluation reserve directly in equity; all other decreases are charged to the statement of profit or loss. Increases that reverse a revaluation decrease on the same asset previously recognised in net result are recognised in the statement.

Depreciation on buildings is recognised, based on the fair value and the estimated useful life of the asset (in general 33 years). Depreciation is calculated on a straight-line basis. Residual values and useful lives are reviewed and adjusted, if appropriate, at each balance sheet date.

Subsequent expenditures are included in the carrying amount of the asset when it is probable that future economic benefits associated with the item will flow to ING Belgium and its cost can be measured reliably. All other repairs and maintenance are charged to the statement of profit or loss during the financial period in which these are incurred.

On disposal, the related revaluation reserve is transferred to retained earnings. Land is not depreciated.

Equipment
Equipment is stated at cost, less accumulated depreciation and any impairment losses. The cost of such assets is depreciated on a straight-line basis over their estimated useful lives. Expenditures incurred on maintenance and repairs is recognised in the statement of profit or loss as incurred. Expenditure incurred on major improvements is capitalised and depreciated.

Disposals
The difference between the proceeds on disposal and net carrying value is recognised in the statement of profit or loss under Other income.

Borrowing costs
Borrowing costs incurred for the construction of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use. Borrowing costs are determined as the weighted average cost of capital of the project.

Leases
The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement at inception date.

ING as the lessee
The leases entered into by ING are primarily operating leases. The total payments made under operating leases are recognised in the statement of profit or loss on a straight-line basis over the period of the lease. When an operating lease is terminated before the lease period has expired, any penalty payment to be made to the lessor is recognised as an expense in the period in which termination takes place.

ING as the lessor
When assets are held subject to a finance lease, the present value of the lease payments is recognised as a receivable under Loans and advances to customers or Loans and advances to banks. The difference between the gross receivable and the present value of the receivable is unearned lease finance income. Lease income is recognised over the term of the lease using the net investment method (before tax), which reflects a constant periodic rate of return. When assets are held subject to an operating lease, the assets are included under Assets under operating leases.

Assets under operating leases
Assets leased out under operating leases in which ING is the lessor are stated at cost less accumulated depreciation and any impairment losses. The cost of the assets is depreciated on a straight-line basis over the lease term.

Acquisitions, goodwill and other intangible assets

Acquisitions and goodwill on acquisition

ING Belgium's acquisitions are accounted for under the acquisition method of accounting. The consideration for each acquisitions is measured as the aggregate of the fair value (at the date of exchange) of the assets given, liabilities incurred or assumed, and equity instruments issued in exchange for control of the acquiree. Goodwill, being the difference between the cost of the acquisition (including assumed debt) and the bank's interest in the fair value of the acquired assets, liabilities and contingent liabilities as at the date of acquisition,- is capitalised as an intangible asset. Goodwill is only capitalised on acquisitions. The results of the operations of the acquired companies are included in the statement of profit or loss from the date control is obtained.

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

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

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

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

Goodwill impairment

ING assesses at each reporting period, whether there is an indication that an intangible asset may be impaired. Irrespective of whether there is an indication of impairment, intangible assets with an indefinite useful life, including goodwill acquired in a business combination, and intangible assets not yet available for use, are tested annually for impairment.

Goodwill is allocated to groups of CGUs (that is, the group cash-generating units or CGUs) for the purpose of impairment testing. These groups of CGUs represent the lowest level at which goodwill is monitored for internal management purposes. Goodwill is tested for impairment by comparing the carrying value of the group of CGUs to the recoverable amount of that group of CGUs. The carrying value is determined as the IFRS net asset value including goodwill. In compliance with IAS 36 'Impairment of assets', the carrying value is determined on a basis that is consistent with the way in which the recoverable amount of the CGU is determined. When the carrying values need to be allocated between Retail and Wholesale solvency (risk-weighted assets) are used as a basis. The recoverable amount is estimated as the higher of fair value less costs of disposal and value in use. Several methodologies are applied to arrive at the best estimate of the recoverable amount. Impairment of goodwill, if applicable, is included in the statement of profit or loss in Other operating expenses.

Computer Software

Computer software that has been purchased or internally generated for own use is stated at cost, less amortisation and any impairment losses. Amortisation is calculated on a straight-line basis over its useful life. This period is a minimum of five years. Depreciation is included in Other operating expenses.

Other intangible assets

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

Income tax expenses

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

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

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

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

Uncertain tax positions are assessed continually by ING Belgium and in case it is probable that there will be a cash outflow, a current tax liability is recognised.

Other assets

Investment property

Investment properties are recognised at fair value at the balance sheet date. Changes in the carrying amount resulting from revaluations are recognised in the statement of profit or loss. On disposal, the difference between the sale proceeds and carrying value is recognised in the statement of profit or loss.

Property obtained from foreclosures

Property obtained from foreclosures is stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price, less applicable variable selling expenses. Property obtained from foreclosures is included in Other assets - Property development and obtained from foreclosures.

Provisions

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

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

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

Significant judgements and critical accounting estimates and assumptions:
The recognition and measurement of provisions is an inherently uncertain process involving using judgement to determine when a present obligation exists and estimates regarding probability, amounts and timing of cash flows. Key assumptions for the reorganisation provision are in estimating the amounts and timing of cash flows as the announced transformation initiatives are implemented over a period of several years. For the assessment of litigation provisions the Group consults with legal experts. Even taking into consideration legal experts' advice, the probability of an outflow of economic benefits can still be uncertain and the amount provisioned can remain sensitive to the assumptions used which may have a range of outcomes that is difficult to quantify.

Other liabilities

Defined benefit plans
The net defined benefit asset or liability recognised in the statement of financial position in respect of defined benefit pension plans is the fair value of the plan assets less the present value of the defined benefit obligation at the balance sheet date. Plan assets are measured at fair value at the balance sheet date. For determining the pension expense, the return on plan assets is determined using a high quality corporate bond rate identical to the discount rate used in determining the defined benefit obligation.

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

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

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

Remeasurements recognised in other comprehensive income are not recycled to profit or loss. Any past service cost relating to a plan amendment is recognised in profit or loss in the period of the plan amendment. Gains and losses on curtailments and settlements are recognised in the statement of profit or loss when the curtailment or settlement occurs. The recognition of a net defined benefit asset in the consolidated statement of financial position is limited to the present value of any economic benefits available in the form of refunds from the plans or reductions in future contributions to the plans.

Defined contribution plans
For defined contribution plans, ING Belgium pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. ING Belgium has no further payment obligations once the contributions have been paid. The contributions are recognised as staff expenses in the profit or loss when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

Other post-employment obligations
ING Belgium provides post-employment healthcare and other benefits to certain employees and former employees. The entitlement to these benefits is usually conditional on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment using an accounting methodology similar to that for defined benefit pension plans.

Income recognition

Net interest income
Interest income and expense are recognised in the statement of profit or loss using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expenses over the relevant period.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, ING Belgium estimates cash flows considering all contractual terms of the financial instrument (for example prepayment options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. All interest income and expenses from trading positions and non-trading derivatives are classified as interest income and interest expenses in the statement of profit or loss. Changes in the fair value are included in net trading income.

Fees and commissions

Fees and commissions are generally recognised as the service is provided. Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognised as an adjustment to the effective interest rate on the loan. Loan syndication fees are recognised as income when the syndication has been completed and ING has retained no part of the loan package for itself or has retained a part at the same effective interest rate as the other participants. Fees and commissions arising from negotiating, or participating in the negotiation of, a transaction for a third party –such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses– are recognised on completion of the underlying transaction.

Portfolio and other management advisory and service fees are recognised based on the applicable service contracts as the service is provided. Asset management fees related to investment funds and investment contract fees are recognised on a pro-rata basis over the period the service is provided. The same principle is applied for wealth management, financial planning and custody services that are continuously provided over an extended period of time. Fees received and paid between banks for payment services are classified as commission income and expenses

Dividend income

Revenue is recognised when ING Belgium’s right to receive the payment is established.

Lease income

The proceeds from leasing out assets under operating leases are recognised on a straight-line basis over the life of the lease agreement. Lease payments received in respect of finance leases when ING Group is the lessor are divided into an interest component (recognised as interest income) and a repayment component.

Expense recognition

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

Dividend policy description

The Board of Directors convenes general meetings and decides on their agenda. It sets the date for payment of dividends. The Board may decide to pay interim dividends for the current period, subject to the conditions laid down by law. It also sets the amount and date of the payment.

Fiduciary activities

The bank commonly acts as trustee and in other fiduciary capacities that result in the holding or placing of assets on behalf of individuals, trusts, retirement benefit plans and other institutions. These assets and income arising thereon are excluded from these financial statements, as they are not assets of ING Belgium.

Share-based payment transactions

Option rights and share plans on ING Group shares have been granted by ING Belgium to a number of senior executives and managers (equity settled transactions). The purpose of the option and share schemes, apart from promoting a lasting growth of ING Belgium, is to attract, retain and motivate senior executives.

The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable.

At each balance sheet date, ING Belgium revises its estimates on the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the income statement, and a corresponding adjustment to equity over the remaining vesting period.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

Financial guarantees

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and other bodies on behalf of customers to secure loans, overdrafts and other banking facilities.

Financial guarantees are initially recognised in the financial statements at fair value, being the premium received, on the date the guarantee was given.

The premium received is recognised in the income statement in net fees and commission income on a straight-line basis over the life of the financial guarantees. Any increase in the liability relating to guarantees is recorded in the income statement under 'other operating income'.

Statement of cash flows

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

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

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

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

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

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

Consolidated annual accounts - continued

Notes to the Consolidated accounts

Assets

Note 1: Cash and balances with central banks

Cash and balances with central banks		
In EUR thousands	2017	2016
Amounts held at central banks	8,979,123	4,372,638
Cash and bank balances	579,078	636,001
Total	**9,558,201**	**5,008,639**

Note 2: Loans and advances to banks

Loans and advances to banks		
In EUR thousands	2017	2016
Loans and advances to banks	10,217,217	9,886,580
Cash advances, overdrafts and other balances	319	0
Loan loss provisions	-1,847	-1,159
Total	**10,215,689**	**9,885,421**

Note 3: Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss		
In EUR thousands	2017	2016
Trading assets	4,775,721	8,674,772
Non-trading derivates	3,433,293	4,413,044
Designated as at fair value through profit or loss	82,918	87,950
Total	**8,291,932**	**13,175,766**

Trading assets

Trading assets		
In EUR thousands	2017	2016
Equity securities	0	8,026
Debt securities	0	22,935
Derivates	4,775,721	8,643,306
Loans and receivables	0	505
Total	**4,775,721**	**8,674,772**

Remark on the 2017 “Trading Assets - Derivatives”: The decrease is mainly due to a Balance sheet optimisation exercise ongoing between July and September 2017. Because prior to the migration of FM related operations from FM Branch Brussels to FM Branch London (both branches of ING Bank NV in The Netherlands), a reduction exercise on the number of deals and operations was held. This exercise lowered the number of B/S positions between ING Belgium and the FM Branch and thus also the B/S outstandings (on both Assets and Liabilities side).

Remark on the 2016 “Trading Assets - Derivatives”: In March 2016 part of the “Financial Markets” activity was transferred from ING Belgium NV/SA to ING Bank NV, FM Branch Brussels. As a result, these “Equity trading” activities are not performed in ING Belgium NV/SA since then.

Consolidated annual accounts - continued

Non-trading derivatives used for risk management purposes

Non-trading derivatives by type (in assets)		
In EUR thousands	2017	2016
Derivates used in fair value hedges	741,359	770,334
Derivates used in cash flow hedges	2,645,254	3,604,690
Other non-trading derivatives	46,680	38,021
Total	**3,433,293**	**4,413,044**

Designated as at fair value through profit or loss

Designated as at fair value through profit or loss by type (in assets)		
In EUR thousands	2017	2016
Equity securities	3,559	2,615
Debt securities	0	0
Loans and receivables	79,359	85,335
Total	**82,918**	**87,950**

Note 4: Investments

Designated as at fair value through profit or loss by type (in assets)		
In EUR thousands	2017	2016
Available for sale	14,523,823	17,022,923
of which:		
- equity securities	*66,163*	*55,414*
- debt securities	*14,457,660*	*16,967,509*
Held to maturity	638,069	925,897
of which:		
- equity securities	*0*	*0*
- debt securities	*638,069*	*925,897*
Total	**15,161,892**	**17,948,820**

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

Changes in available-for-sale and held-to-maturity investments	Equity securities AFS		Debt securities AFS		Debt securities HTM		Total	
In EUR thousands	2017	2016	2017	2016	2017	2016	2017	2016
Opening balance	**55,414**	**78,065**	**16,967,509**	**18,730,988**	**925,897**	**958,873**	**17,948,820**	**19,767,926**
Additions	10,736	8,359	3,525,581	1,668,872	0	0	3,536,317	1,677,231
Amortisations	0	0	-18,753	12,466	-28,410	-33,014	-47,163	-20,548
Transfers and reclassifications	1,312	-5,478	-1,434	0	0	0	-122	-5,478
Changes in unrealized revaluations	7,065	1,464	-366,700	-25,952	-4,418	38	-364,053	-24,450
Impairments	-277	-342	0	0	0	0	-277	-342
Reversal of impairments	0	0	0	0	0	0	0	0
Disposals and redemptions	-7,416	-26,652	-5,650,042	-3,418,865	-255,000	0	-5,912,458	-3,445,517
Exchange rate differences	0	0	1,498	0	0	0	1,498	0
Changes in the composition of the group and other changes	-672	0	0	0	0	0	-672	0
Closing balance	**66,162**	**55,414**	**14,457,659**	**16,967,509**	**638,069**	**925,897**	**15,161,890**	**17,948,820**

Remark on the 2017 "Changes in unrealized revaluations - Debt securities AFS": This includes the revaluation of the hedged part through profit & loss of EUR 240.419 mio and the change in accrued interest of EUR 55.425 mio.

Note 5: Loans and advances to customers

Loans and advances to customers		
In EUR thousands	2017	2016
Loans to or guaranteed by public authorities	6,659,481	6,372,779
Loans secured by mortgages	54,893,781	52,068,548
Loans guaranteed by credit institutions	38,064	36,818
Personal lending	4,562,388	5,592,376
Asset backed securities	0	0
Corporate loans	40,963,749	38,253,309
Loan loss provisions	-673,346	-691,161
Total	**106,444,117**	**101,632,669**

Remark on 2017 “Loans secured by mortgages”: As from 2017 they also contain the loans secured by mandates.

Remark on 2016 “Loans secured by mortgages”: Restatement of the amount (EUR 48,492,134) in order to include the loans secured by mandates (impact amount: EUR 3,576,414) and have similar presentation as current year.

Remark on 2016 “Corporate loans”: Restatement of the amount (EUR 41,829,723) in order to exclude the loans secured by mandates (impact amount: EUR -3,576,414) and have similar presentation as current year.

Changes in loan loss provisions

Changes in loan loss provisions		
In EUR thousands	2017	2016
Opening balance	**-719,386**	**-709,585**
Write-offs	153,510	152,399
Recoveries	-4,566	-4,324
Increases in loan loss provisions	-164,777	-208,591
Exchange rate differences	2,522	-403
Changes in the composition of the group and other changes	11,928	51,118
Closing balance	**-720,769**	**-719,386**
The closing balance is included in		
- Amounts held at central banks	0	0
- Loans and advances to banks	-1,847	-1,159
- Loans and advances to customers	-673,346	-691,161
- Provisions other provisions	-45,577	-27,066

Remark on 2016 “Changes in the composition of the group and other changes”: Following an IFRS accounting policy change of Fiducre (ING's debt collection company). This change results in a different presentation in the P&L compared to previous year (between Loan Loss Provisioning, Other Income and Net interest). The impact is EUR 38 million. As from 2016 the income related to modified loans leading to derecognition, are presented as Net interest and Other income.

Loan Loss Provisioning per type

Loan Loss Provisioning per type		
In EUR thousands	2017	2016
Loans to, or guaranteed by, public authorities	-1,071	-808
Loans secured by mortgages	-251,173	-103,529
Loans guaranteed by credit institutions	-3,031	-1,287
Personal lending	-71,093	-122,690
Asset backed securities	0	0
Corporate loans	-394,401	-491,072
Total	**-720,769**	**-719,386**

Consolidated annual accounts - continued

Corporate loans include finance lease receivables

Future minimum lease payments by maturity

In EUR thousands	2017	2016
Within one year	951,201	819,721
More than one year but less than five years	2,167,416	1,999,028
More than five years	932,963	1,025,135
Total	**4,051,581**	**3,843,884**

Note 6: Investments in associates

Associates

In EUR thousands		2017	2016
A.E.D. Rent		14,586	13,701
Aigle Aviation SA	*Sold in June 2017*	0	1,550
Ark Angels Activator Fund		2,142	1,898
Ark Angels Activator Fund Beheer		133	125
AXISQL	*Sold in February 2017*	0	3,970
Bancontact/Mistercash (Brand & Licence Comp)		1,098	1,213
BIENCA Biotechnological Enzymatic Catalyse		1	0
Europay Belgium		214	196
European Marketing Group Luxemburg SA		377	333
GDW Holding	*In liquidation*	0	4,034
IMEC Istart Fund NV	*Acquired in May 2017*	625	0
Immomanda		436	179
ING Activator		311	628
ING Solutions Investment Management (ISIM)		1,437	1,076
Innotech International		1,434	4,799
Isabel		5,291	4,602
Sherpa Invest		146	8
Sherpa Invest II		663	761
Stardekk		4,055	4,400
Tasco NV		5,440	6,361
Vesalius Biocapital Partners SARL		150	157
Vesalius Biocapital I SA SICAR		7,441	7,246
Vesalius Biocapital II Partners SARL		170	111
Visa Belgium		8,738	10,082
Total		**54,887**	**67,431**

Changes in investments in associates

In EUR thousands	2017	2016
Opening balance	**67,431**	**78,211**
Additions	3,263	14,414
Transfers to and from Investments	-1,313	5,523
Other transfers	-816	0
Revaluations	-10,923	-36,878
Share of results	19,088	32,217
Dividends received	-91	-15,213
Disposals	-21,752	-7,950
Impairments	0	-2,972
Exchange rate differences	0	79
Changes in the composition of the group and other changes	0	0
Closing balance	**54,887**	**67,431**

Remark on 2016 "Revaluations": As from December 2016 all equity investments reported as associates are accounted for using the net equity method. Before the investments with an interest between 20 and 50% were measured as available for sale equity securities revalued through Other Comprehensive Income.

Note 7: Real estate investments

Changes in real estate investments		
In EUR thousands	2017	2016
Opening balance	**48,358**	**47,812**
Additions	6	0
Transfers to and from Other assets	0	-2
Transfers to and from Property in own use	0	0
Gains or losses (-) from fair value adjustments	651	547
Disposals	0	0
Exchange rate differences	0	0
Changes in the composition of the group and other changes	0	0
Closing balance	**49,014**	**48,358**

Note 8: Property and equipment

Changes in property and equipment (2017)				
In EUR thousands	Property in own use	Data processing equipment	Fixtures, fittings and other equipment	Total
Opening balance	**498,033**	**54,552**	**249,165**	**801,750**
Additions	274	18,514	24,165	**42,953**
Borrowing costs capitalised costs	0	0	0	**0**
Depreciations	-4,973	-22,784	-45,757	**-73,514**
Revaluations	25,704	0	0	**25,704**
Impairments	-3,303	0	0	**-3,303**
Reversal of impairments	16,072	0	0	**16,072**
Disposals	-127,429	0	-1,768	**-129,197**
Exchange rate differences	0	40	61	**101**
Changes in the composition of the group and other changes	0	591	-1,943	**-1,352**
Transfer to and from Other assets	-2,594	0	0	**-2,594**
Transfer to and from Real estate investments	0	0	0	**0**
Closing balance	**401,784**	**50,913**	**223,923**	**676,620**
Gross carrying amount per 31 December	622,540	366,854	874,135	**1,863,529**
Accumulated depreciations per 31 December	-178,596	-315,941	-650,212	**-1,144,749**
Accumulated impairments per 31 December	-42,159	0	0	**-42,159**
Net book value	**401,785**	**50,913**	**223,923**	**676,621**

Remark on 2017 “Property in own use”: During 2017 the CSM/SMW building and land in Etterbeek was sold and leased back. Prior to the sale a reversal of impairment was recorded of EUR 13.3 mio as well as a revaluation of EUR 16.6 mio. The disposed amount is equal to EUR 118.9 mio.

Remark on 2017 “Property in own use”: ING uses external valuers to value the property in own use. All properties are typically appraised by external valuers every year. The latest valuation of the main properties is from December 2017.

Consolidated annual accounts - continued

Changes in property and equipment (2016)

In EUR thousands	Property in own use	Data processing equipment	Fixtures, fittings and other equipment	Total
Opening balance	**564,840**	**61,797**	**274,266**	**900,903**
Additions	1,455	16,082	23,269	**40,806**
Borrowing costs capitalised costs	0	0	0	**0**
Depreciations	-7,246	-23,345	-44,792	**-75,383**
Revaluations	-2,748	0	0	**-2,748**
Impairments	-52,722	0	0	**-52,722**
Reversal of impairments	128	0	0	**128**
Disposals	-4,997	-61	-5,129	**-10,187**
Exchange rate differences	0	1	1	**2**
Changes in the composition of the group and other changes	0	77	1,549	**1,626**
Transfer to and from Other assets	-676	0	0	**-676**
Transfer to and from Real estate investments	0	0	0	**0**
Closing balance	**498,033**	**54,552**	**249,165**	**801,750**
Gross carrying amount per 31 December	918,825	345,982	885,929	**2,150,736**
Accumulated depreciations per 31 December	-327,668	-291,430	-636,764	**-1,255,862**
Accumulated impairments per 31 December	-93,124	0	0	**-93,124**
Net book value	**498,033**	**54,552**	**249,165**	**801,750**

Remark on 2016 “Impairments”: In the context of the intended restructuring plan at that time, the “Real estate in own use” have been reviewed for impairments triggered by the plan.

Note 9: Intangible assets

Changes in intangible assets (2017)

In EUR thousands	Goodwill	Software	Other intangible assets	Total
Opening balance	**2,558**	**99,925**	**0**	**102,483**
Additions	0	3,316	0	**3,316**
Capitalised expenses	0	27,275	0	**27,275**
Amortisations	0	-30,987	0	**-30,987**
Impairments	0	-814	0	**-814**
Reversal of impairments	0	0	0	**0**
Disposals	0	-17	0	**-17**
Exchange rate differences	0	54	0	**54**
Changes in the composition of the group and other changes	0	1,390	0	**1,390**
Closing balance	**2,558**	**100,142**	**0**	**102,700**
Gross carrying amount per 31 December	3,678	360,716	0	**365,832**
Accumulated depreciations per 31 December	0	-259,760	0	**-259,760**
Accumulated impairments per 31 December	-1,120	-814	0	**-1,934**
Net book value	**2,558**	**100,142**	**0**	**102,700**

Remark on 2017 “Software”: The majority of the software is internally developed software.

Consolidated annual accounts - continued

Changes in intangible assets (2016)

In EUR thousands	Goodwill	Software	Other intangible assets	Total
Opening balance	**2,558**	**146,584**	**0**	**149,142**
Additions	0	3,239	0	**3,239**
Capitalised expenses	0	29,880	0	**29,880**
Amortisations	0	-40,925	0	**-40,925**
Impairments	0	-37,692	0	**-37,692**
Reversal of impairments	0	0	0	**0**
Disposals	0	-1,351	0	**-1,351**
Exchange rate differences	0	0	0	**0**
Changes in the composition of the group and other changes	0	191	0	**191**
Closing balance	**2,558**	**99,925**	**0**	**102,483**
Gross carrying amount per 31 December	3,678	364,069	0	**367,747**
Accumulated depreciations per 31 December	0	-226,452	0	**-226,452**
Accumulated impairments per 31 December	-1,120	-37,692	0	**-38,812**
Net book value	**2,558**	**99,925**	**0**	**102,483**

Remark on 2016 “Impairments”: In the context of the intended restructuring plan at that time, the “Capitalised software” have been reviewed for impairments triggered by the plan.

Remark on 2016 “Software”: The majority of the software is internally developed software.

Note 10: Deferred tax assets

Breakdown of deferred tax assets by origin

In EUR thousands	2017	2016
Investments	-92,483	-122,155
Financial assets and liabilities at fair value through profit or loss	58,527	87,384
Depreciations	431	622
Other provisions	201,240	261,369
Unused tax losses carried forward	0	0
Cash flow hedges	125,644	81,421
Property and equipment	-61,609	-77,372
Other	-17,574	-38,850
Total	**214,175**	**192,419**

See also note 15 about Deferred tax liabilities.

Important changes are explained by the fact that the figures are presented on a net basis to be in line with the group reporting.

Net deferred tax assets (liabilities) (2017)

In EUR thousands	Gross deferred tax assets	Write-downs deferred tax assets[1]	Deferred tax liabilities	Total
Opening balance	**192,419**	**0**	**-177,090**	**15,328**
Exchange differences	117	0	-3,430	**-3,313**
Deferred tax Profit & Loss statement	-212,073	-33,021	188,965	**-56,130**
Deferred tax Equity	2,373	0	72,845	**75,219**
Netting deferred taxes	264,361	0	-264,361	**0**
	247,197	-33,021	-183,071	**31,104**
from: Deferred tax Profit & Loss statement	-33,021	+33,021	0	**0**
Closing balance	**214,175**	**0**	**-183,071**	**31,104**

1. See also note 29 about “Deferred tax Profit & Loss statement” (Deferred taxes arising from changes in tax rates).

Consolidated annual accounts - continued

Income tax breakdown of tax losses carried forward / unused tax credits by expiry terms (2017)

In EUR thousands	Total	Up to five years	Five to ten years	Ten to twenty years	Not expiring
Total of unused tax losses carried forward	**0**	0	0	0	0
of which: unused tax losses carried forward and	***0***	*0*	*0*	*0*	*0*
- not recognized as a deferred tax asset	***48,242***	*10,781*	*0*	*37,461*	*0*
- recognized as a deferred tax asset	***0***	*0*	*0*	*0*	*0*
Tax rate applicable	**33.99%**				
Deferred tax asset recognized on unused tax losses carried forward	**0**				

Income tax relating to components of other comprehensive income (2017)

In EUR thousands	Tax assets	Tax liabilities	Total
Currency translation reserve	0	0	**0**
Hedge of net investments in foreign operations reserve	0	0	**0**
Tangible fixed assets revaluation reserve	3,349	-64,265	**-60,916**
Revaluation reserve available for sale	2,514	-125,008	**-122,494**
Cash flow hedges	125,644	-1,763	**123,882**
Share of the other comprehensive income of associates and joint ventures accounted for using equity method	0	0	**0**
Actuarial gains or losses (-) on defined pension plans	53,070	-1,403	**51,668**
Total	**184,578**	**-192,439**	**-7,861**

Income tax relating to components of other comprehensive income (2016)

In EUR thousands	Tax assets	Tax liabilities	Total
Currency translation reserve	0	0	**0**
Hedge of net investments in foreign operations reserve	0	0	**0**
Tangible fixed assets revaluation reserve	3,848	-76,730	**-72,882**
Revaluation reserve available for sale	10,092	-177,585	**-167,494**
Cash flow hedges	81,421	-6,698	**74,723**
Share of the other comprehensive income of associates and joint ventures accounted for using equity method	0	0	**0**
Actuarial gains or losses (-) on defined pension plans	76,953	0	**76,953**
Total	**172,314**	**-261,014**	**-88,699**

Note 11: Other assets

Other assets by type

In EUR thousands	2017	2016
Net defined benefit assets	76	468
Property development and obtained from foreclosures	242	238
Accrued interests and rents	3,458	3,358
Other accrued assets (other than interest income from financial assets)	242,778	179,567
Others	751,696	1,311,688
Total	**998,250**	**1,495,319**

Remark on 2016 'Others': This includes EUR 1.067 billion related to transactions still to be settled at balance sheet date.

Liabilities and Equity

Note 12: Deposits from banks

Amounts due to banks		
In EUR thousands	2017	2016
Non-interest bearing	848	0
Interest bearing	16,644,112	13,333,629
Total	**16,644,960**	**13,333,629**

Note 13: Customer deposits

Customer deposits		
In EUR thousands	2017	2016
Savings accounts	39,305,414	39,501,111
Credit balances on customer accounts	56,083,128	51,773,448
Corporate deposits	5,449,304	5,690,560
Others	58,399	81,179
Total	**100,896,245**	**97,046,298**

Note 14: Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss		
In EUR thousands	2017	2016
Trading liabilities	4,867,955	8,808,874
Non-trading derivatives	4,744,668	6,074,113
Designated as at fair value through profit or loss	1,302,910	1,789,330
Total	**10,915,533**	**16,672,317**

Trading liabilities

Trading liabilities by type		
In EUR thousands	2017	2016
Short positions in equity instruments	0	0
Short positions in fixed-income securities	0	73
Derivatives	4,867,955	8,808,801
Total	**4,867,955**	**8,808,874**

Remark on the 2017 “Derivatives”: The decrease is mainly due to a Balance sheet optimisation exercise ongoing between July and September 2017. Because prior to the migration of FM related operations from FM Branch Brussels to FM Branch London (both branches of ING Bank NV in The Netherlands), a reduction exercise on the number of deals and operations was held. This exercise lowered the number of B/S positions between ING Belgium and the FM Branch and thus also the B/S outstandings (on both Assets and Liabilities side).

Remark on the 2016 “Derivatives”: In March 2016 part of the “Financial Markets” activity was transferred from ING Belgium NV/SA to ING Bank NV, FM Branch Brussels. As a result, these “Equity trading” activities are not performed in ING Belgium NV/SA since then.

Non-trading derivatives used for risk management purposes

Non-trading derivatives by type (in liabilities)		
In EUR thousands	2017	2016
Derivatives used in fair value hedges	1,630,135	2,246,539
Derivatives used in cash flow hedges	3,041,080	3,726,986
Other non-trading derivatives	73,453	100,588
Total	**4,744,668**	**6,074,113**

Consolidated annual accounts - continued

Designated as at fair value through profit or loss

Designated as at fair value through profit or loss by type (in liabilities)

	Carrying amount		Difference between the carrying amount and the amount contractually payable at maturity	
In EUR thousands	2017	2016	2017	2016
Debt securities	1,302,910	1,789,330	-88,539	-282,597
Funds entrusted	0	0	0	0
Subordinated loans	0	0	0	0
Total	**1,302,910**	**1,789,330**	**-88,539**	**-282,597**

Note 15: Deferred tax liabilities

Deferred tax liabilities

In EUR thousands	2017	2016
Investments	34,911	51,210
Financial assets and liabilities at fair value through profit or loss	-390	-884
Depreciations	53	54
Other provisions	127,198	92,625
Loans and advances to customers	20,357	24,830
Property and equipment	-1	944
Cash flow hedges	1,773	6,839
Others	-828	1,474
Total	**183,072**	**177,090**

Remark on 2017 “Other provisions“: They increased as the tax liabilities on the FRBG fund in Geneva are reported in this category. Almost EUR 70 mio have been added to that reserve and considering the Swiss tax rate of 25%, a major part of the increase is explained.

Note 16: Provisions

Provisions (2017)

In EUR thousands	Termination benefits and other restructuring provisions	Pending legal issues	Other provisions	**Total**
Opening balance	**647,174**	**93,557**	**40,063**	**780,794**
Additions	32,333	80,651	29,076	**142,060**
Amounts used	-81,105	-37,669	-1,737	**-120,511**
Unused amounts reversed during the period	-15,690	-35,237	-14,771	**-65,698**
Increase in the discounted amount (passage of time) and effect of any change in the discount rate	0	0	-17	**-17**
Exchange rate differences	0	0	-2	**-2**
Changes in the composition of the group and other changes	-6,569	704	1,475	**-4,390**
Closing balance	**576,143**	**102,006**	**54,087**	**732,236**

Remark on 2017 “Pending legal issues“: see also “Legal proceedings” under the section ‘Complementary information’.

Consolidated annual accounts - continued

Provisions (2016)				
In EUR thousands	Termination benefits and other restructuring provisions	Pending legal issues	Other provisions	Total
Opening balance	**69,731**	**64,958**	**11,188**	**145,877**
Additions	606,157	42,425	28,453	**677,035**
Amounts used	-20,952	-927	-1,254	**-23,133**
Unused amounts reversed during the period	-1,477	-18,422	-2,579	**-22,478**
Increase in the discounted amount (passage of time) and effect of any change in the discount rate	0	0	0	**0**
Exchange rate differences	0	0	0	**0**
Changes in the composition of the group and other changes	-6,285	5,523	4,255	**3,493**
Closing balance	**647,174**	**93,557**	**40,063**	**780,794**

Remark on 2016 “Additions”: On 3 October 2016 ING Belgium announced its intention to undertake a fundamental transformation to enable the business to move from being a traditional bank institution to a banking platform at the cutting edge of the digital world and personalised customer service. ING Belgium intends to improve its customer experience by moving to an integrated banking platform, leveraging of the omni-channel capabilities of the Netherlands and rationalise its network by integrating ING and Record Bank branches. In addition to improving customer experience ING Belgium intends to eliminate the internal silo mentality and move away from a top-heavy management system towards multidisciplinary, agile, self-steering teams to deliver faster, at a lower cost.

Remark on 2016 “Additions”: The “Other provisions” include amounts related to Letters of Credit / Guarantees of EUR 27 million (previously reported under Loan Loss Provisions).

Note 17: Other liabilities

Other liabilities		
In EUR thousands	2017	2016
Net defined benefit liability	85,571	134,478
Other staff-related liabilities	39,237	43,105
Other taxation and social security contributions	271,654	254,327
Income received in advance	139,614	106,653
Costs payable	441,017	370,449
Others	2,228,082	1,878,708
Total	**3,205,175**	**2,787,720**

Remark on 2017 “Others”: This includes 1.413 billion EUR related to transactions still to be settled at balance sheet date, next to 398 million EUR related to deferred purchase prices.

Remark on 2016 “Others”: this includes EUR 1.283 billion related to transactions still to be settled at balance sheet date.

Note 18: Debt securities in issue and subordinated loans

Debt securities in issue includes as of 31 December 2017:
- Covered bonds issued by ING Belgium for a total of EUR 2.7 billion (2016: EUR 2.7 billion);
- Savings Certificates of Record Bank EUR 3.95 billion (2016: EUR 4.6 billion).

Subordinated loans may be included in the calculation of the total capital ratio and include EUR 1.25 billion (2016: 1.3 billion) of loans that qualify as Tier 2 capital. These loans have been placed with ING Belgium by ING Bank NV.

During 2017 AT1 capital was issued (please refer to the section 'capital management' for more detailed info). The value of these instruments at year-end equal EUR 0.7 billion.

Note 19: Share capital repayable on demand

Members' shares in co-operative entities have some characteristics of equity. They also give the holder the right to request redemption for cash, although that right may be subject to certain limitations. Under IFRIC 2, shares for which the member has the right to request redemption are normal liabilities. The total amount relates to the third-party members’ shares in our co-operative entity Record Credit Services.

Note 20: Shareholders' equity

Shareholders' equity

In EUR thousands	2017	2016
Share capital	2,350,000	2,350,000
Share premium	451,511	451,511
Revaluation reserves	48,129	207,226
of which:		
- tangible assets revaluation reserve	*147,155*	*143,980*
- cash flow hedge reserve (effective)	*-294,102*	*-140,087*
- fair value revaluation reserve on financial assets available for sale	*320,113*	*353,576*
- actuarial gains/losses (-)	*-123,332*	*-152,470*
- currency translation reserves	-1,705	2,227
being:		
> hedge of net investments in foreign operations reserve (effective)	*-209,968*	*-209,968*
> foreign currency translation reserve	*208,263*	*212,195*
Other reserves	7,318,371	7,259,676
Total	**10,168,011**	**10,268,413**

The issued capital is represented by 55,414,550 shares without par value. All shares are fully paid.

The reserves including retained earnings mainly includes the reserves available for distribution, result brought forward, consolidation reserves and legal reserves.

The revaluation reserves consist of different types of reserves. Subsequent to initial recognition, property, and equipment is revalued to fair value. The revaluation surplus is recognised in equity, through the tangible assets revaluation reserve. A subsequent revaluation decrease must be charged against this reserve to the extent that the reserve is positive.

Gains and losses arising from the revaluation of a financial instrument designated as a hedge are deferred in the hedge revaluation reserve. Where a subsidiary is a foreign operation, foreign currency translation differences should be recognised in equity through the foreign currency translation reserve.

Unrealised gains/losses on investments classified as available-for-sale are also recognised in equity within the revaluation reserve. These gains/losses are recycled to the income statement on disposal or when the asset becomes impaired.

Share capital

	Number of shares		Amounts	
in Units / In EUR thousands	2017	2016	2017	2016
Issued share capital	55,414,550	55,414,550	2,350,000	2,350,000
Unissued share capital	0	0	0	0
Authorised share capital	0	0	0	0
Total	**55,414,550**	**55,414,550**	**2,350,000**	**2,350,000**

Consolidated annual accounts - continued

Income statement

Note 21: Interest result

Interest result		
In EUR thousands	2017	2016
Interest income on loans	2,575,752	2,666,097
Interest income on impaired loans	11,746	13,071
Negative interest on liabilities	66,915	21,815
Total interest income on loans	*2,654,413*	*2,700,983*
Interest income on available-for-sale securities	301,322	410,831
Interest income on held-to-maturity securities	16,518	18,800
Interest income on trading portfolio	950,629	1,358,760
Interest income on non-trading derivatives (hedge accounting)	1,129,371	1,222,871
Interest income on non-trading derivatives (no hedge accounting)	12,517	749
Other interest income	3,557	7,679
Total interest income	**5,068,327**	***5,720,674***
Interest expenses on deposits by bank (-)	-82,180	-35,518
Interest expenses on customer deposits and other funds on deposit (-)	-101,025	-157,437
Interest expenses on debt securities (-)	-129,717	-162,423
Interest expenses on subordinated loans (-)	-33,001	-34,213
Interest expenses on trading liabilities (-)	-965,782	-1,381,272
Interest expenses on non-trading derivatives (no hedge accounting) (-)	-38,221	-11,406
Interest expenses on non-trading derivatives (hedge accounting) (-)	-1,211,852	-1,294,483
Other interest expenses (-)	-40,853	-49,184
Negative interest on assets (-)	-72,872	-47,952
Total interest expenses (-)	**-2,675,504**	***-3,173,888***
Total	**2,392,823**	**2,546,786**

Consolidated annual accounts - continued

Note 22: Commission result

Net commission income

In EUR thousands	2017	2016
Funds transfer	156,576	154,548
Securities business	144,215	133,773
Asset management fees	67,856	60,775
Brokerage and advisory fees	35,012	35,874
Insurance broking	93,672	99,318
Others	410,289	355,470
Gross fee and commission income	***907,619***	***839,760***
Funds transfer (-)	-40,964	-30,375
Securities business (-)	-23,496	-29,618
Management fees (-)	-287	-262
Brokerage and advisory fees (-)	-308	-159
Insurance broking (-)	0	0
Others (-)	-216,919	-218,995
Fee and commission expenses (-)	***-281,975***	***-279,408***
Total	**625,645**	**560,351**

Remark on 2017 “Other Gross fee and commission income”: This includes 140 mio EUR related to commissions received with respect to services related to securities, next to 119 mio EUR related to restricted letters of credit and 58 mio EUR related to commissions on bank guarantees.

Remark on 2016 “Other Gross fee and commission income”: This includes the commissions received on bank guarantees, factoring and leasing; the fee and commission income distribution and the commissions given on loans.

Remark on 2016 “Other Fee and commission expenses”: This includes the commissions paid on bank guarantees and leasing.

Note 23: Investment income

Investment income

In EUR thousands	2017	2016
Income from real estate investments	3,322	3,492
Dividend income	12,976	6,905
Total	***16,297***	***10,397***
Realised gains/losses (-) on debt securities	15,484	29,360
Impairments of available-for-sale debt securities (-)	0	0
Reversal of impairments of available-for-sale debt securities	0	0
Realized gains/losses (-) and impairments on debt securities	***15,484***	***29,360***
Realised gains/losses (-) on equity securities	516	9,801
Impairments of available-for-sale equity securities (-)	-277	-342
Realized gains/losses (-) and impairments on equity securities	***239***	***9,459***
Changes in fair value of real estate investments	651	547
Total	**32,672**	**49,763**

PM: Exceptional income as result of the acquisition of VISA Europe by VISA Inc in 2016. The transaction resulted in a net profit of 10 mio in ‘Investment income’ and 20 mio in ‘Share of results of associates’.

Remark on 2017 “Dividend income”: Contains dividends received from both associate and non-associate entities.

Remark on 2016 “Dividend income”: Contains a non-recurring dividend received from a non-associate.

Note 24: Valuation results on non-trading derivatives

Valuation results on non-trading derivatives		
In EUR thousands	2017	2016
Changes in fair value of derivatives relating to:		
- fair value hedges	329,188	-141,120
- cash flow hedges (ineffective portion)	0	0
- other non-trading derivatives	171	275
Net result on non-trading derivatives	***329,360***	***-140,845***
Change in fair value of assets and liabilities (hedged items)	-326,896	140,743
Valuation results on assets and liabilities designated as at fair value through profit or loss (excl trading)	-2,962	4,656
Total	**-498**	**4,555**

Remark on 2017 “Changes in fair value of derivatives relating to fair value hedges”: The shift from 2016 to 2017 is linked to Macro Fair Value Hedges on mortgages and investment credits, Micro Fair Value Hedges on bonds. Its interest move of about 20 bps on an average Basis Point Value of 20 mio EUR has an approximate impact of about 400 mio EUR.

Note 25: Net trading income

Net trading income		
In EUR thousands	2017	2016
Securities trading results	922	-34,490
Foreign exchange transactions results	138,935	112,953
Derivatives trading results	44,329	71,096
Others	700	646
Total	**184,886**	**150,204**

Note 26: Other income

Other income		
In EUR thousands	2017	2016
Capital gain on disposal of other tangible fixed assets	-2,576	603
Realised result sale on non-trade loans	4,373	-9,218
Recovered amounts on renegotiated loans	23,913	24,330
Financial Markets related commissions	33,376	51,706
Others	37,038	46,747
Total	**96,123**	**114,169**

Note 27: Staff expenses

Staff expenses		
In EUR thousands	2017	2016
Salaries	677,967	691,874
Pension costs	64,746	60,719
Other staff-related benefit costs	1,029	733
Social security costs	159,281	164,778
Shared-based compensation arrangements	8,978	10,690
External employees	131,326	82,739
Education	11,680	8,067
Other staff costs	31,382	33,083
Total	**1,086,389**	**1,052,683**

Remark on 2016 "Pension costs": The amount includes EUR 19.5 million of Defined Benefit Contributions (see also note 16).

Note 28: Other operating expenses

Other operating expenses		
In EUR thousands	2017	2016
Depreciation of property and equipment	73,519	75,378
Amortisation of software	30,987	40,925
Computer costs	116,791	120,885
Office expenses	107,816	100,186
Travel and accommodation expenses	45,928	44,707
Advertising and public relations	36,384	40,599
External advisory fees	35,477	26,466
Postal charges	3,619	3,898
Regulatory costs (bank levies)	217,731	220,673
Additions / Releases (-) of provisions for reorganisation	16,644	604,680
Impairments	-11,955	90,286
Others	262,550	55,782
Total	**935,490**	**1,424,465**

Remark on 2016 “Addition/(release) of provision for reorganisations”: On 3 October 2016 ING Belgium announced its intention to undertake a fundamental transformation to enable the business to move from being a traditional bank institution to a banking platform at the cutting edge of the digital world and personalised customer service. ING Belgium intends to improve its customer experience by moving to an integrated banking platform, leveraging of the omni-channel capabilities of the Netherlands and rationalise its network by integrating ING and Record Bank branches. In addition to improving customer experience ING Belgium intends to eliminate the internal silo mentality and move away from a top-heavy management system towards multidisciplinary, agile, self-steering teams to deliver faster, at a lower cost.

Remark on 2016 “Others”: This includes one-off procured cost savings of EUR -115 million.

Regulatory costs

Regulatory costs (bank levies)		
In EUR thousands	2017	2016
Operating charges: Tax on Tax Exempted Liabilities	12,840	8,957
Financial Stability Contribution (FSC)	114,941	112,939
Contribution BRRD/SRF	37,939	38,779
Premiums for deposit insurance	52,011	59,998
Total	**217,731**	**220,673**

Impairment of tangible and intangible assets

Impairment of tangible and intangible assets (2017)			
In EUR thousands	Impairment losses	Reversal of impairments	Total
Property and equipment	3,303	-16,072	**-12,769**
Property development	0	0	**0**
Goodwill	0	0	**0**
Software and other intangible assets	814	0	**814**
Amortisations of other intangible assets	0	0	**0**
Total	**4,117**	**-16,072**	**-11,955**

Note 29: Taxation

Breakdown of income tax expenses		
In EUR thousands	2017	2016
Current tax for the period	374,168	427,965
Adjustments for current tax of previous periods	-5,188	-16,642
Previously unrecognised tax losses, tax credits, temporary differences reducing current tax	0	0
Current tax expenses	***368,980***	***411,323***
Deferred taxes arising from current period	23,108	-215,406
Deferred taxes arising from changes in tax rates	33,021	0
Deferred taxes arising from the reversal of deferred tax assets	0	0
Previously unrecognised tax losses, tax credits, temporary differences reducing deferred taxes	0	0
Deferred tax expenses	***56,129***	***-215,406***
Tax expense / income (-) relating to changes in accounting policies and errors in profit & loss	0	0
Taxes relating to the gain or loss on discontinuance of an operation	0	0
Income tax expense of discontinued operations	0	0
Other tax expenses	***0***	***0***
Total	**425,109**	**195,917**

Reconciliation of statutory tax rate to effective tax rate		
In EUR thousands / In %	2017	2016
Result before taxation – Tax expense using statutory rate	1,164,082	769,327
Statutory tax rate	33.99%	33.99%
Statutory tax amount	***395,671***	***261,494***
Tax effect of rates in other jurisdictions	-16,776	-20,069
Tax effect of non-taxable revenues	-5,036	-20,303
Tax effect of non-tax deductible expenses	30,833	27,209
Tax effect of utilisation of previously unrecognised tax losses	0	0
Tax effect on tax benefit not previously recognised in profit or loss	0	0
Tax effect from reassessment of unrecognised deferred tax assets	0	0
Tax effect of change in tax rates	33,021	0
Tax effect from under- or over-provisions in prior periods	-5,755	-21,088
Tax effect from notional interest	-6,849	-31,326
Other increase / decrease (-) in statutory tax charge	0	0
Effective tax amount	***425,109***	***195,917***
Effective tax rate	**36.52%**	**25.47%**

Cash flow statement

Note 30: Changes in liabilities arising from financing activities

Changes in liabilities arising from financing activities

In EUR thousands	2016	Cash flows: Additions	Cash flows: Redemptions and disposals	Acquisitions	Amortisations	Transfers Assets/ Liabilities	Changes in fair value	Foreign exchange movements	Non cash changes: Other	2017
Debt securities in issue[1]	7,797,754	598,858	-1,311,900	0	35	0	-16,421	0	-19,665	7,048,661
Subordinated loans	1,440,429	717,118	-119,531	0	0	0	0	-68,235	-409	1,969,372
Total	**9,238,183**	**1,315,976**	**-1,431,432**	**0**	**35**	**0**	**-16,421**	**-68,235**	**-20,074**	**9,018,033**

1. Debt securities in issue as presented above includes also the share capital repayable on demand.

Complementary information

Fair value of financial assets and liabilities

Financial assets and liabilities

The following table presents the estimated fair values of ING Belgium's financial assets and liabilities. Certain items per the statement of financial position are not included in the table, as they do not meet the definition of a financial asset or liability. The aggregation of the fair values presented below does not represent, and should not be construed as representing, the underlying value of ING Group.

Fair value of financial assets and liabilites

	2017		2016	
In EUR thousands	Fair value	Carrying amount	Fair value	Carrying amount
Financial assets				
Cash and balances with central banks	9,558,201	9,558,201	5,008,639	5,008,639
Loans and advances to banks	10,221,481	10,215,689	9,853,826	9,885,421
Financial assets at fair value through profit or loss				
of which: trading assets	*4,775,721*	*4,775,721*	*8,674,772*	*8,674,772*
of which: non-trading derivatives	*3,433,293*	*3,433,293*	*4,413,044*	*4,413,044*
of which: designated as at fair value through profit or loss	*82,918*	*82,918*	*87,950*	*87,950*
Investments				
of which: available-for-sale	*14,523,823*	*14,523,823*	*17,022,923*	*17,022,923*
of which: held-to-maturity	*642,799*	*638,069*	*936,353*	*925,897*
Loans and advances to customers	107,944,912	106,444,117	103,699,630	101,632,669
Other assets	998,250	998,250	1,495,319	1,495,319
Total Financial assets	**152,181,398**	**150,670,081**	**151,192,456**	**149,146,634**
Financial liabilities				
Deposits from banks	16,649,216	16,644,960	13,330,516	13,333,629
Customer deposits	101,016,210	100,896,245	97,174,313	97,046,298
Financial liabilities at fair value through profit or loss				
of which: trading liabilities	*4,867,955*	*4,867,955*	*8,808,874*	*8,808,874*
of which: non-trading derivatives	*4,744,668*	*4,744,668*	*6,074,113*	*6,074,113*
of which: designated as at fair value through profit or loss	*1,302,910*	*1,302,910*	*1,789,330*	*1,789,330*
Debt securities in issue[1]	7,214,467	7,048,661	8,053,726	7,743,252
Subordinated loans	2,132,597	1,969,372	1,641,268	1,440,429
Total Financial liabilities	**137,928,023**	**137,474,771**	**136,872,140**	**136,235,925**

1. Debt securities in issue includes share capital repayable on demand.

Valuation Methods

The estimated fair values represent the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It is a market-based measurement, which is based on assumptions that market participants would use and takes into account the characteristics of the asset or liability that market participants would take into account when pricing the asset or liability. Fair values of financial assets and liabilities are based on quoted prices in active market where available. When such quoted prices are not available, the fair value is determined by using valuation techniques. ING uses unadjusted quotes where available. Unadjusted quoted prices are primarily obtained from exchange prices for listed financial instruments. Where an exchange price is not available, quoted market prices in active markets may be obtained from independent market vendors, brokers, or market makers. In general, positions are valued at the bid price for a long position and at the offer price for a short position or are valued at the price within the bid-offer spread that is most representative of fair value at the date of valuation. For certain financial assets and liabilities quoted market prices are not available. For these financial assets and liabilities, fair value is determined using valuation techniques. These valuation techniques range from discounting of cash flows to various valuation models, where relevant pricing factors including the market price of underlying reference instruments, market parameters (e.g. volatilities, correlations and credit ratings), and customer behaviour are taken into account. ING maximises the use of market observable inputs and minimises the use of unobservable input in determining the fair value. The fair value can be subjective dependent on the significance of the unobservable input to the overall valuation.

All valuation techniques used are subject to internal review and approval. Data used in these valuation techniques are validated on a daily basis when possible. When a group of financial assets and financial liabilities are managed on the basis of their net risk exposures, it measures the fair value of a group of financial assets or liabilities on net portfolio level.

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

Valuation processes are governed by various governance bodies, which include Local Parameter Committees (LPC), Global Price Testing and Impairment Committee (GP&IC), Market Data Committee (MDC), Trading Pricing Model Committee (TPMC) and others. All relevant committees meet on a quarterly basis or more frequent as required. Key valuation controls including product approval process (PARP), IPV, valuation adjustments, and model use is monitored. The Global Price Testing and Impairment Committee is responsible for the use of appropriate models and inputs related to fair valued positions. It oversees the quality and coherence of valuation methodologies and processes. Local Parameter Committees monitor the appropriateness of (quoted) pricing, any other relevant market info, as well as that of pricing models themselves related to the fair valued positions to which they are applied. LPC executes valuation methodology and processes at a local level. Global Price Testing and Impairment Committee oversees market data sources and market data set up / points used for official valuation of positions for fair value. Trading Pricing Model Committee approve and review all pricing models and methodologies for the calculation of market parameters.

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

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

Fair value of financial assets

The following methods and assumptions were used by ING Belgium to estimate the fair value of these financial instruments.

Cash and balances with central banks

The carrying amount of cash equals its fair value.

Loans and advances to banks

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

Financial assets at fair value through profit or loss and Investments

Derivatives

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

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

Equity securities

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

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

Debt securities

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

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

Loans and receivables

Reference is made to Loans and advances to customers below.

Loans and advances to customers

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

Other assets

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

Fair value of financial liabilities

The following methods and assumptions were used by ING Belgium to estimate the fair value of these financial instruments.

Deposits from banks

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

Customer deposits

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

Financial liabilities at fair value through profit or loss

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

Other liabilities

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

Debt securities in issue

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

Subordinated loans

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

Fair value hierarchy

ING Belgium has categorised its financial instruments that are either measured in the statement of financial position at fair value or of which the fair value is disclosed, into a three level hierarchy based on the priority of the inputs to the valuation. The fair value hierarchy gives the highest priority to (unadjusted) quoted prices in active markets for identical assets or liabilities and the lowest priority to valuation techniques supported by unobservable inputs. An active market for the asset or liability is a market in which transactions for the asset or liability occur with sufficient frequency and volume to provide reliable pricing information on an ongoing basis. The fair value hierarchy consists of three levels, depending upon whether fair values were determined based on (unadjusted) quoted prices in an active market (Level 1), valuation techniques with observable inputs (Level 2) or valuation techniques that incorporate inputs which are unobservable and which have a more than insignificant impact on the fair value of the instrument (Level 3). Financial assets in Level 3 include for example illiquid debt securities, complex derivatives, certain complex loans (for which current market information about similar assets to use as observable, corroborated data for all significant inputs into a valuation model is not available), and asset backed securities for which there is no active market and a wide dispersion in quoted prices.

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

A three level hierarchy

Level 1 – (Unadjusted) quoted prices in active markets

This category includes financial instruments whose fair value is determined directly by reference to (unadjusted) quoted prices in an active market that ING can access. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer markets, brokered markets, or principal to principal markets. Those prices represent actual and regularly occurring market transactions with sufficient frequency and volume to provide pricing information on an ongoing basis. Transfers out of Level 1 into Level 2 or Level 3 occur when ING establishes that markets are no longer active and therefore (unadjusted) quoted prices no longer provide reliable pricing information.

Level 2 – Valuation technique supported by observable inputs
This category includes financial instruments whose fair value is based on market observables other than (unadjusted) quoted prices. The fair value for financial instruments in this category can be determined by reference to quoted prices for similar instruments in active markets, but for which the prices are modified based on other market observable external data or reference to quoted prices for identical or similar instruments in markets that are not active. These prices can be obtained from a third party pricing service. ING analyses how the prices are derived and determines whether the prices are liquid tradable prices or model based consensus prices taking various data as inputs.

For financial instruments that do not have a reference price available, fair value is determined using a valuation technique (e.g. a model), where inputs in the model are taken from an active market or are observable, such as interest rates and yield curves observable at commonly quoted intervals, implied volatilities, and credit spreads.

If certain inputs in the model are unobservable, the instrument is still classified in this category, provided that the impact of those unobservable inputs on the overall valuation is insignificant. The notion of significant is particularly relevant for the distinction between Level 2 and Level 3 assets and liabilities. ING has chosen to align the definition of significant with the 90% confidence range as captured in the prudent value definition by EBA. Unobservable parameters are shifted down and upwards to reach this 90% confidence range. The same 90% confidence range is applied to model uncertainty. If the combined change in asset value resulting from the shift of the unobservable parameters and the model uncertainty exceeds the threshold, the asset is classified as Level 3. A value change below the threshold results in a Level 2 classification.

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

Level 3 – Valuation technique supported by unobservable inputs
This category includes financial instruments whose fair value is determined using a valuation technique (e.g. a model) for which more than an insignificant part of the inputs in terms of the overall valuation are not market observable. This category also includes financial assets and liabilities whose fair value is determined by reference to price quotes but for which the market is considered inactive. An instrument in its entirety is classified as Level 3 if a significant portion of the instrument's fair value is driven by unobservable inputs. Unobservable in this context means that there is little or no current market data available from which to derive a price that an unrelated, informed buyer would purchase the asset or liability at.

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

Methods applied in determining fair values of financial assets (2017)

	Comparison		Fair value hierarchy		
In EUR thousands	Fair value	Carrying amount	Level 1	Level 2	Level 3
Assets at fair value					
Trading assets	4,775,721	4,775,721	0	4,690,912	84,809
Non-trading assets	3,433,293	3,433,293	0	3,433,293	0
Financial assets designated as at fair value through profit or loss	82,918	82,918	0	79,359	3,559
Available-for-sale investments	14,523,823	14,523,823	13,439,381	1,020,881	63,561
Total assets at fair value	**22,815,755**	**22,815,755**	**13,439,381**	**9,224,445**	**151,929**
Assets at amortised costs					
Loan and advances to banks[1]	9,773,249	9,767,457	0	1,665,129	8,108,120
Held-to-maturity investments	642,799	638,069	642,799	0	0
Loan and advances to customers[1]	102,529,543	101,028,747	0	208,450	102,321,092
Total assets at amortised costs	**112,945,590**	**111,434,273**	**642,799**	**1,873,579**	**110,429,212**

PM: Only financial assets are in scope of the table, hence real estate is not part of it. As at 31 December 2017, the estimated fair value of Property in own use and Real estate investment amounts to EUR 402 million (2016: EUR 498 million) and EUR 49 million (2016: EUR 48 million) respectively and is categorised as Level 3 (2016: Level 3) of the fair value hierarchy on the basis of methods applied in determining the fair values.

1..The on demand items are excluded from the Fair value and Carrying amount number.

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Methods applied in determining fair values of assets (2016)

	Comparison		Fair value hierarchy		
In EUR thousands	Fair value	Carrying amount	Level 1	Level 2	Level 3
Assets at fair value					
Trading assets	8,674,772	8,674,772	22,935	8,476,904	174,933
Non-trading assets	4,413,044	4,413,044	0	4,413,044	0
Financial assets designated as at fair value through profit or loss	87,950	87,950	0	85,335	2,615
Available-for-sale investments	17,022,923	17,022,923	15,873,319	1,094,259	55,345
Total assets at fair value	**30,198,689**	**30,198,689**	**15,896,254**	**14,069,542**	**232,893**
Assets at amortised costs					
Loan and advances to banks[1]	9,334,531	9,366,125	2,986,190	0	6,348,341
Held-to-maturity investments	936,353	925,897	936,353	0	0
Loan and advances to customers[1]	98,578,330	96,511,369	196,873	281,969	98,099,488
Total assets at amortised costs	**108,849,214**	**106,803,391**	**4,119,416**	**281,969**	**104,447,829**

PM: As for 2016 significant transfers between Level 1 and Level 2 of fair value happened within "Available-for-sale investments": EUR 155 million from Level 1 to Level 2 and EUR 5 million from Level 2 to Level 1.

1..The on demand items are excluded from the Fair value and Carrying amount number.

Methods applied in determining fair values of financial liabilities (2017)

	Comparison		Fair value hierarchy		
In EUR thousands	Fair value	Carrying amount	Level 1	Level 2	Level 3
Liabilities at fair value					
Trading liabilities	4,867,955	4,867,955	0	4,802,578	65,377
Non-trading liabilities	4,744,668	4,744,668	0	4,743,214	1,454
Financial liabilities designated as at fair value through profit or loss	1,302,910	1,302,910	101,788	1,201,122	0
Total liabilities at fair value	**10,915,533**	**10,915,533**	**101,788**	**10,746,914**	**66,831**
Liabilities at amortised costs					
Deposits from banks[1]	13,506,897	13,502,641	0	13,503,764	3,134
Customer deposits[1]	7,194,093	7,074,128	0	7,194,093	0
Debt securities in issue	7,214,467	7,048,661	2,819,576	4,117,132	277,759
Subordinated loans	2,132,597	1,969,372	0	2,132,597	0
Total liabilities at amortised costs	**30,048,054**	**29,594,802**	**2,819,576**	**26,947,585**	**280,892**

1..The on demand items are excluded from the Fair value and Carrying amount number.

Methods applied in determining fair values of liabilities (2016)

	Comparison		Fair value hierarchy		
In EUR thousands	Fair value	Carrying amount	Level 1	Level 2	Level 3
Liabilities at fair value					
Trading liabilities	8,808,874	8,808,874	0	8,668,984	139,890
Non-trading liabilities	6,074,113	6,074,113	0	6,073,368	745
Financial liabilities designated as at fair value through profit or loss	1,789,330	1,789,330	102,621	1,686,708	0
Total liabilities at fair value	**16,672,317**	**16,672,317**	**102,621**	**16,429,060**	**140,635**
Liabilities at amortised costs					
Deposits from banks[1]	10,451,812	10,454,925	4,813,789	5,145,418	492,604
Customer deposits[1]	7,542,142	7,414,127	773,910	6,684,238	83,994
Debt securities in issue	8,053,626	7,743,252	2,688,899	4,916,844	447,984
Subordinated loans	1,641,268	1,440,429	0	1,641,269	0
Total liabilities at amortised costs	**27,688,948**	**27,052,733**	**8,276,598**	**18,387,768**	**1,024,582**

1..The on demand items are excluded from the Fair value and Carrying amount number.

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Main changes in fair value hierarchy

There were no significant transfers between Level 1 and Level 2 in 2017 and 2016.
There were no significant changes in the valuation techniques during the 2017 and 2016.

Changes in Level 3 Financial Assets (2017)

In EUR thousands	Trading assets	Non-trading assets	Financial assets designated at fair values through profit or loss	Available-for-sale investments	Total
Opening balance	**174,933**	**0**	**2,615**	**55,345**	**232,893**
Amounts recognised in profit or loss during the year	740	0	942	239	**1,922**
Revaluation recognised in equity during the year	0	0	0	1,286	**1,286**
Purchase of assets	0	0	1,470	7,235	**8,705**
Sale of assets	-63,999	0	-1,468	-1,838	**-67,305**
Maturity / Settlement	0	0	0	0	**0**
Reclassification	0	0	0	0	**0**
Transfers into Level 3	4,958	0	0	0	**4,958**
Transfers out of Level 3	-31,823	0	0	0	**-31,823**
Exchange rate differences	0	0	0	0	**0**
Changes in the composition of the group and other changes	0	0	0	1,294	**1,294**
Closing balance	**84,809**	**0**	**3,559**	**63,561**	**151,929**

Changes in Level 3 Financial Assets (2016)

In EUR thousands	Trading assets	Non-trading assets	Financial assets designated at fair values through profit or loss	Available-for-sale investments	Total
Opening balance	**142,630**	**0**	**2,812**	**77,998**	**223,440**
Amounts recognised in profit or loss during the year	106,521	0	35	9,459	**116,015**
Revaluation recognised in equity during the year	0	0	0	-8,340	**-8,340**
Purchase of assets	0	0	0	8,359	**8,359**
Sale of assets	0	0	-232	-26,652	**-26,884**
Maturity / Settlement	0	0	0	0	**0**
Reclassification	0	0	0	0	**0**
Transfers into Level 3	0	0	0	0	**0**
Transfers out of Level 3	0	0	0	0	**0**
Exchange rate differences	0	0	0	0	**0**
Changes in the composition of the group and other changes	-74,218	0	0	-5,478	**-79,696**
Closing balance	**174,933**	**0**	**2,615**	**55,345**	**232,893**

Changes in Level 3 Financial Liabilities (2017)

In EUR thousands	Trading liabilities	Non-trading liabilities	Financial liabilities designated at fair values through profit or loss	Total
Opening balance	**139,890**	**745**	**0**	**140,635**
Amounts recognised in profit or loss during the year	7,640	338	0	**7,978**
Revaluation recognised in equity during the year	0	0	0	**0**
Issue of liabilities	506	873	0	**1,379**
Early repayment of liabilities	-61,650	-502	0	**-62,152**
Maturity / Settlement	0	0	0	**0**
Reclassification	0	0	0	**0**
Transfers into Level 3	4,341	0	0	**4,341**
Transfers out of Level 3	-25,349	0	0	**-25,349**
Exchange rate differences	0	0	0	**0**
Changes in the composition of the group and other changes	0	0	0	**0**
Closing balance	**65,377**	**1,454**	**0**	**66,831**

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Changes in Level 3 Financial Liabilities (2016)

In EUR thousands	Trading liabilities	Non-trading liabilities	Financial liabilities designated at fair values through profit or loss	Total
Opening balance	**226,095**	**969**	**0**	**227,064**
Amounts recognised in profit or loss during the year	16,358	-11	0	**16,347**
Revaluation recognised in equity during the year	0	0	0	**0**
Issue of liabilities	0	0	0	**0**
Early repayment of liabilities	0	-213	0	**-213**
Maturity / Settlement	0	0	0	**0**
Reclassification	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**
Changes in the composition of the group and other changes	-102,563	0	0	**-102,563**
Closing balance	**139,890**	**745**	**0**	**140,635**

Amounts recognized in profit or loss during the year (2017)

In EUR thousands	Held at balance sheet date	Derecognised during the year	Total
Financial assets			
Trading assets	740	0	**740**
Non-trading assets	0	0	**0**
Financial assets designated at fair value through profit or loss	942	0	**942**
Available-for-sale investments	-277	516	**239**
Total Financial assets	**1,406**	**516**	**1,922**
Financial liabilities			
Trading liabilities	-7,640	0	**-7,640**
Non-trading liabilities	-338	0	**-338**
Financial liabilities designated at fair value through profit or loss	0	0	**0**
Total Financial liabilities	**-7,978**	**0**	**-7,978**

Amounts recognized in profit or loss during the year (2016)

In EUR thousands	Held at balance sheet date	Derecognised during the year	Total
Financial assets			
Trading assets	106,520	0	**106,520**
Non-trading assets	0	0	**0**
Financial assets designated at fair value through profit or loss	-197	0	**-197**
Available-for-sale investments	-342	9,801	**9,459**
Total Financial assets	**105,981**	**9,801**	**115,782**
Financial liabilities			
Trading liabilities	-16,358	0	**-16,358**
Non-trading liabilities	0	0	**0**
Financial liabilities designated at fair value through profit or loss	0	0	**0**
Total Financial liabilities	**-16,358**	**0**	**-16,358**

Recognition of unrealised gains and losses in Level 3

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

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

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

Level 3 Financial assets and liabilities

Non-listed equity investments

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

Price

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

Credit spreads

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

Volatility

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

Correlation

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

Interest rates

Examples of interest rate related unobservable inputs are prepayment rates, reset rates and inflation rates.

Prepayment rate and reset spread are key inputs to mortgage linked prepayment swaps valuation. Prepayment rate is the estimated rate at which mortgage borrowers will repay their mortgages early, e.g. 5% per year. Reset spread is the future spread at which mortgages will re-price at interest rate reset dates. Inflation rate is a key input to inflation linked instruments. Inflation linked instruments protect against price inflation and are denominated and indexed to investment units. Interest payments would be based on the inflation index and nominal rate in order to receive/pay the real rate of return. A rise in nominal coupon payments is a result of an increase in inflation expectations, real rates, or both. As markets for these inflation linked derivatives are illiquid, the valuation parameters become unobservable.

Dividend yield

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

Sensitivity analysis of unobservable inputs (Level 3)

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

For more detail on the valuation of fair valued instruments, refer to the section 'Risk Management – Market risk', paragraph 'Fair values of financial assets and liabilities' in this document. In practice valuation uncertainty is measured and managed per exposure to individual valuation inputs (i.e. risk factors) at portfolio level across different product categories.

Non-financial assets and liabilities

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

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

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

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

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

Offsetting financial assets and liabilities

The following tables include information about rights to offset and the related arrangements. The amounts included consist of all recognised financial instruments that are presented net in the statement of financial position under the IFRS offsetting requirements (legal right to offset and intention to net settle) and amounts presented gross in the statement of financial position but subject to enforceable master netting arrangements or similar arrangement.

Netting agreement as well as the height of the collateral are specified in an ISDA contract (for derivatives) or CSA contract (for credit contracts).

Financial assets subject to offsetting, enforceable master netting arrangements and similar agreements (2017)

					Related amounts not offset in the balance sheet		
In EUR thousands		Gross amounts of recognised financial assets	Gross amounts of recognised financial liabilities offset in the balance sheet	Net amounts of financial assets presented in the balance sheet	Financial instru-ments	Cash and financial instru-ments received as collateral	Net amount
Amounts due from banks	Reverse repurchase, securities borrowing and similar agreements	0	0	0	0	0	0
	Other	0	0	0	0	0	0
Financial assets at fair value through profit or loss [Trading assets]	Derivatives	3,498,767	0	3,498,767	3,205,620	332,860	-39,714
	Reverse repurchase, securities borrowing and similar agreements	0	0	0	0	0	0
	Other	0	0	0	0	0	0
Financial assets at fair value through profit or loss [Non-trading assets]	Derivatives	2,804,317	0	2,804,317	2,799,153	332,860	-327,697
Available-for-sale	Reverse repurchase, securities borrowing and similar agreements	0	0	0	0	0	0
	Other	0	0	0	0	0	0
Loans and advances to customers	Reverse repurchase, securities borrowing and similar agreements	0	0	0	0	0	0
	Other	0	0	0	0	0	0
Other assets where netting is applied in the balance sheet	Other	80,461	-80,460	1	0	0	0
Impact of enforceable master netting arrangements or similar agreements	Derivatives	0	0	0	-722,448	0	722,448
	Other	0	0	0	0	0	0
Total Financial assets		**6,383,545**	**-80,460**	**6,303,084**	**5,282,326**	**665,721**	**355,037**

Consolidated annual accounts - continued

Financial assets subject to offsetting, enforceable master netting arrangements and similar agreements (2016)

In EUR thousands		Gross amounts of recognised financial assets	Gross amounts of recognised financial liabilities offset in the balance sheet	Net amounts of financial assets presented in the balance sheet	Related amounts not offset in the balance sheet		Net amount
					Financial instru-ments	Cash and financial instru-ments received as collateral	
Amounts due from banks	Reverse repurchase, securities borrowing and similar agreements	0	0	0	0	0	0
	Other	0	0	0	0	0	0
Financial assets at fair value through profit or loss [Trading assets]	Derivatives	5,160,403	-113,057	5,047,346	4,376,307	145,700	525,339
	Reverse repurchase, securities borrowing and similar agreements	0	0	0	0	0	0
	Other	0	0	0	0	0	0
Financial assets at fair value through profit or loss [Non-trading assets]	Derivatives	38,002	-9,402	28,599	28,599	0	0
Available-for-sale	Reverse repurchase, securities borrowing and similar agreements	0	0	0	0	0	0
	Other	0	0	0	0	0	0
Loans and advances to customers	Reverse repurchase, securities borrowing and similar agreements	0	0	0	0	0	0
	Other	0	0	0	0	0	0
Other assets where netting is applied in the balance sheet	Other	36,483	0	36,483	0	0	36,483
Impact of enforceable master netting arrangements or similar agreements	Derivatives	0	0	0	-1,511,213	0	1,511,213
	Other	0	0	0	0	0	0
Total Financial assets		**5,234,888**	**-122,460**	**5,112,428**	**2,893,693**	**145,700**	**2,073,035**

Financial liabilities subject to offsetting, enforceable master netting arrangements and similar agreements (2017)

In EUR thousands		Gross amounts of recognised financial liabilities	Gross amounts of recognised financial assets offset in the balance sheet	Net amounts of financial liabilities presented in the balance sheet	Related amounts not offset in the balance sheet		Net amount
					Financial instru-ments	Cash and financial instru-ments received as collateral	
Amounts due to banks	Reverse repurchase, securities borrowing and similar agreements	0	0	0	0	0	0
	Other	0	0	0	0	0	0
Customer deposits and other funds on deposit	Reverse repurchase, securities borrowing and similar agreements	0	0	0	0	0	0
	Corporate deposits	0	0	0	0	0	0
	Other	0	0	0	0	0	0
Financial assets at fair value through profit or loss [Trading assets]	Derivatives	4,244,752	0	4,244,752	4,195,195	1,540,620	-1,491,063
	Reverse repurchase, securities borrowing and similar agreements	0	0	0	0	0	0
	Other	0	0	0	0	0	0
Financial assets at fair value through profit or loss [Non-trading assets]	Derivatives	3,808,806	0	3,808,806	3,799,446	1,540,620	-1,531,230
Other liabilities where netting is applied in the balance sheet	Other	80,460	-80,460	0	0	0	0
Impact of enforceable master netting arrangements or similar agreements	Derivatives	0	0	0	-609,115	0	609,155
	Other	0	0	0	0	0	0
Total Financial assets		**8,134,048**	**-80,460**	**8,053,587**	**7,385,486**	**3,081,239**	**-2,413,138**

Consolidated annual accounts - continued

Financial liabilities subject to offsetting, enforceable master netting arrangements and similar agreements (2016)

In EUR thousands		Gross amounts of recognised financial liabilities	Gross amounts of recognised financial assets offset in the balance sheet	Net amounts of financial liabilities presented in the balance sheet	Related amounts not offset in the balance sheet: Financial instruments	Related amounts not offset in the balance sheet: Cash and financial instruments received as collateral	Net amount
Amounts due to banks	Reverse repurchase, securities borrowing and similar agreements	0	0	0	0	0	0
	Other	0	0	0	0	0	0
Customer deposits and other funds on deposit	Reverse repurchase, securities borrowing and similar agreements	0	0	0	0	0	0
	Corporate deposits	0	0	0	0	0	0
	Other	0	0	0	0	0	0
Financial assets at fair value through profit or loss [Trading assets]	Derivatives	2,152,774	0	2,152,774	2,152,774	0	0
	Reverse repurchase, securities borrowing and similar agreements	0	0	0	0	0	0
	Other	0	0	0	0	0	0
Financial assets at fair value through profit or loss [Non-trading assets]	Derivatives	179,875	0	179,875	179,874	0	0
Other liabilities where netting is applied in the balance sheet	Other	36,843	0	36,843	0	0	36,843
Impact of enforceable master netting arrangements or similar agreements	Derivatives	0	0	0	0	0	0
	Other	0	0	0	0	0	0
Total Financial assets		**2,369,492**	**0**	**2,369,492**	**2,332,648**	**0**	**36,843**

Assets not freely disposable

The assets not freely disposable consist primarily of 'Loans and advances' to customers pledged to secure 'Debt securities in issue' and serve to secure margin accounts and are used for other purposes required by law.

ING has an obligation to maintain a reserve with central banks. As at 31 December 2017, the minimum mandatory reserve deposits with central banks amount to EUR 1.1 billion (2016: EUR 1.0 billion).

Loans and advances to customers that have been pledged as collateral for Debt securities in issue and for liquidity purposes, amount in Belgium to EUR 6.7 billion (2016: EUR 5.0 billion).

The table does not include assets relating to securities lending as well as sale and repurchase transactions.

Assets not freely disposable

In EUR thousands	2017	2016
Banks		
of which: cash and balances with central banks	*1,080,086*	*870,765*
of which: amounts due from banks	*2,760,426*	*3,124,129*
Financial assets at fair value through profit or loss	0	0
Investments	1,489,243	35,827
Loans and advances to customers	12,637,242	7,046,219
Other assets	0	0
Total	**17,966,997**	**11,076,939**

The main elements contributing to the increase of "Loans and advances to customers" are:

- The increase of the TLTRO deposit granted by the ECB (EUR +3 billion) which implied that the pool of pledged loans has been increased (EUR +3.7 billion);
- The increase of the covered bonds issuance (EUR +50 million), which implied that the pool of pledged loans has been increased (EUR +1.6 billion).

Off-balance sheet commitments

In the normal course of business, ING Belgium is a party to activities where risks are not reflected in whole or in part in the consolidated annual accounts. In response to the needs of its customers, ING Belgium offers financial products related to loans. These products include traditional off-balance sheet credit-related financial instruments.

Guarantees relate to both credit and non-credit substitute guarantees. Credit-substitute guarantees are guarantees given by ING Belgium in respect of credit granted to customers by a third party. Many of them are expected to expire without being drawn on and therefore do not necessarily represent future cash outflows. In addition to the items included in contingent liabilities, ING Belgium has issued guarantees as a participant in collective arrangements of national industry bodies and as a participant in government required collective guarantee schemes which apply in different countries.

Irrevocable letters of credit mainly secure payments to third parties for a customer's foreign and domestic trade transactions in order to finance a shipment of goods. ING Belgium's credit risk in these transactions is limited since these transactions are collateralized by the commodity shipped and are of a short duration.

Other contingent liabilities include acceptances of bills and are of a short-term nature.

Irrevocable facilities mainly constitute unused portions of irrevocable credit facilities granted to corporate clients. Many of these facilities are for a fixed duration and bear interest at a floating rate. ING Belgium's credit risk and interest rate risk in these transactions is limited. The unused portion of irrevocable credit facilities is partly secured by customers' assets or counter-guarantees by the central governments and exempted bodies under the regulatory requirements. Irrevocable facilities also include commitments made to purchase securities to be issued by governments and private issuers.

Contingent liabilities and commitments (2017)

In EUR thousands	Less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	**Total**
Contingent liabilities in respect of:						
- Discounted bills	*0*	*0*	*0*	*0*	*0*	***0***
- Guarantees	*1,036,315*	*416,068*	*609,645*	*990,143*	*2,877,902*	***5,930,072***
- Irrevocable letters of credit	*1,036,147*	*4,710,907*	*809,570*	*55,655*	*0*	***6,612,279***
- Others	*0*	*0*	*0*	*0*	*0*	***0***
Subtotal	2,072,462	5,126,974	1,419,215	1,045,798	2,877,902	**12,542,351**
- Irrevocable facilities	*4,181,165*	*1,021,448*	*2,291,280*	*15,088,373*	*11,040,963*	***33,623,228***
Total	**6,253,627**	**6,148,422**	**3,710,494**	**16,134,171**	**13,918,865**	**46,165,580**

Contingent liabilities and commitments (2016)

In EUR thousands	Less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	**Total**
Contingent liabilities in respect of:						
- Discounted bills	*0*	*0*	*0*	*0*	*0*	***0***
- Guarantees	*464,229*	*510,517*	*834,185*	*1,039,847*	*2,996,185*	***5,844,963***
- Irrevocable letters of credit	*1,206,871*	*3,865,584*	*767,640*	*96,240*	*1,068*	***5,937,402***
- Others	*0*	*0*	*0*	*0*	*0*	***0***
Subtotal	1,671,100	4,376,101	1,601,824	1,136,087	2,997,253	**11,782,365**
- Irrevocable facilities[1]	*2,809,627*	*386,621*	*2,282,216*	*12,753,372*	*12,351,725*	***30,583,560***
Total	**4,480,727**	**4,762,722**	**3,884,040**	**13,889,459**	**15,348,978**	**42,365,925**

1. Amounts have changed compared to Annual Report 2016.

Furthermore, ING Belgium NV/SA eases assets to third parties under operating leases as lessor. No individual operating lease has terms and conditions that materially affect the amount, timing or certainty of the consolidated cash flows of the ING Belgium.

Share-based payments

Through the Long-term Equity Ownership (Leo) plan, which has existed since 2004, ING Group NV offers stock options and performance shares to a number of staff members worldwide.

The main characteristics of Leo are as follows:

Stock options:

- gives the participant the right to buy a number of stock shares of ING Group NV equal to the number of options owned at a predefined exercise price;
- an exercise period of 10 years as from the date of receiving the option, which can be reduced to five years at the initiative of the participant;
- a vesting period of three years as from the date of receiving the option;
- exercise by means of delivering ING Group NV stock shares to the participant, immediately followed by the sale of them or by placing them in a brokerage account after payment of the exercise price.

Performance shares:

- offering of a number of performance shares on stock shares of ING Group NV, for which the final number of performance shares depends on the relative position of ING's Total Shareholder Return (TSR) within the TSR of ING Group's competitors;
- vested at the end of the three-year performance period;
- settlement made on the basis of a distribution election (sell all/retain all/sell & retain).

As of 2011, a new share-based payment plan has been introduced named 'Long-term Sustainable Performance Plan' (LSPP). This plan replaces the Leo plan (Existing plans which are still running remain unchanged).

The main characteristics of the LSPP are as follows:

- a 100% share plan, granting Performance and/or Deferred Shares;
- vesting is dependent on the ING Group performance target for Performance Shares;
- tiered vesting: 1/3 after first year, 1/3 after second year, 1/3 after third year;
- settlement made on the basis of a distribution election (sell all/retain all/sell & retain).

Distinguishing Identified/Regulated Staff

As of 2012 ING is making the distinction between Identified Staff and Non-Identified Staff for variable remuneration pay-out. Identified Staff are employees selected by the Identified Staff selection method as approved by the Supervisory Board (in cooperation with Risk and HR) who have a key responsibility in the organization and are therefore deemed to have a crucial impact on the financial stability and/or risk profile of ING.

This is designed in order to meet new internal and external needs and requirements that govern remuneration policies of financial institutions.

Their awarded variable pay is split into two parts:

- An Upfront part, which will be delivered partially in Upfront cash and in Upfront units. Upfront cash component is not held in LSPP and is equivalent to Cash paid and managed through local payroll.
- For Upfront units, a one-year retention period will apply. Thus, they vest one year after having been granted, and they are sold (cash proceeds).
- A Deferred part, which will be delivered partially in Deferred Cash and in Deferred units.
  2 types:
  - 3 year deferral system: 1/3 Deferred Cash will vest each year after having been granted, for 3 years. Deferred Units have a retention period of 1 year. 1/3 of the Deferred Units will vest each year after the retention period (grant date +1 year) and they are sold (cash proceeds).. All deferred units are vested after 4 years;
  - 5 year deferral system: 1/5 Deferred Cash will vest each year after having been granted, for 5 years. Deferred Units have a retention period of 1 year. 1/5 of the Deferred Units will vest each year after the retention period (grant date +1 year) and they are sold (cash proceeds).. All deferred units are vested after 6 years.

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Movements in stock options

	Options outstanding		Weighted average exercise price	
In EUR	2017	2016	2017	2016
Opening balance	**2,289,683**	**3,611,643**	**15.73**	**17.50**
Transfer	3,523	-392,139	15.70	16.50
Granted	0	0	0	0
Exercised	-153,371	-119,756	5.84	5.89
Forfeited	-43,085	-29,496	15.57	17.34
Rights used	0	0	0	0
Expired	-685,968	-780,569	23.97	24.98
Closing balance	**1,410,782**	**2,289,683**	**12.75**	**15.73**

The weighted average share price at the date of exercise for options exercised during 2017 is EUR 13.81 (This is the ING Group average, as this is not available per business unit).

Summary of stock options outstanding and exercisable (2017)

Range of exercise price in EUR	Options outstanding as at 31 December 2017	Weighted average remaining contractual life	Weighted average exercise price	Options exercisable as at 31 December 2016	Weighted average remaining contractual life	Weighted average exercise price
00.00 - 05.00	203,595	1.21	2.74	203,595	1.21	2.74
05.00 - 10.00	322,206	2.22	7.32	322,206	2.22	7.32
10.00 - 15.00	4,401	0.71	14.18	4,401	0.71	14.18
15.00 - 20.00	880,580	0.20	17.04	880,580	0.20	17.04
20.00 - 25.00	0	0.00	0.00	0	0.00	0.00
25.00 - 30.00	0	0.00	0.00	0	0.00	0.00
30.00 - 35.00	0	0.00	0.00	0	0.00	0.00
35.00 - 40.00	0	0.00	0.00	0	0.00	0.00

The fair value of options granted is recognized as an expense under staff expenses and is allocated over the vesting period of the options. The fair values of the option awards have been determined using a “European Black Scholes” formula. This model takes the risk free interest rate into account (2.02% to 4.62 %), as well as the lifetime of the options granted (5 to 9 years), the exercise price, the current share price (EUR 2.90 – EUR 25.42), the expected volatility of the certificates of ING Group NV shares (25.00% – 84.00%) and the expected dividend yield (0.94% to 8.99%).

The source for implied volatilities used for the valuation of the stock options is ING’s trading system. The implied volatilities in this system are determined by ING’s traders and are based on market data implied volatilities not on historical volatilities.

Share-based payments

In EUR thousands	2017	2016
Expenses arising from share-based payments	8,978	10,690
Expenses arising from cash transactions		
- Total nominal amount at the end of the year	0	0
- Total intrinsic value at the end of the year	0	0

Related party disclosures

In the normal course of business, ING Belgium enters into various transactions with related parties. Parties are considered to be related if one party has the ability to control or exercise significant influence over the other party in making financial or operating decisions. Related parties of ING include, among others, its subsidiaries, associates, joint ventures, key management personnel, and various defined benefit and contribution plans (see also chapter "Remuneration of the members of the Board of Directors and Executive Committee" hereafter). Transactions between related parties include rendering or receiving of services, leases, transfers under finance arrangements and provisions of guarantees or collateral. There are no significant provisions for doubtful debts or individually significant bad debt expenses recognised on outstanding balances with related parties.

Related parties (2017)

In EUR thousands	Parent and its subsidiaries	Associates
Balance sheet		
Assets	7,169,865	37,123
Liabilities	11,756,587	63,111
Off-balance sheet commitments given	461,176	2,349
Off-balance sheet commitments received	37,839	0
Profit & Loss statement		
Income received	488,715	0
Fees and commissions received	3,725	0
Expenses paid	820,267	0
Fees and commissions paid	3,217	0

Transactions between ING and its subsidiaries are eliminated on consolidation. ING Belgium also enters into transactions with ING Bank NV and its subsidiaries. These transactions vary from financing activities to regular purchases and sales transactions.

Legal proceedings

ING Belgium and its subsidiaries are involved in legal proceedings in Belgium and abroad involving claims by and against them which arise in the ordinary course of their business, including in connection with their activities as lenders, investors and taxpayers. In certain of such proceedings, large or indeterminate amounts are claimed, including damages. While it is not feasible to predict or determine the ultimate outcome of all pending or threatened proceedings, management does not believe that their outcome will have a material adverse effect on ING Belgium's financial position or operating results, taking into account provisions made for some of these cases.

Closed litigations

Some issues mentioned in our previous report have been settled in the course of 2017. A settlement has been reached on the court cases with respect to the responsibility of the Bank for allegedly fraudulent operations in the early 2000s, relating to cash companies. A settlement has also been achieved in the litigation between ING and 81 pensioners of ING who assigned the bank after the winding up of FMC-MHF («Fonds Médico Chirurgical – Medisch Heelkundig Fonds») (fund providing a medical coverage) as they were of the opinion that this winding up caused them financial harm since the alternative solution proposed entailed a premium increase.

Pending litigations

The bank has been summoned by some customers who subscribed (or intended to subscribe) floating rate credit facilities with ING or another bank and who signed an IRS contract ("Interest Rate Swap") with ING Belgium in 2007-2008 in order to hedge the increase of the interest rates which had been announced. ING has obtained favourable judgments in first degree in all the cases. The appeal procedure is ongoing for some cases. One case resulted in a judgment of the Court of Appeal, in favour of ING.

Consolidated annual accounts - continued

ING Belgium has also been summoned by an IT services supplier with whom an agreement was concluded on the outsourcing of the conservation and the execution of orders relating to financial instruments. The performance of this contract by the supplier being unsatisfactory, ING Belgium terminated the agreement in accordance with its terms. This termination was disputed by the supplier. ING won in the first instance. The IT services supplier lodged appeal.

Record Bank, a subsidiary of ING Belgium, has received multiple summons from clients of some of its independent agents. Without knowledge of Record Bank, these independent agents have received funds from their clients to be invested with a third party with whom Record Bank has neither a link nor a business relationship. This third party has since gone bankrupt. Criminal proceedings have been opened, in which Record Bank is no longer prosecuted.

In Luxembourg, ING Luxembourg is confronted with several litigations about an alleged responsibility of the bank for fraud by an ex-employee for fraudulent fund collection before 2005. ING Luxembourg is also involved in two cases concerning so called fraudulent operations regarding cash companies before 2002. In these cases, ING Luxembourg and an ex-employee are pursued before the criminal and civil court in Belgium. A settlement has been reached in the civil court case. In one of these criminal cases, ING Luxembourg and its ex-employee have on the other hand been convicted in first instance. An appeal against the judgment has been lodged.

Pension and other staff-related liabilities

ING Belgium sponsors defined-benefit retirement plans in the major countries in which it operates. These plans are all completely or partially funded by ING. They generally cover all employees and provide them with benefits, in particular upon retirement. Annual contributions are paid to the funds at a rate that is necessary to adequately finance the accrued liabilities of the plans, calculated in accordance with local legal requirements. In all countries, the plans comply with applicable local regulations concerning investments and funding levels. During 2018, the expected contributions to be paid by ING Belgium to defined benefit retirement plans are estimated to be EUR 10.6 million.

The bank provides certain employees with other post-employment and post-retirement benefits. These are primarily post-retirement health-care benefits and post-employment defined-benefit early retirement plans provided to employees and former employees. Certain group companies sponsor defined-contribution pension plans. The assets of all of ING Belgium's defined-contribution plans are held in independently administered funds. Contributions are generally determined as a percentage of pay. As at 31 December 2017, all defined-contribution plans are funded according to the minimal return guarantee imposed by law in Belgium moreover, new defined contribution plan in force for new employees to ING Belgium as from January 2007, present an overfunding of about EUR 9.7 million (4.5% of individual account amount) that has been funded by ING Belgium as minimum guarantee reserve.

Evolution of defined benefit pension plans

In EUR thousands	2017	2016
Present value of the defined benefit obligation	749,850	791,591
Fair value of plan assets (-)	-664,355	-657,581
Surplus or deficit (-) in the defined benefit pension plan	**85,495**	**134,010**
Presented as:		
- Other assets	-76	-468
- Other liabilities	85,571	134,478

Movements in defined benefit obligations

In EUR thousands	2017	2016
Opening balance	**791,591**	**746,380**
Current service costs	19,447	16,740
Interest costs	9,064	12,739
Actuarial gains (-) or losses arising from changes in demographic assumptions	-10,185	-12,196
Actuarial gains (-) or losses arising from changes in financial assumptions	-16,667	65,495
Employees' contributions	2,126	1,381
Benefits paid	-40,222	-39,312
Past service costs	0	0
Effect of curtailment or settlement	0	0
Exchange rate differences	-5,304	364
Changes in the composition of the group and other changes	0	0
Closing balance	**749,850**	**791,591**

PM: "Current service costs" and "Interest costs" are booked via Profit & Loss in current year's Pension costs (see also note 27) whereas "Actuarial losses/gains arising from changes in demographic assumptions" and "Actuarial losses/gains arising from changes in financial assumptions" are booked via Other comprehensive income.

Consolidated annual accounts - continued

Movements in the fair value of plan assets

In EUR thousands	2017	2016
Opening balance	**657,581**	**617,813**
Expected return on plan assets	7,026	9,942
Actuarial gains (-) or losses on plan assets	27,571	28,232
Employer's contributions	15,713	39,432
Employees' contributions	2,126	1,381
Benefits paid	-40,219	-39,311
Effect of settlement	0	0
Exchange rate differences	-8,161	93
Changes in the composition of the group and other changes	2,718	0
Closing balance	**664,355**	**657,581**

PM: "Expected return on plan assets" is booked via Profit & Loss in current year's Pension costs (see also note 27) whereas "Actuarial gains and losses on plan assets" are booked via Other comprehensive income.

Weighted averages of basic actuarial assumptions

In %	2017	2016
Discount rates	1.3%	1.2%
Consumer price inflation	2.0%	2.0%
Expected rates of salary increases (excluding promotional increase)	Age based salary scale	Age based salary scale

Sensitivity analysis: impact of changes in significant actuarial assumptions on the defined benefit obligation (2017)

In EUR thousands	Financial impact of increase	Financial impact of decrease
Discount rates - increase or decrease of 1%	-74,666	88,365
Mortality rates - increase of decrease of 1 year	10,524	-10,606
Expected rates of salary increase (excluding promotional increase) - increase of decrease of 0.25%	19,445	-17,887
Consumer price inflation - increase of decrease of 0.25%	7,905	-7,546

As of 31 December 2016, it has been decided to perform also an IAS19 valuation of all Defined Contribution plans (considered as Defined Benefit plans under IAS19 rules with respect to the legal guaranteed interest rate).

According to the plan rules the valuation method (PUC) consists in the projection at retirement age of the minimum reserve vested for each employee with the minimum return as currently foreseen by law (1,75%). The net present value (using all actuarial assumption accordingly to the IAS19 rules such as discount rate, mortality and turnover) of the obtained minimum capital represent the defined benefit obligation.

In case of this defined benefit obligation would be higher than the individual account of the concerned person, a liability should be recognized. As result of the calculation made it appeared that the liability to be recognized is lower that the market value of the dedicated assets, the fund has built up in order to fund the minimum return obligation.

Pension investment strategy

The primary financial objective of the ING Belgium employee benefit plan is to secure participant retirement benefits. As such, the key objective in the plan's financial management is to promote stability and, to the appropriate extent, growth in funded status (i.e. the ratio of market value of assets to liabilities). The investment strategy for the plan's portfolio of assets (the fund) balances the requirement to generate returns with the need to control risk, in particular to minimize the plan assets' volatility. This strategy is under the responsibility of each independent legal entity entitled to manage the different plans.

The asset mix is recognized as the primary mechanism to influence the reward and risk structure of the fund in an effort to accomplish the plan's funding objectives. Desirable target allocations among identified asset classes are set, and within each asset class, careful consideration is given to balancing the portfolio between industry sectors, geographies, interest rate sensitivity, dependence on economic growth, currency and other factors than can effect investment returns.

The assets are managed by professional investment firms. They are bound by precise mandates and measured against specific benchmarks. Among the managers, consideration is given among others to balancing security concentration, investment style and the reliance on particular active investment strategies. The fund's asset mix is reviewed on a regular basis and is under the responsibility of the entities entitled to manage their fund.

Plan assets

In EUR thousands	2017	2016
Equity instruments	276,736	233,382
Debt securities	304,219	329,001
Real estate	4,956	790
Others	78,444	94,408
Total	**664,355**	**657,581**

PM: 'Others' includes amounts that are not invested in equity, debt securities or real estate. It essentially represents cash or insurance reserves.

The plan assets of ING Belgium do not include any property occupied by ING or any own financial instruments except for a small number of own actions held by an index fund or by an actively managed fund. The actual return of the main defined-benefit plan in Belgium for 2017 was 7.02% net. The return of the main defined-contribution plan in Belgium for 2017 was 8.91% net.

Determination of expected return on assets

As from 1 January 2013 and accordingly to new IAS 19 standard, expected return on assets will be considered as equal to the discount rate i.e. the interest rate on AA-corporate with a duration of 10 years. Nevertheless, future return on assets is one of the key elements in the risk appreciation. Considering the strategic allocation of the asset portfolio of main plans, and using defensive assumptions per asset class, future return on asset are estimated to:

3.6% for the main defined benefit plan in Belgium (closed plan);
4% for the main defined contribution plan in Belgium.

Other risks

Main other risks of current plans are related to discount rate evolution, inflation, salary increase and mortality. Sensitivity to those factors, for the main defined-benefit plan in Belgium (scope ING Belgium NV/SA), are showed here after:

- **Discount rate evolution:**
  An increase of the discount rate with 1% would mean a reduction about 8% of the liabilities (84.8 million) while a decrease if the discount rate with 1% would results in an increase of the liabilities with about 9.3% (97.8 million).

- **Inflation:**
  An increase of the inflation with 0.25% p.a. would mean an increase of about 0,5% of the liabilities (6.5 million) while a decrease of the inflation with 0.25% p.a. would results in an decrease of the liabilities with about 0.5% (6.3 million).

- **Salary increase:**
  An increase of the salary growth (excluding inflation) with 0.25% p.a. would mean an increase with about 1.5% of the liabilities (16.7 million) while a decrease of salary growth with 0.25% p.a. would results in a decrease of the liabilities with about 1.5% (15.4 million).

- **Mortality:**
  Assuming current and future beneficiaries would be one year older than they are would results in a decrease of the liability with about 1% (11.3 million) while assuming they would be one year younger would increase the liability with 1% (11.2 million).
  This result comes mainly from the pensioners population for who the liability decrease with age.

Based on these results, one could conclude that assumption leading to the highest volatility is the discount rate. Salary growth and inflation are also sensible factors but in a lower way. Regarding the mortality assumption, as pensioners population is limited and decreasing, the risks related to mortality deviation is limited and will continue to decrease.

Segment information

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

Recognition and measurement of segment results are in line with the accounting policies as described in the chapter "Accounting policies".

The segment "Retail" stands for income from retail and private banking activities, including the SME and mid-corporate segments. The main products offered are current and savings accounts, business lending, mortgages and other consumer lending. Next to that, "Wholesale" represents income from wholesale banking activities (a full range of products is offered from cash management to corporate finance), real estate and lease. "Special items" include items of income or expense that are significant and arise from events or transactions that are clearly distinct from the regular operating activities. Finally, "Corporate" is a reflection of capital management activities and certain expenses that are not allocated to the banking businesses.

The following tables specify the segments by line of business and the main sources of income of each of these segments:

Segment information (2017)

	Statement of Profit and Loss, per segment				
In EUR thousands	Retail	Wholesale	Special items	Corporate	**Total**
Total Net Interest Income	1,841,839	458,365	0	92,619	**2,392,823**
Total Net Commission Income	407,545	199,929	0	18,171	**625,645**
Total Other Income	221,574	113,619	0	-2,923	**332,270**
Total income	2,470,957	771,913	0	107,868	**3,350,738**
Total expenses (-)	-1,583,468	-487,258	0	48,847	**-2,021,879**
Additional to Loan Loss Provisions (-)	-104,351	-60,507	0	81	**-164,777**
Result before tax	783,139	224,148	0	156,796	**1,164,082**
Taxation (-)	-293,772	-81,590	0	-49,747	**-425,109**
Net result from continuing operations	489,367	142,557	0	107,048	**738,973**
Profit or Loss (-) of the year	**489,367**	**142,557**	**0**	**107,048**	738,973
Net result attributable to Non-controlling interests	-1,902	43	0	1	**-1,858**
Net result attributable to Equity holders of the parent	491,269	142,515	0	107,047	**740,831**

Segment information (2016)

	Statement of Profit and Loss, per segment				
In EUR thousands	Retail	Wholesale	Special items	Corporate	**Total**
Total Net Interest Income	1,936,207	475,745	0	134,834	**2,546,786**
Total Net Commission Income	390,273	164,426	0	5,652	**560,351**
Total Other Income	247,229	101,027	0	-334	**347,922**
Total income	2,573,709	741,199	0	140,151	**3,455,059**
Total expenses (-)	-1,437,798	-359,677	-704,268	24,595	**-2,477,148**
Additional to Loan Loss Provisions (-)	-174,993	-33,549	-0	-43	**-208,584**
Result before tax	960,918	347,973	-704,268	164,704	**769,327**
Taxation (-)	-306,140	-73,330	239,381	-55,828	**-195,917**
Net result from continuing operations	654,778	274,643	-464,887	108,876	**573,410**
Profit or Loss (-) of the year	**654,778**	**274,643**	**-464,887**	**108,876**	573,410
Net result attributable to Non-controlling interests	1,383	21	0	1	**1,405**
Net result attributable to Equity holders of the parent	653,396	274,622	-464,887	108,875	**572,005**

Country by country

Based on article 420 of the Belgian banking law of 25 April 2014, ING Belgium is required to disclose the following information as presented below on a consolidated basis. The country by country reporting includes all entities in the scope of consolidation of ING Belgium.

ING Belgium consolidated, country by country (2017)

In EUR thousands / in FTE	Activity	Turnover[1]	Number of employees	Profit or loss before tax	Tax on result	Government grants received
Belgium	Banking, other financial services and real estate	2,818,365	8,231	444,628	359,189	0
Luxemburg	Banking, other financial services and insurance	298,106	787	717,849	27,509	0
Canada	Other financial services	61	0	336	-1	0
United States of America	Other financial services	327	0	-41	1	0
Switzerland	Banking, other financial services	223,583	218	1,309	38,412	0

1. Turnover includes: fee and commission income/expenses, net exchange differences (gains or loss), other operating income/expenses.

SCOPE:

Belgium: ING Belgium NV/SA, Cel Data Services NV/SA, Immo Globe NV/SA, ING Contact Center NV/SA, ING Lease Belgium NV/SA, New Immo-Schuman NV/SA, Record Bank NV/SA, Record Credit Services CVBA/SCRL, Sogam NV/SA, Sogès-Fiducem NV/SA

Luxemburg: ING Luxembourg SA, ING Lease Luxembourg SA, ING Belgium International Finance Luxembourg SA

Canada: Belgium Overseas Agencies Ltd

United States of America: Belgian Overseas Issuing Corp

Switzerland: ING Belgium Genève (branch)

Auditor's remuneration

KPMG Bedrijfsrevisoren – Réviseurs d'Entreprises burg. CVBA/SCRL civile is the auditor of ING Belgium. The table below shows audit and non-audit fees for the group for the years 2016 and 2017. All fees were expressly approved by the Audit Committee of ING Belgium NV/SA and the Audit Committee of ING Group NV (Amsterdam).

Auditor's remuneration

In EUR thousands	2017	2016
Auditor's fees		
Fees for the exercise of the audit mandate[1]	2,685	2,293
Fees for extraordinary duties or special assignments executed for the group		
being: other control assignments	0	0
being: tax advice assignments	0	0
being: other non-audit assignments	10	0
Total	**2,695**	**2,293**
Professional working partners' fees		
Fees for the exercise of the audit mandate	0	0
Fees for extraordinary duties or special assignments executed for the group		
being: other control assignments	0	0
being: tax advice assignments	0	0
being: other non-audit assignments	0	0
Total	**0**	**0**

1. Remark on "Fees for the exercise of the audit mandate" for 2017: the amount includes an overrun of 440 kEUR.

Remuneration of the members of the Board of Directors and Executive Committee

Breakdown of remuneration paid to members of the Board of Directors

As determined by the General Meeting the total remuneration allocated to the serving Directors of the Board for 2017 was EUR 798,000. This amount includes both the fees of the members of the Board of Directors and the fees relative to the participation of the Committees.

Loans and advances to members of the Board of Directors

Loans and advances to members of the Board of Directors

In EUR thousands	2017	2016
Loans and advances	3,190	2,670
Total	**3,190**	**2,670**

The loans and advances granted to the members of the Board of Directors are at market conditions.

Breakdown of remuneration paid to members of the Executive Committee

Total compensation for members of the Executive Committee now consists of two main components:

- the base salary, which represents the total guaranteed annual income;
- variable remuneration, of which payment takes place in two portions: an upfront portion and a deferred portion.
    - the upfront portion is half cash and half ING Group shares or similar financial instruments. The latter half is subject to a retention period of one year;
    - the deferred portion with deferral period of three (or five) years applying a tiered vesting schedule. Each annual allocation is half cash and half ING Group shares or similar financial instruments. The latter half is, however, subject to a retention period of one year.

Variable remuneration is awarded under the condition precedent of the non-occurrence of any of the following circumstances: misbehaviour or serious error, malfeasance, fraud, significant failure of risk management, significant changes in the economic and regulatory Capital Base, specific conduct which has led to material re-statement of the Group's annual account or caused significant harm.

In addition to the base salary and incentive plans, the members of the Executive Committee also enjoy benefits similar to those granted to most other employees of ING Belgium, such as medical insurance, death insurance, use of company cars and representation allowances.

Breakdown of remuneration paid to members of the Executive Committee

In EUR thousands	2017	2016
Short term employee benefits	3,669	3,597
Post-employment benefits	1,115	927
Other long term benefits	239	282
Termination benefits	0	0
Share-based payments	577	629
Total	**5,600**	**5,434**

Pension scheme for members of the Executive Committee

The pensions of the members of the Executive Committee are based on a defined-contribution group insurance plan, insured through a contract with AXA Belgium NV/SA.

Other principal contractual stipulations regarding remuneration of members of the Executive Committee

If an individual's function as a member of the Executive Committee is terminated otherwise than through retirement, dismissal or serious misconduct, remuneration will be paid to equal 12 months of the base salary. In case of termination for other reason than performance, the Board of Directors can decide to extend the remuneration to maximum 18 months (base salary and variable).

In case of long-term illness, the Executive Committee member will receive 100% of his last base salary during the first 12 months, 90% during the next 12 months and 50% afterwards.

No termination allowance or long-term illness allowances were paid in 2017.

Risk management

ING Belgium risk management

Introduction

ING Belgium operates through a comprehensive risk management framework to ensure the risks are identified, well understood, accurately measured, controlled and pro-actively managed at all levels of the organisation so that ING Belgium's financial strength is safeguarded.

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

The risk management section is in line with the accounting standards relating to the nature and the extent of the risks as required by IFRS7 'Financial Instruments: Disclosures' as adopted by the European Union and covered by an opinion of the External Auditors as part of the notes to the consolidated financial statements.

Purpose and business model

The purpose of ING Belgium's risk management function is to contribute to ING Belgium's results by managing the associated risks. The following principles support this purpose:

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

Risk governance

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

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

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

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

Regional and business unit level

ING Belgium's CRO is responsible for the analysis, control and management of risks across the whole value chain (from front to back office), based on which a robust control structure is maintained and reports both to the ING Bank's CRO and to the head of ING Belgium. This dual reporting system aims to ensure that the ING Belgium's risk management function is independent from the operating functions and that it is aligned with the corporate risk policies and goals.

Risk management function

Organisational structure

Based on the three lines of defence, an independent risk management function has oversight in all levels of ING Belgium's organisation. ING Belgium's CRO, an ExCo member, bears primary overall responsibility for the risk management function and reports directly to ING Belgium's Chief Executive Officer. The CRO is responsible for the management and control of risk on a consolidated level to ensure that ING Belgium's risk profile is consistent with its financial resources and the risk appetite. The CRO is also responsible for establishing and maintaining a robust organisational basis for the management of risk throughout the organisation.

As announced in October 2016, ING is accelerating its Think Forward strategy. Therefore, ING has introduced a number of initiatives to further improve the customer experience, further grow primary customers and lending, and increase efficiency. For Risk, it has initiated a Target Operating Model (TOM) programme to enable further convergence of our operations, which resulted in a new risk organisation in ING Belgium which started on 1 July 2017, illustrated by below chart.

Risk policies, procedures and standards

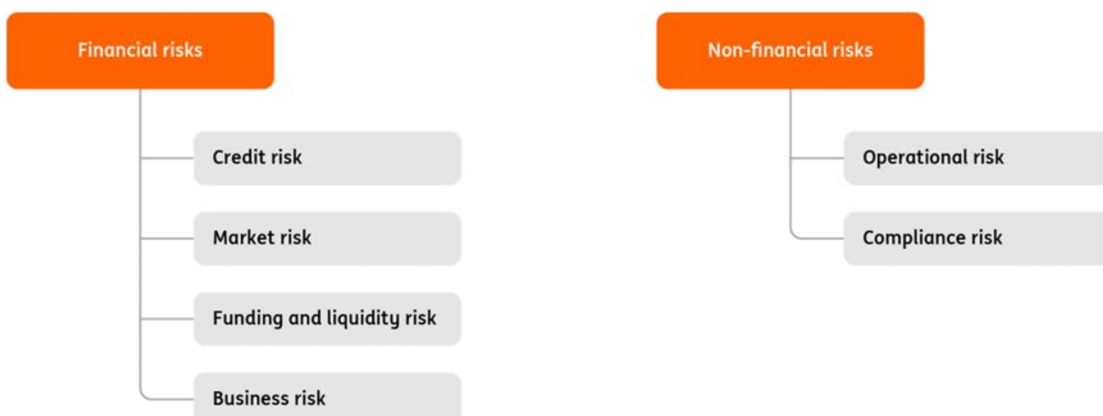
ING Bank has a framework of risk management policies, procedures and minimum standards in place to create consistency throughout the organisation, and to define requirements that are binding to all business units. The governance framework of ING Belgium aligns with ING Bank's framework and meets local (regulatory) requirements.

Risk profile

ING Belgium is exposed, to varying degrees of a variety of risks. The main financial risks ING Belgium is exposed to can be divided into credit risk (including transfer risk), market risk (including interest rate, equity, real estate, credit spread, and foreign exchange risks), funding & liquidity risk and business risk. Furthermore, ING Belgium is exposed to non-financial risks, e.g. operational and compliance risks.

Key risk categories

The table below presents the key risk categories (financial as well as non-financial risks) that are associated with ING Belgium's business activities.



Financial risks:

- Credit risk: the risk of potential loss due to default and/or credit rating deterioration by ING Belgium's debtors;
- Market risk: the risk of potential loss due to adverse movements in market variables. Market risks include interest rate, credit spread, equity, real estate and foreign exchange risks, as well as customer behaviour risk;
- Funding and liquidity risk: the risk that ING Belgium cannot meet its financial liabilities when they come due, at reasonable cost and in a timely manner. Liquidity risk can materialise both through trading and non-trading positions;
- Business risk: the exposure to value loss due to fluctuations in volumes, margins and expenses. These fluctuations can occur because of internal, industry, or wider market factors. It is the risk inherent to strategy decisions and internal efficiency, and as such strategic risk is included in business risk.

Non-financial risks:

- Operational risk: the risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems or from external events. It includes reputational risk, as well as legal risk;
- Compliance risk: the risk of impairment of ING Belgium's integrity as a result of failure (or perceived failure) to comply with applicable laws, regulations, ING Belgium policies and minimum standards and the ING Values as part of the Orange Code.

Credit risk

Introduction

Credit risk is the risk of loss from the default and/or credit rating deterioration of counterparties. Credit risks arise in ING Belgium's lending, financial market and investment activities. The credit risk section provides information on how ING Belgium manages, measures and monitors credit risk and gives an insight into the ING Belgium portfolio from a credit risk perspective.

Governance

Credit risk within ING Belgium is part of the second line of defence (the front office being the first, internal audit the third). ING Belgium's credit risk strategy is to maintain a diversified loan and bond portfolio, avoiding large risk concentrations. The emphasis is on managing business developments within the business lines by means of a top-down risk appetite framework, which sets concentration limits. The aim is to support relationship-banking activities, while maintaining internal risk/reward guidelines and controls.

Credit analysis at portfolio level is monitored using metrics such as economic capital, regulatory capital, exposure at default (EAD), probability of default (PD) and loss given default (LGD). To ensure efficient use of ING Belgium's capital, the risk appetite is monitored and managed at portfolio level by risk and finance together. Credit analysis at transactional level focuses on the risk amount, tenor, structure of the facility and profile of the borrower. ING Belgium's credit risk managers make use of publicly available information, information provided by the counterparty, peer group comparisons, industry comparisons and quantitative techniques.

Within ING Bank, the ultimate approval authority for credit proposals resides with the Management Board Banking (MBB). The MBB has delegated authorities based on amounts, tenors and risk ratings to lower levels in the organisation. Transactions are approved via a dual signatory approval system that requires an individual sign-off from both front office and credit risk management. For larger and higher risk credits a committee structure exists whereby the credit risk chair takes the final decision with support of the respective committee members, thereby ensuring accountability. Retail has a delegated authority to decide within policies and mandates approved by credit risk. Any decisions outside those policies or above the delegated mandate require a specific credit risk approval.

The credit risk role encompasses the following activities:

- Measuring, monitoring and managing credit risks in the Bank's portfolio;
- Challenging and approving new and modified transactions and borrower reviews;
- Managing the levels of provisioning and risk costs, and advising on impairments; and
- Providing consistent credit risk policies, systems and tools to manage the credit lifecycle of all activities.

Credit risk categories

Credit risk uses risk categories to differentiate between the different types of credit risk. All products within ING Belgium are aggregated to one of the following risk categories:

- **Pre-settlement (PS) risk**: arises when a counterparty defaults on a transaction before settlement and ING Belgium has to replace the contract by a trade with another counterparty at the then prevailing (possibly unfavourable) market price. The pre-settlement risk is the (potential or expected risk) cost of ING Belgium replacing a trade in the market. This credit risk category is associated with dealing room products such as options, swaps, and securities financing transactions. Where there is a mutual exchange of value, the amount of credit risk outstanding is generally based on the replacement value (mark-to-market) plus a potential future volatility concept, using a 3-7 year historical time horizon and a 97.5% confidence level.

- **Money market (MM) risk**: arises when ING Belgium places short-term deposits with a counterparty in order to manage excess liquidity. As such, money market deposits tend to be short-term in nature. In the event of a counterparty default, ING Belgium may lose the deposit placed. Money market risk is measured as the accounting value of the deposit, excluding any accrued and unpaid interest or the effect of any impairment.

- **Lending risk**: arises when ING Belgium grants a loan to a counterparty, or issues guarantees on behalf of a counterparty. This includes term loans, mortgages, revolving credits, overdrafts, guarantees, letters of credit, etc. The risk is measured as the accounting value of the financial obligation that the counterparty has to repay to ING Belgium, excluding any accrued and unpaid interest, discount/premium amortisations or impairments.

- **Investment risk**: is the credit default and risk rating migration risk that is associated with ING Belgium's investments in bonds, commercial paper, securitisations, and other similar publicly traded securities. This can be viewed as the worst-case loss that ING Belgium may incur as a result of holding a position in underlying securities whose Issuer's credit quality deteriorates or defaults. All investments in the banking book are classified in the investment risk category. The primary purpose of ING Belgium's investments in the banking books is for liquidity management.

- **Settlement risk**: is the risk that arises when there is an exchange of value (funds or instruments) for the same value date or different value dates and receipt is not verified or expected until after ING has given irrevocable instructions to pay or has paid or delivered its side of the trade. The risk is that ING Belgium delivers but does not receive delivery from its counterparty. ING manages settlement risk in the same way as other risks including a risk limit structure per borrower.

Reconciliation between credit risk categories and financial assets

Credit risk category	Mainly related to	Notes in the Annual Accounts
Lending risk	Loans and advances to customers Loans and advances to banks Cash and balances with central banks Off-balance sheet items e.g. obligations under financial guarantees and letters of credit and undrawn credit facilities	Note 1: Cash and balances with central banks Note 2: Loans and advances to banks Note 5: Loans and advances to customers
Investment risk	Investments (available-for-sale and held-to-maturity) Loans and advances to customers	Note 4: Investments Note 5: Loans and advances to customers
Money market (MM) risk	Cash and balances with central banks Loans and advances to banks Loans and advances to customers	Note 1: Cash and balances with central banks Note 2: Loans and advances to banks Note 5: Loans and advances to customers
Pre-settlement (PS) risk	Financial assets at fair value through profit or loss (trading assets and non-trading derivatives) Financial liabilities at fair value through profit or loss (trading assets and non-trading derivatives) Securities financing	Note 3: Financial assets at fair value through profit or loss Note 14: Financial liabilities at fair value through profit or loss
Settlement risk	Financial assets at fair value through profit or loss (trading assets and non-trading derivatives) Financial liabilities at fair value through profit or loss (trading assets and non-trading derivatives) Investments (available-for-sale and held-to-maturity) Amounts to be settled	Note 3: Financial assets at fair value through profit or loss Note 4: Investments Note 11: Other assets Note 14: Financial liabilities at fair value through profit or loss Note 17: Other liabilities

Credit Risk Appetite and Concentration Risk Framework

The credit risk appetite and concentration risk framework enables ING to prevent undesired high levels of credit risk and credit concentrations within various levels of the ING portfolio. Concentration risk is measured based on the credit risk exposure amount. Credit risk exposure is the total amount of outstanding plus the unused portion of commitments. It can be measured on various levels, such as customer, legal or economic one obligor group, product, portfolio, customer type, industry, and country.

Credit risk appetite statements boundaries and concentration limits are set and reviewed on an annual basis. The bank-wide credit risk boundaries and concentration limits are approved by the Risk Committee of the Board of Directors of ING Belgium and the Global Credit and Trading Policy Committee (GCTP) of ING Bank, respectively.

Credit risk portfolio

ING Belgium's credit exposure is mainly related to traditional lending to individuals and businesses. Loans to individuals are mainly mortgage loans secured by residential property. Loans (including guarantees issued) to businesses are often collateralised, but can be unsecured based on internal analysis of the borrowers' creditworthiness.

The portfolio breakdown of ING Belgium per exposure class and per risk category, based on regulatory Exposure at Default (READ) in accordance with CRD/CRR is shown below. The figures shown in the Credit Risk section are including loans to Group, unless stated otherwise:

Exposure classes per risk category, as % of total regulatory EAD (2017)

	Lending		Invest-ments	Money market	Pre-settlement			Total
In %	AIRB	SA	AIRB	AIRB	AIRB	**AIRB**	**SA**	**AIRB+SA**
Sovereigns	3.1	0.0	6.0	5.5	0.2	**14.8**	**0.0**	**14.8**
Institutions	7.0	0.0	1.7	2.6	1.9	**13.1**	**0.0**	**13.2**
Corporate	39.6	1.0	0.3	0.0	0.9	**40.8**	**1.0**	**41.8**
Residential mortgages	20.8	0.0	0.0	0.0	0.0	**20.8**	**0.0**	**20.8**
Other retail	8.3	0.1	0.0	0.0	0.0	**8.3**	**0.1**	**8.5**
Securitisation	0.1	0.0	0.8	0.0	0.0	**0.9**	**0.0**	**0.9**
Total	**79.0**	**1.2**	**8.7**	**8.2**	**3.0**	**98.8**	**1.2**	**100.0**

Exposure classes per risk category, as % of total regulatory EAD (2016)

	Lending		Invest-ments	Money market	Pre-settlement			Total
In %	AIRB	SA	AIRB	AIRB	AIRB	**AIRB**	**SA**	**AIRB+SA**
Sovereigns	3.5	0.0	7.0	3.1	0.2	**13.8**	**0.0**	**13.8**
Institutions	6.3	0.0	2.5	2.5	1.8	**13.1**	**0.0**	**13.1**
Corporate	40.4	0.7	0.2	0.1	1.0	**41.7**	**0.7**	**42.4**
Residential mortgages	20.3	0.0	0.0	0.0	0.0	**20.3**	**0.0**	**20.3**
Other retail	8.5	0.1	0.0	0.0	0.0	**8.6**	**0.1**	**8.7**
Securitisation	0.3	0.0	1.4	0.0	0.0	**1.7**	**0.0**	**1.7**
Total	**79.3**	**0.9**	**11.2**	**5.6**	**3.0**	**99.1**	**0.9**	**100.0**

During 2017 the total ING Belgium portfolio increased with 4.2% to € 166 billion in terms of Regulatory EAD. This increase was mainly driven by deposits to the Central Banks (in Sovereigns/Money Market, representing +2.0% of the total increase), increased exposure for Corporates (+2.8%), Mortgages (+1.3%), Institutions (+0.6%) and Other Retail (+0.2%). There were also some offsetting factors, mainly driven by a decreased exposure for Securitisations (-0.7%, almost completely due to BSO One B.V.), the currency impact (-1.7%, almost completely due to the US Dollar depreciation), and a decreased exposure to Central/Regional Governments (in Sovereigns, -0.4%).

The impact of the US Dollar depreciation was concentrated in the corporate lending bucket mainly impacting the Structured Finance portfolio, both in the portfolio of Belgium and Luxembourg (Belux) and the Geneva portfolio (Trade Commodity Finance), and the Working Capital Solutions portfolio in Belux. A reduced concentration in Investment was observed in Sovereigns (-10.9% of Regulatory EAD) and Institutions (-30.5% of Regulatory EAD). The lower sovereigns concentration was mainly caused by decreased government bonds toward the governments of France, Belgium and Italy. The lower institutions concentration was largely due to decreased covered bonds towards several French and Spanish financial institutions. The increased concentration in the SA portfolio was caused by shifts of the subordinated debt LGD model from the AIRB to the SA approach and the increased exposure for Factoring.

Consolidated annual accounts - continued

Risk rating buckets per line of business and credit risk types

Risk rating buckets are defined based upon the quality of the exposures in terms of creditworthiness, varying from investment grade to non-performing loan expressed in S&P, Moody's and Fitch equivalents.

Risk classes per line of business, as % of total outstandings [1, 2, 3]

	Wholesale banking		Retail banking		Total	
in %	2017	2016	2017	2016	2017	2016
1 (AAA)	11.9	10.9	0.0	0.0	**5.6**	**5.2**
2-4 (AA)	20.5	21.2	8.2	16.6	**14.0**	**18.8**
5-7 (A)	20.1	19.6	18.0	10.3	**19.0**	**14.7**
8-10 (BBB)	22.2	23.9	26.0	24.9	**24.2**	**24.4**
11-13 (BB)	19.7	18.9	30.1	29.4	**25.2**	**24.4**
14-16 (B)	4.3	4.0	12.2	12.7	**8.5**	**8.6**
17-22 (CCC and NPL)	1.3	1.5	5.5	6.1	**3.5**	**3.9**
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

1. Based on credit risk measurement contained in lending, pre-settlement, money market and investment activities.
2. Covered bonds are presented on the basis of the external credit rating of the issuer in question. Covered bond issues generally possess a better external credit rating than the issuer standalone, given structural features of such covered bonds.
3. Outstandings (OS) split per business line: Wholesale banking (EUR 72 billion OS), Retail banking (EUR 81 billion OS)

The total ING Belgium portfolio outstanding amounted to € 153 billion at the end of 2017, which was an increase of +4.0% compared to 2016. Overall the largest part of the exposure for ING Belgium remained concentrated in the BBB and BB rating classes. The risk rating distribution across business lines and credit risk types showed various shifts over the year however.

The largest shift was related to a one notch rating downgrade for the government of Belgium (from rating 3 to 4, so still remaining in AA), causing Belgian government related organisations (GL rating model) to be downgraded throughout the year, shifting exposure from rating class AA (rating 4) to A (rating 5). This impact is seen in the business lines “Retail Banking” and “Wholesale Banking” and the risk category “Lending” and “Pre-Settlement”.

The change in distribution for Money Market was only the result of a changed exposure position towards the 3 dominant counterparties in this risk category: ING Bank (A), National Bank of Belgium (AA) and Central Bank of Luxembourg (AAA). The exposure towards all 3 counterparties increased, however relatively much more towards the Central Bank of Luxembourg.

As already mentioned there was a reduced concentration in Investment, but the decrease was relatively larger in the BBB rating class, due to the decreased government bonds toward the government of Italy and the decreased covered bonds towards several Spanish financial institutions.

Risk classes per risk category, as % of total outstandings[1]

	Lending		Investments		Money markets		Pre-settlement		Total	
in %	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
1 (AAA)	0.3	1.2	29.5	26.7	30.8	18.2	0.0	0.0	**5.6**	**5.2**
2-4 (AA)	7.4	12.5	53.7	54.7	35.2	32.9	5.0	14.8	**14.0**	**18.8**
5-7 (A)	16.4	10.9	12.4	12.7	33.6	48.4	54.2	45.9	**19.0**	**14.7**
8-10 (BBB)	28.9	28.8	3.4	4.8	0.3	0.5	32.1	29.7	**24.2**	**24.4**
11-13 (BB)	31.8	30.7	1.0	1.1	0.0	0.0	6.4	7.9	**25.2**	**24.4**
14-16 (B)	10.8	10.9	0.0	0.0	0.0	0.0	1.7	1.3	**8.5**	**8.6**
17-22 (CCC and NPL)	4.5	5.0	0.0	0.0	0.0	0.0	0.6	0.4	**3.5**	**3.9**
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

1. Based on credit risk measurement contained in lending, pre-settlement, money market and investment activities. The ratings reflect probabilities of default and do not take collateral into consideration.

Risk industry concentration

ING Bank uses a common industry classification methodology based on the NAICS system (North American Industry Classification System). This methodology has over 1,500 detailed industry descriptions, which are aggregated into 22 industry classes at the highest level. Certain countries require ING Bank to report locally based on other industry classification methodologies, which are generally derived from the NAICS classifications presented here. Residential mortgages are generally extended to private individuals.

Risk concentration per line of business as % of total outstandings[1]

	Wholesale banking		Retail banking		Total	
in %	2017	2016	2017	2016	2017	2016
Private individuals	0.0	0.1	27.2	27.7	**14.3**	**14.6**
Natural resources	25.0	24.3	0.5	0.9	**12.2**	**12.0**
Services	3.6	3.5	17.4	16.2	**10.9**	**10.2**
Commercial banks	17.3	18.2	0.2	0.2	**8.3**	**8.7**
Central governments	10.5	12.2	3.5	3.2	**6.8**	**7.5**
Real estate	3.3	3.6	8.9	8.4	**6.3**	**6.1**
General industries	3.8	3.3	7.8	7.5	**5.9**	**5.5**
Central banks	12.1	7.9	0.2	0.2	**5.9**	**3.8**
Lower public administration	2.1	2.2	6.7	8.8	**4.5**	**5.6**
Food, beverages and personal care	4.5	4.7	3.8	3.7	**4.1**	**4.2**
Builders and contractors	2.3	2.1	5.1	5.0	**3.8**	**3.6**
Chemicals, health and pharmaceuticals	2.5	2.3	4.2	4.3	**3.4**	**3.3**
Non-bank financial institutions	4.8	6.6	1.4	1.4	**3.0**	**3.9**
Transportation and logistics	3.7	4.3	1.7	1.6	**2.6**	**2.9**
Retail	0.5	0.6	3.8	3.7	**2.3**	**2.3**
Others	4.0	4.2	7.2	7.1	**5.7**	**5.7**
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

1. Based on the total amount of credit risk in the respective column using ING Bank's internal credit risk measurement methodologies. Economic sectors below 2% are not shown separately but grouped in Other.

During 2017 the total ING Belgium portfolio increased with +4.0% to € 153 billion in terms of outstandings, despite the USD dollar depreciation effect, which had an estimated impact of -1.8%.

This increase in outstandings was mainly (representing +2.3% of the total increase) driven by deposits to the Central Banks.

Wholesale Banking increased with +3.3% and Retail Banking with +4.5%.

When excluding however the exposure to the Central Banks (Belgium, Luxembourg & Switzerland) and the USD depreciation impact, there was an increase of +2.6% in Wholesale Banking, mainly accounted for by Natural Resources (industry with the largest amount in USD exposure), General Industries and Chemicals, Health & Pharmaceuticals, respectively increasing with +18.2%, +23.2% and 19.2%, for a large part being offset by the exposures for Central Governments and Non-Bank Financial Institutions, with respective decreases of -11.2% and -23.5% compared to last year, both related to the Investment portfolio as mentioned earlier.

The increase in Retail Banking (where the USD depreciation impact is rather negligible) is mainly due to Services, Real Estate and General Industries, respectively increasing with +12.0%, +10.8% and +9.0%, partially being offset by Lower Public Administration with a decrease of -19.9%.

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Country risk concentration

Country risk exposures per geographic area as % of total regulatory EAD[1]	Wholesale banking		Retail banking		Total	
in %	2017	2016	2017	2016	2017	2016
Europe	84.7	86.2	99.7	99.7	**92.7**	**93.3**
Belgium	*30.9*	*29.2*	*94.1*	*94.4*	***64.5***	***63.4***
Luxemburg	*13.4*	*9.2*	*3.9*	*3.7*	***8.4***	***6.3***
Netherlands	*12.0*	*12.6*	*0.3*	*0.3*	***5.8***	***6.2***
Rest of Europe	*28.4*	*35.2*	*1.4*	*1.4*	***14.0***	***17.5***
America	8.0	7.9	0.1	0.1	**3.8**	**3.8**
Asia	5.7	4.5	0.1	0.1	**2.7**	**2.2**
Africa	1.4	1.3	0.0	0.1	**0.7**	**0.6**
Rest of the world	0.2	0.2	0.0	0.0	**0.1**	**0.1**
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

1. Geographic areas are based on Country of Residence. For Europe, the top 3 countries are shown, all others were put in Rest of Europe. Remaining countries were grouped per continent, of which the top 3 are shown with the remainder in Rest of the world.

The shift within Europe for Wholesale Banking is mainly due to the evolutions of the deposits with the Central Banks of Luxembourg (+184%), Belgium (+70%) and Switzerland (-97%), resulting in higher concentrations for Luxembourg and Belgium, while Rest of Europe significantly decreases.

The increase in Asia can mainly be attributed to one country, being the United Arab Emirates, almost completely due to the increased Trade Commodity Finance business (+126%).

The risk concentration distribution of the other continents remains rather stable. As does the distribution of the Retail Banking portfolio.

Credit risk mitigation

ING Belgium's lending and investment businesses are subject to credit risk. As such, the creditworthiness of our customers and investments is continually monitored for their ability to meet their financial obligations to ING Belgium. In addition to determining the credit quality and creditworthiness of the customer, ING Belgium uses various credit risk mitigation techniques and instruments to mitigate the credit risk associated with an exposure and to reduce the losses incurred subsequent to an event of default on an obligation a customer may have towards ING Belgium. The most common terminology used in ING Belgium for credit risk protection is 'cover'. While a cover can be an important mitigant of credit risk and an alternative source of repayment, generally it is ING Belgium's practice to lend on the basis of the customer's creditworthiness rather than exclusively relying on the value of the cover. Within ING Belgium, there are two distinct forms of covers: assets and third party obligations.

Cover forms

Assets

The asset that has been pledged to ING Belgium as collateral or security gives ING Belgium the right to liquidate it in cases where the customer is unable to fulfil its financial obligation. As such, the proceeds can be applied towards full or partial compensation of the customer's outstanding exposure. An asset can be tangible (such as cash, securities, receivables, inventory, plant & machinery and mortgages on real estate properties) or intangible (such as patents, trademarks, contract rights and licenses).

Third party obligation

Third Party Obligation, indemnification or undertaking (either by contract and/or by law) is a legally binding declaration by a third party that gives ING Belgium the right to expect and claim from that third party to pay an amount, if the customer fails on its obligations to ING Belgium. The most common examples are guarantees (such as parent guarantees and export credit insurances) and letters of comfort.

Cover valuation methodology

General guidelines for cover valuation are established to ensure consistency of the application within ING Group. These general guidelines also require that the asset values underlying the covers needs to be monitored on a regular basis, in principle at least annually. Cover assets are revalued accordingly and whenever there is reason to believe that the market is subject to significant changes in conditions. The frequency of monitoring and revaluation depends on the type of covers.

Cover values

This section provides insight on the type of covers and to which extent a loan is collateralised. The cover disclosures are presented by risk category: Lending, Investment, Money-Market and Pre-settlement. The cover amounts are presented by the most relevant collateral forms, being mortgages and financial collateral (cash and securities), and the most relevant third party obligation being guarantees. ING obtains covers which are eligible for credit risk mitigation under CRR/CRDIV, as well as those that are not eligible.

The cover values are presented for the total portfolio of ING Belgium. Covers of both AIRB and SA portfolios are presented in detail reflecting ING Belgium's complete portfolio. Next to that, detailed information is provided on the cover coverage for the performing and non-performing portfolio. To increase the understanding of the reader on the nature of the collateralised loans, insight is given in the industry and geography breakdown of ING Belgium's portfolio as well. For comparability reasons with previous tables, outstandings are used to show ING Belgium's portfolio.

Exposures are categorised into different Value to Loan (VTL) buckets that give insight in the level of collateralisation of ING Belgium's portfolio. VTL is calculated as the cover value divided by the outstanding at the balance sheet date. For the purpose of aggregation, the coverage of all outstanding is capped at 100%. Over-collateralisation is ignored in this overview. Each limit is subsequently assigned to one of the six defined VTL buckets: no cover, >0% to 25%, >25% to 50%, >50% to 75%, >75% to <100%, and ≥ 100%. As the nature of the Pre-settlement portfolio determines that collateral is netted, these VTL buckets are not shown.

The first two tables give an overview of the collateralisation of the total portfolio of ING Belgium:

Cover values including guarantees received (2017)[1]

		Cover type						Value to loan		
In EUR millions / In %	Out-standing	Mort-gages	Eligible financial collateral	Other CRR/CRD IV eligible	Gua-rantees	Non CRR/CRD IV eligible	No cover	Partially covered	Fully covered
Consumer lending	42,436	58,893	881	271	758	29,395	4.3	6.1	89.6
Business lending	77,268	33,982	4,172	12,903	23,493	42,880	34.2	23.7	42.1
Investments and Money Markets	27,473	0	0	0	20	0	99.9	0.0	0.1
Total Lending, Investments and Money Markets	**147,178**	**92,875**	**5,053**	**13,174**	**24,270**	**72,276**	**37.8**	**14.2**	**48.0**
Pre-settlement[2]	6,036								
Total	**153,214**	**92,875**	**5,053**	**13,174**	**24,270**	**72,276**	**37.8**	**14.2**	**48.0**

1. Cover values are not capped at outstanding.
2. More information on the credit risk mitigants of the Pre-settlement exposure can be found in the Pre-settlement section.

Cover values including guarantees received (2016)[1]

		Cover type						Value to loan		
In EUR millions / In %	Out-standing	Mort-gages	Eligible financial collateral	Other CRR/CRD IV eligible	Gua-rantees	Non CRR/CRD IV eligible	No cover	Partially covered	Fully covered
Consumer lending	40,248	55,014	913	316	854	25,819	4.4	6.6	89.0
Business lending	74,628	33,401	3,617	14,219	27,104	39,917	32.1	25.8	42.1
Investments and Money Markets	25,864	0	0	0	20	58	99.7	0.0	0.3
Total Lending, Investments and Money Markets	**140,740**	**88,414**	**4,529**	**14,535**	**27,978**	**65,794**	**36.6**	**15.6**	**47.8**
Pre-settlement[2]	6,630								
Total	**147,370**	**88,414**	**4,529**	**14,535**	**27,978**	**65,794**	**36.6**	**15.6**	**47.8**

1. Cover values are not capped at outstanding.
2. More information on the credit risk mitigants of the Pre-settlement exposure can be found in the Pre-settlement section.

Over the year, the collateralisation level of ING Belgium's total portfolio remained stable. Excluding the pre-settlement portfolio for which covers are netted to derive the outstanding at risk, 48.0% of the total ING Belgium's outstanding (from 47.8% in 2016) were fully collateralised in 2017. Since investments traditionally do not require covers, the no covers ratio in this portfolio is close to 100%. However, 99% of the investment outstanding are at investment grade. In the lending portfolio, coverage within consumer lending increased slightly. The coverage of the business lending portfolio remained stable in 2017.

Consumer lending portfolio
The consumer lending portfolio comprises of residential mortgage loans and other consumer lending loans, which mainly comprise credit cards, term loans and overdrafts to consumers. As a result, most of the collateral consists of mortgages covers.

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The below tables show the values of different covers and the VTL split between performing and non-performing loans for the consumer lending portfolio.

Cover values including guarantees received – Consumer lending portfolio (2017)[1]

In EUR millions / In %	Out-standings	Mortgages	Eligible financial collateral	Other CRR/CRD IV eligible	Guaran-tees	Non CRR/CRD IV eligible	No cover	>0%-25%	>25%-50%	>50%-75%	>75%-<100	≥ 100%
		Cover type					Value to loan					
Performing												
Residential mortgages (Private individuals)	32,405	49,685	221	108	264	23,449	0.0	0.1	0.2	0.6	4.2	94.9
Residential mortgages (SME)	4,882	7,411	68	67	155	1,342	0.0	0.4	1.2	1.6	7.7	89.1
Other consumer lending	4,044	246	580	84	305	4,008	43.0	1.7	0.5	1.3	3.6	49.9
Total	**41,330**	**57,341**	**869**	**259**	**724**	**28,799**	**4.2**	**0.3**	**0.3**	**0.8**	**4.6**	**89.8**
Non-performing												
Residential mortgages (Private individuals)	845	1,298	11	4	15	523	0.4	0.1	0.7	1.7	7.2	89.9
Residential mortgages (SME)[1]	159	249	0	5	10	21	0.7	1.9	0.6	1.8	10.7	84.2
Other consumer lending	102	6	1	2	9	52	65.2	2.9	1.0	1.8	5.3	23.8
Total	**1,106**	**1,552**	**12**	**12**	**34**	**596**	**6.4**	**0.6**	**0.7**	**1.7**	**7.5**	**83.0**
Total Consumer lending	**42,436**	**58,893**	**881**	**271**	**758**	**29,395**	**4.3**	**0.3**	**0.3**	**0.8**	**4.7**	**89.6**

1. Cover values are not capped at outstanding.

Cover values including guarantees received – Consumer lending portfolio (2016)[1]

In EUR millions / In %	Out-standings	Mortgages	Eligible financial collateral	Other CRR/CRD IV eligible	Guaran-tees	Non CRR/CRD IV eligible	No cover	>0%-25%	>25%-50%	>50%-75%	>75%-<100	≥ 100%
		Cover type					Value to loan					
Performing												
Residential mortgages (Private individuals)	30,173	45,442	210	126	299	19,851	0.0	0.1	0.1	0.5	4.9	94.4
Residential mortgages (SME)[1]	4,439	6,717	62	70	145	1,021	0.0	0.4	0.4	1.3	8.6	89.2
Other consumer lending	4,429	1,184	625	103	369	4,348	38.3	1.3	1.0	1.3	4.1	54.0
Total	**39,041**	**53,342**	**897**	**299**	**813**	**25,220**	**4.4**	**0.2**	**0.3**	**0.7**	**5.2**	**89.2**
Non-performing												
Residential mortgages (Private individuals)	921	1,399	14	5	20	508	0.5	0.2	0.8	1.7	7.9	88.9
Residential mortgages (SME)	176	261	1	10	10	29	0.8	0.3	1.1	2.1	13.4	82.2
Other consumer lending	110	12	1	2	11	62	59.7	2.7	0.9	1.7	7.7	27.2
Total	**1,206**	**1,672**	**16**	**17**	**41**	**598**	**5.9**	**0.5**	**0.8**	**1.8**	**8.7**	**82.3**
Total Consumer lending	**40,248**	**55,014**	**913**	**316**	**854**	**25,819**	**4.4**	**0.3**	**0.3**	**0.7**	**5.3**	**89.0**

1. Cover values are not capped at outstanding.

The increase in Residential Mortgages (90.2% in 2017 versus 88,7% in 2016) can be explained by portfolio growth (+2,2 billion outstanding) and a change in the classification of loans secured only by a mortgage mandate (without a combined Mortgage cover). A mortgage mandate gives the Bank the irrevocable and unconditional right to create a valid mortgage. In 2016 loans covered only by a mandate were considered as Other Consumer Lending. As of 2017 these loans are included in Residential Mortgages (private individuals and SME) where they better fit (shift of EUR 0,5 billion outstanding). The growth of mortgage covers is in line with the portfolio growth of Residential Mortgages leading to a stable collateralisation for this portfolio in 2017 in comparison with 2016.

A decline in the collateralisation can be observed for the Other Consumer Lending portfolio related to a decline in mortgage covers. The decline can be explained by the shift of loans covered only by mortgage mandates from Other consumer lending to Residential Mortgages (private individuals and SME). Due to their mortgage cover these loans are better collateralised than other types of Other Consumer Lending resulting in the decline of Value to Loan.

Business lending portfolio
Business lending is an important business of ING Belgium, accounting for 50.4% of ING Belgium's total outstanding. In line with our objective to give stakeholders insight into the portfolio, we present the business lending portfolio per Industry breakdown in accordance with the NAICS definition and per Region and main market. Business Lending presented in this section does not include Pre-settlement and Investment & Money Market exposures.

Business lending per economic sector

Cover values including guarantees received – Business lending portfolio per economic sector (2017)[1]

		Cover type						Value to loan					
In EUR millions / In %	Out-standings	Mortgages	Eligible financial collateral	Other CRR/CRD IV eligible	Guaran-tees	Non CRR/CRD IV eligible	No cover	>0%-25%	>25%-50%	>50%-75%	>75%-<100	≥ 100%
Natural resources	18,530	273	1,356	2,439	2,177	4,502	39.2	19.5	13.2	10.6	5.7	11.7
Real estate	9,287	12,601	331	368	2,824	5,814	9.2	2.0	2.7	4.7	6.6	74.9
Services	8,472	4,925	1,694	829	3,335	5,301	27.0	2.5	2.1	3.2	9.3	55.9
Lower public administration	4,846	3,722	61	1,010	2,046	3,480	23.4	3.5	3.9	4.9	7.3	56.8
Builders and contractors	4,775	87	17	70	1,073	196	76.6	0.1	0.4	0.7	1.2	21.1
Food, beverages and personal care	4,451	1,472	40	1,080	1,409	3,312	36.8	1.3	4.4	6.1	4.0	47.4
General industries	4,150	2,233	34	595	1,314	1,872	37.9	2.3	1.6	3.7	7.8	46.7
Chemicals, health and pharmaceuticals	4,084	1,955	59	904	1,452	3,524	27.9	2.4	4.9	6.6	4.8	53.4
Transportation and logistics	3,622	1,206	34	2,215	1,553	3,307	18.2	3.7	0.8	4.1	10.7	62.4
Commercial banks	2,979	5	51	34	256	306	76.6	6.6	0.3	6.2	1.0	9.3
Non-bank financial institutions	2,283	733	105	2,230	1,083	5,101	16.8	3.1	0.5	15.7	2.6	61.2
Others[2]	9,792	4,771	389	1,129	4,970	6,435	36.2	2.8	2.2	3.8	6.1	48.8
Total Business lending	**77,268**	**33,982**	**4,172**	**12,903**	**23,493**	**43,150**	**34.2**	**6.6**	**4.9**	**6.1**	**6.0**	**42.1**
of which: total non-performing	1,571	1,605	60	498	707	1,100	19.6	4.5	7.6	2.2	7.6	58.4

1. Cover values are not capped at outstanding.
2. 'Others' comprises industries with outstandings below EUR 2 billion

Consolidated annual accounts - continued

Cover values including guarantees received – Business lending portfolio per economic sector (2016)[1]

		Cover type						Value to loan				
In EUR millions / In %	Out-standings	Mortgages	Eligible financial collateral	Other CRR/CRD IV eligible	Guaran-tees	Non CRR/CRD IV eligible	No cover	>0%-25%	>25%-50%	>50%-75%	>75%-<100	≥ 100%
Natural resources	17,460	686	1,558	5,567	5,407	5,827	28.1	9.0	21.4	14.2	13.7	13.5
Real estate	8,696	11,865	287	418	2,712	4,718	10.6	3.5	1.9	3.3	8.0	72.8
Services	7,546	5,132	835	842	3,256	3,592	26.5	2.6	2.8	3.0	9.7	55.4
Lower public administration	6,127	34	0	107	1,129	168	81.9	0.0	0.1	0.2	1.4	16.3
Builders and contractors	4,415	3,460	47	1,071	1,885	2,990	23.3	2.7	5.4	3.9	7.1	57.7
Food, beverages and personal care	4,025	1,684	78	847	1,879	4,070	22.5	1.5	3.1	6.9	5.7	60.3
General industries	3,916	1,487	122	1,047	1,522	3,368	24.2	3.7	6.5	5.5	5.6	54.4
Chemicals, health and pharmaceuticals	3,882	2,291	56	607	1,378	1,974	37.8	1.5	1.5	4.1	9.5	45.7
Transportation and logistics	3,757	1,511	32	2,176	1,318	2,538	17.2	1.3	3.2	5.1	14.4	58.8
Commercial banks	2,563	128	58	42	224	337	70.3	5.0	1.5	4.3	6.8	12.1
Non-bank financial institutions	2,374	643	131	399	1,410	3,583	18.6	2.5	1.7	12.7	2.2	62.2
Others[2]	9,866	4,480	411	1,095	4,984	6,750	38.9	1.9	2.9	3.8	5.2	47.4
Total Business lending	**74,628**	**33,401**	**3,617**	**14,219**	**27,104**	**39,917**	**32.1**	**3.9**	**7.1**	**6.4**	**8.5**	**42.1**
of which: total non-performing	1,535	1,325	41	953	868	1,072	17.8	0.6	1.9	5.9	5.8	67.9

1. Cover values are not capped at outstanding.
2. 'Others' comprises industries with outstandings below EUR 2 billion.

The coverage of the total business lending portfolio remained stable in 2017. Largest outstanding increase was seen in Commercial Banks (+16.2%) mainly driven by an intragroup increase. Important increases in outstanding were also observed the lending portfolios of General Industries (13.7%) and Services (12.3%). The largest decrease in outstanding was observed in Lower Public Administration (-22,1%) where some large clients were drawing less on their limits and 1 client shifted from industry type Lower Public Administration to Others (Central governments: EUR 0.8 billion). As the decline of Lower Public Administration outstanding didn't have a large influence the cover amounts, an increase in the value to loan can be observed.

Business lending per region

The two tables below provide the collateralisation of ING Belgium's business lending portfolio with a breakdown per geographical region or main market, which are defined based on the residence of the borrowers. The Business Lending portfolio of ING Belgium is mainly concentrated in Europe with the most important region being Belgium. Rest of Europe mainly contains the Netherlands, United Kingdom and France.

Cover values including guarantees received – Business lending portfolio per region (2017)[1]

		Cover type						Value to loan				
In EUR millions / In %	Out-standings	Mortgages	Eligible financial collateral	Other CRR/CRD IV eligible	Guaran-tees	Non CRR/CRD IV eligible	No cover	>0%-25%	>25%-50%	>50%-75%	>75%-<100	≥ 100%
Africa	1,084	4	34	7	644	207	37.4	2.7	6.4	21.8	6.6	25.1
America	4,073	15	111	1,797	282	1,055	44.1	7.2	5.0	6.1	7.5	30.1
Asia	4,606	9	333	469	453	469	53.7	18.5	5.6	12.7	1.4	8.1
Australia	109	0	0	83	2	33	13.0	9.8	0.0	45.9	2.6	28.7
Europe												
Belgium	45,314	31,805	1,225	5,928	17,295	25,807	27.6	1.9	2.8	4.0	6.3	57.4
Switzerland	6,984	15	549	583	239	1,087	47.7	20.0	8.2	8.4	8.7	7.0
Luxemburg	5,327	1,311	1,212	2,606	1,854	9,527	29.0	4.3	16.7	11.4	2.8	35.7
Rest of Europe	9,771	822	708	1,430	2,723	4,696	44.1	15.0	5.8	6.2	6.1	22.9
Total Business lending	**77,268**	**33,982**	**4,172**	**12,903**	**23,493**	**42,880**	**34.2**	**6.6**	**4.9**	**6.1**	**6.0**	**42.1**
of which: total non-performing	1,571	1,605	60	498	707	1,100	19.6	4.5	7.6	2.2	7.6	58.4

1. Cover values are not capped at outstanding.

Consolidated annual accounts - continued

Cover values including guarantees received – Business lending portfolio per region (2016)[1]

						Cover type						Value to loan
In EUR millions / In %	Out-standings	Mortgages	Eligible financial collateral	Other CRR/CRD IV eligible	Guaran-tees	Non CRR/CRD IV eligible	No cover	>0%-25%	>25%-50%	>50%-75%	>75%-<100	≥ 100%
Africa	842	4	53	537	618	338	8.7	22.3	11.6	12.2	7.6	37.8
America	3,440	237	89	2,006	1,064	1,254	34.5	4.3	3.4	5.4	14.8	37.7
Asia	3,825	3	83	755	1,368	698	43.7	10.1	25.1	4.8	10.7	5.6
Australia	85	0	4	92	0	3	5.7	0.0	52.7	31.9	7.3	2.4
Europe												
Belgium	43,706	30,587	1,527	5,865	17,220	24,852	29.0	2.1	2.6	4.0	6.2	56.1
Switzerland	7,618	23	507	1,618	1,191	1,028	46.9	6.3	10.0	14.2	15.7	7.0
Luxemburg	4,840	1,205	104	730	2,035	7,073	23.0	3.5	20.2	9.8	2.9	40.6
Rest of Europe	10,271	1,342	1,251	2,616	3,608	4,671	35.5	5.8	11.7	9.9	12.2	24.9
Total Business lending	**74,628**	**33,401**	**3,617**	**14,219**	**27,104**	**39,917**	**32.1**	**3.9**	**7.1**	**6.4**	**8.5**	**42.1**
of which: total non-performing	1,535	1,325	41	953	868	1,072	17.8	0.6	1.9	5.9	5.8	67.9

1. Cover values are not capped at outstanding.

The coverage of the total business lending portfolio remained stable in 2017. The increase in covers of Belgium is in line with the increase in outstanding. The increase in outstanding for Luxemburg was for a large part due to an increase in exposure to the Central Bank of Luxemburg. As this exposure is not collateralised, a decline can be observed in the value to loan of Luxemburg.

Credit quality

Following, the somewhat higher credit risk levels seen as a result of the financial crisis and economic downturn, the credit quality has continued the improving trend in 2017.

Credit risk categories

	Regular	Watch list	Restructuring[1]	Non-performing[1]
Possible ratings	1–19	1–19	11–20	20-22
Typical ratings	1–14	15–17	18–20	20-22
Deterioration in risk	Not significant	Significant	Significant	Significant
Significant intervention	Not required	Not required	Required	Required
Includes impairments	No	No	Yes	Yes
Account Ownership	Front Office	Front Office	Front Office	Front Office
Credit Risk Management	Regular	Regular	Credit Restructuring	Credit Restructuring
Primary Manager	Front Office	Front Office	Credit Restructuring	Credit Restructuring
Accounting provisioning	IBNR	IBNR	IBNR/INSFA/ISFA	INSFA/ISFA

1. More information on the Restructuring and Non-performing categories can be found in the Credit restructuring section.

Credit quality portfolio, outstandings[1]

In EUR millions	2017	2016
Neither past due nor non-performing	121,083	110,015
Consumer lending past due but performing (1–90 days)	1,594	1,802
Non-performing	2,682	2,747
Total	**125,359**	**114,564**

1. Based on lending and investments activities.

In context of volume increase, the credit quality of the ING Belgium portfolio improved with lower past due and non-performing assets. Improvements are observed mainly in retail (including mid-sized) segment. Defaulted loans in retail segment have decreased with -6% during 2017. This decline is partly offset by increase in wholesale banking segment.

Past-due obligations

Retail Banking continuously measures its portfolio in terms of payment arrears. The retail portfolios are closely monitored on a monthly basis to determine if there are any significant changes in the level of arrears. The methodology is principally extended to loans to private individuals, such as residential mortgage loans, car loans, and other consumer loans. An obligation is considered 'past-due' if a payment of interest or principal is more than one day late. If the arrears continue to exist, the obligor is transferred to a restructuring unit. The obligor is downgraded to risk rating 20 (non-performing) when the arrears exceed 90 days. The table below captures all past due exposures starting from day 1.

Aging analysis (past due but performing) consumer lending portfolio, outstandings[1]

In EUR millions	2017	2016
Past due for 1-30 days	1,302	1,496
Past due for 31-60 days	239	259
Past due for 61-90 days	53	47
Total	**1,594**	**1,802**

1. Based on consumer lending. The amount of past due but performing financial assets in respect of non-lending activities was not significant.

Wholesale Banking: for business loans (governments, institutions, corporates), ING Belgium classifies the relevant obligors as non-performing when any of the below listed default triggers occurs:

- Bankruptcy or financial reorganisation: The borrower has sought or has been placed (or is likely to seek or be placed) in bankruptcy or similar protection, where this would avoid or delay repayment of the financial asset;
- The borrower has failed in the payment of principal or interest/fees and such payment failure has remained unresolved for the following period:
  - Corporates: more than 90 days; and
  - Financial Institutions and Governments: from day 1, however, a research period of 14 calendar days will be observed in order for ING Bank to establish whether the payment default was due to non-operational reasons (i.e. the deteriorated credit quality of the financial institution) or due to operational reasons. The latter does not trigger default.
- ING Bank thinks the borrower is unlikely to pay: The borrower has evidenced significant financial difficulty, to the extent that it will have a negative impact on the future cash flows of the financial asset. The following events could be seen as examples of financial difficulty indicators:
  1. The borrower (or 3rd party) has started insolvency proceedings.
  2. NPL status of a group company/co-borrower.
  3. Significant fraud (affecting the company's ability to service its debt)
  4. There is doubt as to the borrowers' ability to generate stable and sufficient cash flows to service its debt.
  5. Restructuring of debt includes a partial (debt waiver) or debt-equity conversion
- ING Belgium has granted concessions relating to the borrower's financial difficulty, the effect of which is a reduction in expected future cash flows of the financial asset below current carrying amount.

Wholesale Banking has an individual name approach, using Early Warnings indicators to signal possible future issues in debt service.

Non-performing loans

The ING Belgium loan portfolio is under constant review. Loans with past due financial obligations of more than 90 days are reclassified as non-performing. For the commercial lending portfolios, there generally are reasons for declaring a loan non-performing prior to being 90 days past due. These include, but are not limited to, ING Belgium's assessment of the customer's perceived inability to meet its financial obligations, or the customer filing for bankruptcy or bankruptcy protection.

The table below represents the economic sector breakdown of credit risk outstanding for loans and positions that have been classified as non-performing loans:

Non-performing loans portfolio, outstandings by economic sector[1]

In EUR millions	2017	2016
Private individuals	544	590
Services	448	483
General industries	307	319
Builders and contractors	274	268
Natural resources	245	122
Real estate	211	240
Food, beverages and personal care	169	177
Retail	140	180
Others	343	357
Total	**2,682**	**2,747**

1. Economic activities not specified in the overview are grouped in 'Others'.

The defaulted loans have decreased in almost all industrial classifications, with the exception of "Natural Resources" & "Builders & Contractors". These decreases, mainly in "Private Individuals", "Retail" and "Services", are however for a large part offset by an increase in "Natural Resources" (due to 2 files in the corporate segment).

Provisioning

Loan Loss Provisions (LLP) are calculated and accounted for in accordance with IFRS. LLP are reported for financial assets that are measured against amortised costs (loans and receivables, held-to-maturity investments). There are three types of LLP:

- Individually Significant Financial Asset (ISFA) provisions: when there is objective evidence that a financial asset is defaulted as result of one or more prescribed default trigger events. In such cases, ING assigns a risk rating 20, 21 or 22. Specific provisions are calculated if the exposure to a borrower exceeds EUR 1 million. Provisions are calculated based on discounted future cash flows under 1 or more likely scenarios to arrive at a best estimate of future recoveries. Provisions are made on a quarterly basis;
- Individually Not Significant Financial Asset (INSFA) provisions: are made for non-performing loans (ratings 20-22), if the exposure to a borrower is below the threshold amount. A collective model based approach is taken to determine these provisions; and
- Incurred But Not Recognised (IBNR) provisions: are made for the 'performing' loan portfolio as an estimate or proxy for the losses/defaults that may have already occurred in the portfolio. The PD time horizon used in the calculation of IBNR provisions refers to the period during which an asset is impaired (in default), but not yet recognised as such - due to lack of objective evidence – and the moment that objective evidence of impairment occurs and becomes available to ING ('loss emergence period').

ISFA, INSFA and IBNR provisions are reported and calculated by using common standards across ING Bank. In case there is objective evidence that one of the default triggers is applicable, ISFA or INSFA provisions are calculated. An analysis takes place on a quarterly basis in order to determine the appropriate level of LLP and Risk Costs. The ING Bank Provisioning Committee (IPC) discusses and approves the LLP for ING Belgium, on the basis of proposals originating from ING Belgium.

Provisions portfolio[1]

	Wholesale banking		Retail banking		**Total**	
in EUR millions	2017	2016	2017	2016	2017	2016
Opening balance	**101**	**70**	**618**	**640**	**719**	**710**
Amounts written off	-30	-2	-123	-157	**-152**	**-158**
Recoveries of amounts written off	0	0	5	11	**5**	**11**
Net additions to loan loss provisions	61	34	102	175	**164**	**208**
Exchange rate or other movements	-1	-1	-14	-50	**-15**	**-51**
Closing balance	**131**	**101**	**590**	**618**	**721**	**719**

1. Wholesale Banking and Retail Banking segments based on ING Provisioning Committee (IPC) segmentation. Figures based on quarterly Sign Off documents sent to IPC.

The stability of overall loan loss provisions is explained by the fact that increase in wholesale banking (due limited number of non-performing files in Corporates & Structured Finance segments) is offset by decreases in retail (including midsized) segment. The defaulted loans in the retail segment have decreased by 6% during 2017. Despite an observed volume increase in this segment, the level of provisions for performing loans has remained unchanged.

Forbearance

Forbearance occurs when a client is considered to be unable to meet its financial commitments under the contract due to financial difficulties and ING decides to grant concessions towards the client. Forborne exposures are exposures in respect of which forbearance measures have been granted. Forbearance measures can be either modifications to existing contractual terms and conditions or total or partial refinancing. Examples include reduction of loan principal and/or interest payments, extended payment terms, debt consolidations and deferral of foreclosures.

For corporate customers, ING Belgium applies forbearance measures to support clients with fundamentally sound business models that are experiencing temporary difficulties. The aim is to maximise the repayment ability of the clients.

For retail, clear criteria have been established to determine whether a client is eligible for forbearance – generally as part of an automated process. Specific approval mandates are in place to approve the measures, as well as procedures to manage, monitor and report the forbearance activities.

Exposures with forbearance measures can be either performing (Risk Ratings 1-19) or non-performing (Risk Ratings 20-22). ING applies criteria to move forborne exposures from non-performing to performing as well as criteria to remove the forbearance status that are consistent with the corresponding EBA standards. An exposure is reported as forborne for a minimum of two years, plus a probation period observed for forborne exposures to move from non-performing back to performing.

ING Bank implemented its forbearance policy in 2014. In the course of 2016 based on a detailed re-assessment of the relevant standards set by EBA and subsequent regulatory guidance, ING Bank tightened the definitions under its forbearance policy. Key policy revisions that led to an increase in the scope of forbearance relate to the inclusion of concessions where the risk is significantly mitigated by the client and waivers or modifications of key financial covenants. As a result of these revisions in definition and scope, performing forborne exposure recognised by ING Belgium increased significantly as measures taken (in previous periods) were now recognized as forbearance.

Summary forborne assets[1]

				2017				2016
In EUR millions / in %	Forborne assets	of which: performing	of which: non-performing	Percentage of total portfolio	Forborne assets	of which: performing	of which: non-performing	Percentage of total portfolio
Wholesale banking	346	202	144	0.42	617	298	319	0.84
Retail banking	751	302	449	1.72	706	252	454	1.70
Total	**1,097**	**504**	**592**	**0.87**	**1,323**	**550**	**773**	**1.15**

1. Undrawn commitments are excluded.

Market risk

Introduction

Market risk is the risk that movements in market variables, such as interest rates, equity prices, foreign exchange rates, credit spreads and real estate prices negatively impact the bank's earnings, capital, market value or liquidity position. Market risk either arises through positions in banking books or trading books. The banking book positions are intended to be held in the long-term (or until maturity) or for the purpose of hedging other banking book positions. The trading book positions are typically held with a short-term trading intent or in order to hedge other positions in the trading book. This means that financial instruments in the trading books should be free of restrictions on their tradability. Policies and processes are in place to monitor inclusion of positions into either a trading or a banking book and transfer of risk from trading to banking book and vice versa.

Governance

A governance framework has been established defining specific roles and responsibilities of business management, market risk management and internal approval bodies per activity.

Within ING Bank, the overall risk appetite is set by the Supervisory Board. Market risk falls under the supervision of the MBB and is delegated to the ALCO function, where ALCO Bank is the highest approval authority. ALCO Bank monitors adherence to the risk appetite for market risk and sets additional limits where appropriate. These limits are cascaded through the organisation through lower level ALCO's. This ALCO structure within ING Bank facilitates top-down risk management, limit setting and the monitoring and control of market risk.

The Balance Sheet Risk (BSR) department and the Credit & Trading Risk (C&TR) department are the designated independent departments that are responsible for the design and execution of the bank's market risk and counterparty credit risk management functions in support of the ALCO function. Balance Sheet Risk focuses on the market risks in the banking books, Capital Management department and the Bank Treasury department, whereas Credit & Trading Risk is responsible for counterparty credit risk and market risks resulting from the Financial Markets trading books. The organisational structure recognises that risk taking and risk management to a large extent occur at the regional/local level. Bottom-up reporting allows each management level to fully assess the market risk relevant at the respective levels.

BSR and C&TR are responsible for determining adequate policies and procedures for actively managing market risk in banking and trading books and for monitoring the compliance with these guidelines. An important element of the risk management function is the assessment of market risk in new products and businesses. Furthermore the two departments maintain an adequate limit framework in line with ING Bank's Risk Appetite Framework. The businesses are responsible for adhering to limits that ultimately are approved by ALCO Bank. Limit excesses are reported to senior management on a timely basis and the business is required to take appropriate actions to reduce the risk position.

This market risk paragraph elaborates on the various elements of the risk management approach for:

- Market risk economic capital for trading and banking books;
- Market risks in the banking books

Economic capital for market risk

Economic capital for market risk is the economic capital necessary to withstand unexpected value movements due to changes in market variables and model risk.

Model disclosure

Economic Capital for market risk is calculated for exposures both in trading portfolios and banking portfolios and includes interest rate risk, equity price risk, foreign exchange rate risk, real estate risk and model risks. Economic capital for market risk is calculated using internally developed methodologies with a 99.95% confidence interval and a horizon of one year. To arrive at the economic capital for market risk, a simulation based model is used which includes scaling to the required confidence interval and holding period. In determining this scaling factor, several other factors are also taken into account like the occurrence of large market movements (events) and management interventions.

Embedded options, e.g. the prepayment option and offered rate option in mortgages in the banking books, result in non-linear interest rate risk in the banking books. The embedded options are economically hedged using a delta-hedging methodology, leaving the mortgage portfolio exposed to convexity and volatility risk. For the calculation of economic capital for this non-linear interest rate risk ING Belgium performs a Monte Carlo simulation.

Real estate price risk includes the market risks in both the real estate investment and the development portfolio of ING Wholesale Banking. The economic capital for real estate price risk is calculated by stressing the underlying market variables. While aggregating the different economic capital market risk figures for the different portfolios, diversification benefits (based on stressed correlations) are taken into account as it is not expected that all extreme market movements will appear at the same moment.

Market risk in banking books

ING Belgium makes a distinction between trading and banking (non-trading) books. Positions in banking books originate from the market risks inherent in commercial products that are sold to clients, the Bank Treasury exposures and from the investment of own funds (core capital). Both the commercial products, and the products used to hedge market risk exposures in these products are intended to be held until maturity, or at least for the long-term.

Risk transfer

An important element of the management of market risks in the banking books is the process of risk transfer. In this process the interest rate, FX, funding and liquidity risks are transferred from the commercial books through matched funding to Bank Treasury, where it is centrally managed.

Risk measurement

The main concepts and metrics used for measuring market risk in the banking books are described below per risk type.

Interest rate risk in banking book

Interest rate risk in the banking books is defined as the exposure of a bank's earnings, capital and market value to adverse movements in interest rates originated from positions in the banking books.

Governance

The management of interest rate risk follows the interest rate risk in the banking book framework as approved by ALCO Bank. This framework describes roles and responsibilities, risk metrics, and it defines the policies and procedures related to interest rate risk management. Furthermore, on an overall level, ALCO Bank sets the risk appetite for interest rate risk, which is translated into limits for interest rate risk metrics.

The ING Bank approach to interest rate risk management, as set forth in this framework, is centralisation of risks from commercial books (that capture the products sold to clients) to central interest rate risk books. This enables a clear demarcation between commercial business results and results on unhedged interest rate positions.

ING Bank distinguishes three types of activities that generate interest rate risk in the banking books:

- Investment of own funds (by Capital Management)
- Commercial business (e.g. retail business)
- The strategic interest rate position (Bank Treasury)

Risk profile

In the following sections, the interest rate risk exposures in the banking books are presented. ING Bank uses risk measures based on both an earnings and a value perspective. Earnings Sensitivity (ES) is used to provide the earnings perspective and the Net Present Value (NPV)-at-Risk and Basis Point Value (BPV) figures provide the value perspective. Also corrective management actions are not taken into account in these figures.

Earnings Sensitivity (ES)

Earnings sensitivity ('Earnings' are defined as the "net interest income", the difference between received interest rates and paid interest rates on the originated assets and liabilities, before taxes) is modelled as described above and measures the impact of changing interest rates on (before tax) net interest income of the banking books, this excludes credit spread sensitivity. The Earnings Sensitivity figures in the tables below reflect an instantaneous interest rate shock of 1% and a time horizon of one year for 2016, and a ramped parallel shock of 0.9% and a time horizon of one year for 2017. The full framework to calculate interest rate risk has been reviewed in the course of 2017. The numbers of 2016 are not reported since they are not comparable to the 2017 numbers. The scope of the reported metrics is all positions in the Bank Treasury books and the mortgage loans, current accounts and savings accounts in the business books.

Earnings Sensitivity banking book per currency (ramped parallel shock)

	2017	
In EUR millions	-90 bps	+90 bps
Euro	-27	9
US Dollar	1	-1
Others	1	0
Total	**-26**	**8**

Earnings Sensitivity banking book per business (ramped parallel shock)

	2017	
In EUR millions	-90 bps	+90 bps
Wholesale banking	-19	32
Retail banking	-6	-23
Total	**-26**	**8**

The Earnings sensitivity is mainly influenced by the sensitivity of savings to interest rate movements due to pass through rate differences between savings rates and investment yields and is partially offset by the sensitivity of mortgages. The investment of own funds only impacts the Earnings sensitivity marginally, as only a relatively small part has to be (re)invested within the 1-year horizon.

Year-on-year variance analysis

The year-on-year evolution is difficult to compare, since the methodology to calculate the earnings sensitivity and the shocks that are used have been reviewed in 2017. The market risk policy of ING states that all risks are fully transferred to a centralized Bank Treasury book and the risks are managed within a risk appetite framework that is defined by the Alco Belux committee. The risk appetite has not changed and all positions have been managed within these limits.

Net Present Value (NPV) at Risk

NPV-at-Risk measures the impact of changing interest rates on value. For NPV-at-Risk calculations, an instantaneous shock of 1% is applied for the 2016 numbers, while an instantaneous shock of 0.9% is applied for the 2017 numbers. The numbers of 2016 are not reported since they are not comparable to the 2017 numbers. The scope of the reported metrics is all positions in the Bank Treasury books and the mortgage loans, current accounts and savings accounts in the business books.

The full value impact cannot be directly linked to the balance sheet or profit and loss account, as fair value movements in banking books are not necessarily reported through the profit and loss account or through equity. The value mutations are expected to materialise over time in the profit and loss account, if interest rates develop according to forward rates throughout the remaining maturity of the portfolio.

NPV-at-Risk banking books per currency (instantaneous parallel shock)

	2017	
In EUR millions	-90 bps	+90 bps
Euro	68	-349
US Dollar	-2	2
Others	1	-1
Total	**67**	**-348**

NPV-at-Risk banking books per business (instantaneous parallel shock)

	2017	
In EUR millions	-90 bps	+90 bps
Wholesale banking	110	-80
Retail banking	-43	-268
Total	**67**	**-348**

NPV-at-Risk banking books per accounting category (instantaneous parallel shock)

	2017	
In EUR millions	-90 bps	+90 bps
Loan and receivables, and Held to maturity	-771	444
Available for sale	797	-797
Fair value through profit or loss	40	4
Total	**67**	**-348**

The NPV-at-Risk is dominated by the interest rate sensitive long-term investments of own funds, as the equity itself is not modelled and hence is not presented as an offset for the investments of own funds. The value of these investments is impacted significantly if interest rates move up by 1%.

Year-on-year variance analysis
The year-on-year evolution is difficult to compare, since the methodology to calculate the NPV-at-risk and the shocks that are used have been reviewed in 2017. The market risk policy of ING states that all risks are fully transferred to a centralized Bank Treasury book and these risks are managed within a risk appetite framework that is defined by the Alco Belux committee. The risk appetite has not changed and all positions have been managed within these limits.

Basis Point Value (BPV)

BPV measures the impact of a one basis point increase in interest rates on value. To a large extent the BPV and NPV-at-Risk reflect the same risk - the difference being that BPV does not reflect convexity risk, given the small shift in interest rates. The numbers of 2016 are not reported since they are not comparable to the 2017 numbers. The scope of the reported metrics is all positions in the Bank Treasury books and the mortgage loans, current accounts and savings accounts in the business books.

BPV banking books per currency

In EUR thousands	2017
Euro	-2,653
US Dollar	17
Others	-7
Total	**-2,643**

In line with NPV-at-Risk, the bank's overall BPV position is dominated by the long-term investment of own funds, as the present value of this position is significantly impacted if interest rates move up by one basis point.

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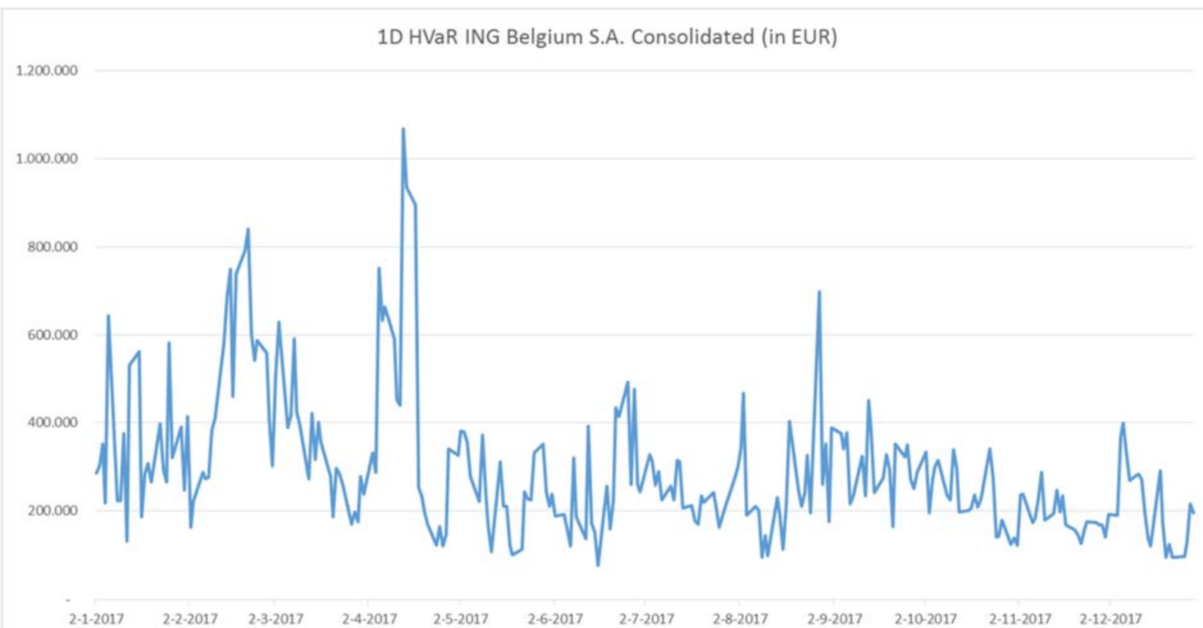
Foreign exchange (FX) risk in banking books
FX exposures in banking books result from core banking business activities (business units doing business in other currencies than their base currency), foreign currency investments in subsidiaries (including realised net profit and loss) and strategic equity stakes in foreign currencies. The policy regarding these exposures is briefly explained below.

Governance – Core banking business
Every business unit hedges the FX risk resulting from core banking business activities into its base currency. Consequently, assets and liabilities are matched in terms of currency.

Governance – FX translation result
ING Bank's strategy is to keep the target CET1 ratio within a certain range when FX rates fluctuate, whilst limiting the volatility in the profit and loss account. Therefore, hedges are only done to the extent that they can be hedge accounted for against equity. This hedge is done at ING Group level. Taking this into account, the CET1 ratio hedge can be achieved by deliberately taking foreign currency positions equal to certain target positions, such that the target CET1 capital and risk-weighted assets are equally sensitive in relative terms to changing FX rates. A selection of emerging market currencies that meet specific requirements do not have a target position, but are allowed to remain open under the policy.

Market risk in trading books
Within the trading portfolios, positions are maintained in the professional financial markets. These positions are often a result of transactions with clients and may serve to benefit from short-term price movements. The historical simulation Value at Risk (VaR) methodology is used as primary related risk measure. The VaR for market risk quantifies, with a one-sided confidence level of 99%, the maximum overnight loss that could occur due to changes in risk factors (e.g. interest rates, equity prices, foreign exchange rates, credit spreads, implied volatilities) if positions remain unchanged for a time period of one day. For ING Belgium these trading positions and related VAR are limited as indicated by below stated chart.



Funding and liquidity risk

Introduction
Funding and liquidity risk is the risk that ING Bank or one of its subsidiaries cannot meet its financial liabilities when they come due, at reasonable cost and in a timely manner. ING Belgium incorporates funding and liquidity management in its business strategy. In order to optimise its funding and liquidity risk management, ING Belgium has developed a funding and liquidity risk framework aimed at maximising liquidity access and minimising funding risks and costs. The main objective of ING's funding and liquidity risk management is to maintain sufficient liquidity to ensure safe and sound operations under normal market circumstances and in times of stress.

Governance
Within ING Bank, the MBB, staff departments from the CRO and CFO domain, Capital Management and Bank Treasury have oversight of and are responsible for managing funding and liquidity risk. The MBB defines the funding and liquidity strategy, target funding and liquidity position and the risk appetite based on recommendations from Bank Treasury, Capital Management, Balance Sheet Risk and Finance. Liquidity risk management within ING Bank falls under the supervision of the ALCO function, with ALCO Bank as the highest approval authority overseeing the execution of the overall strategy set by the MBB.

Management
Framework
ING's liquidity risk management framework incorporates all relevant risk principles with regard to the daily and on-going management of funding and liquidity risk. The framework contains the following key elements:

- *Liquidity risk appetite*: This is set by ALCO Belux (which includes most ExCo members) in line with ING's complexity, business mix and liquidity risk profile. The risk appetite is reviewed on an annual basis and forms part of the input of business units in their medium term business plans. The defined risk appetite is allocated to the lower level ALCO's;
- *Funding*: The Bank Treasury function sets and updates the funding strategy and funding planning, taking into account diversification in sources and tenor of funding;
- *Intraday Liquidity Management*: Bank Treasury actively manages its short term liquidity positions and risks to meet payment and settlement obligations on a timely basis under both normal and stressed conditions;
- *Collateral Position Management*: Bank Treasury actively manages the liquidity risk of its collateral positions to meet ING's collateral needs, and resources, under both normal and stressed conditions and in accordance with all internal and regulatory rules;
- *Liquidity buffers*: ALCO Belux ensures that sufficient liquidity is maintained, in accordance with Bank- and regulatory rules and standards, including a buffer of unencumbered, high quality liquid assets, to withstand stress events, such as those involving the loss or impairment of both unsecured and secured funding sources;
- *Liquidity risk transfer and pricing*: ALCO Bank sets and maintains a Funds Transfer Pricing (FTP) framework that optimises Bank-wide funding and liquidity risk management, whereby all business units must transfer their structural funding and liquidity risks to Bank Treasury whilst managing their own customer behaviour liquidity risk costs. Any negative carry resulting from necessity to keep a buffer of liquid assets as contingent liquidity is not captured in FTP, this negative carry is captured and allocated through a separate contingent liquidity charging (CLC) mechanism;
- *Stress testing*: ALCO ensures that liquidity stress tests are planned, designed, conducted and reviewed, to identify sources of potential liquidity strain, to determine how these can and will be addressed and to ensure that current exposures remain within the established liquidity risk tolerance; and
- *Contingency Funding Plan*: ALCO ensures the design, regular test and maintenance of formal Contingency Funding planning, setting out the strategies for addressing liquidity shortfalls in emergency situations, outlining procedures to manage these situations, establishing clear lines of responsibility, and articulating clear implementation and escalation procedures.

Liquidity risk appetite
ING's liquidity risk appetite expresses the level of liquidity risk ING is willing to take in pursuit of its strategic objectives. The Liquidity Risk Appetite Statements (RAS) are aligned with the ING strategy and are allocated to the ING entities by way of limits, where needed per ING entity. ING's Liquidity RAS is build up of three levels:

- RAS Level 1 are considered in conjunction with each other for the purpose of steering the ING Belgium's liquidity positions as they differ in assumptions, horizon and scope. The level 1 risk appetite statements (i) assure compliance with regulatory requirements (LCR and NSFR) and (ii) set adequate buffers related to internally defined stress scenarios;
- RAS Level 2 are additional principles that allow assessing different aspects of ING consolidated liquidity position and/or balance sheet (ratios). They can ultimately affect RAS Level 1, or they can be complementary to RAS Level 1 (where the differences lie in either the metrics, the assumption, the data source or both). The level 2 risk appetite statements focus on (i) ING Belgium's resilience to prolonged internally defined stress scenarios, (ii) the asset encumbrance ratio, (iii) intraday liquidity risk ratios; and
- RAS Level 3 are additional principles that allow assessing aspects of the liquidity position that concern certain parts of on- and off- balance sheet items, or represent a further specification of RAS Level 1 or Level 2.

Funding

In detailing the activities of the bank regarding utilisation of professional market funding sources, the following key principles apply:

- Maintaining adequate market access in both normal and stressed but operable market conditions;
- Managing risk by adhering to internally and externally imposed risk limits and balance sheet ratios; and
- Optimising the cost of funding under the principles above.

With respect to funding sources, ING Belgium manages its balance sheet prudently, whereby short-term funding is primarily utilised for funding short-term assets. The bank aims to fund longer term assets and investments by stable and longer term liabilities. Next to this, ING Belgium monitors exposures in major currencies such as the USD. Monitoring and control of the USD funding is effectuated through a dedicated USD funding and liquidity risk framework.

ING Belgium reviews its funding plan on at least a quarterly basis, assessing market developments and funding requirements.

Intraday liquidity management

The objective of managing intraday liquidity and its risks at ING is twofold: it is focused on preventing damage to the institution's own liquidity position, and, in light of its role in global financial markets, ING also takes into account the potential damage to other parties which can arise through chain effects in payment and securities transactions. Intraday liquidity management is managed through the intraday risk appetite statement, by setting amongst others monitoring metrics and triggers on daily net negative liquidity positions and levels of payments outflows.

Collateral position management

The objective of the Collateral Management is to ascertain that ING Belgium can meet collateral requirements for ING's collateral needs. ING Belgium maintains a liquidity buffer existing of cash, cash equivalents and other highly liquid unencumbered assets to facilitate this. Tactical (short term) management of the liquidity buffer is performed, by increasing or decreasing the liquidity coverage with collateral transformation by execution of repos, in order to meet internal and regulatory requirements. Reporting and analysis is performed, providing availability of collateral for emergency financing, its eligibility and its route to cash in an efficient manner.

Liquidity buffers

The liquidity buffer ING Belgium holds can be seen as the short-term part of the counterbalancing capacity, i.e. the total of available sources and measures within ING to generate liquidity (including also stopping professional lending), and serves as a cushion for liquidity needs under normal and stressed conditions.

The size and composition of the Liquidity buffer depends on ING's risk appetite and regulatory liquidity standards. In the buffer, only assets that are included that are 'unencumbered' and freely available for liquidity purposes. Bank Treasury ensures functional management of all liquidity buffers within ING Belgium.

The liquidity buffer is held as an insurance against a range of stress scenarios, covering the additional need for liquidity that may arise over a defined short period of time under stress conditions.

Stress testing

Stress testing allows ING to examine the effect of exceptional but plausible future events on the liquidity position of the bank and provides insight into which business lines or portfolios are vulnerable to which type of risks and/or in which type of scenarios. Liquidity stress testing is an important tool in identifying, assessing, measuring and controlling funding and liquidity risks, providing a complementary and forward-looking perspective to other liquidity and funding risk management tools.

In line with SREP and EBA guidance, ING's liquidity position is stress tested on a monthly basis under a particular scenario that is a mix between a market event and an ING specific event. The outcome of stress tests are evaluated and provide input to any follow-up on the need for additional contingency measures.

Contingency funding plan

In the contingency funding plan, contingency liquidity risk is addressed which specifically relates to the organisation and planning of liquidity management in time of stress. Within ING Belgium, for contingency purposes, a dedicated crisis team – consisting of key ExCo members and senior management representatives is responsible for liquidity management in times of crisis.

Consolidated annual accounts - continued

Analysis of assets and liabilities by maturity

Analysis of assets by contractual maturity (2017)

In EUR thousands	Less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 year	Maturity not applicable	Total
Cash and balances with central banks	9,558,201	0	0	0	0	0	**9,558,201**
Amounts due from banks	6,574,511	1,760,921	423,937	1,000,024	456,296	0	**10,215,689**
Financial assets at fair value through profit or loss							
- Trading assets	392,495	241,494	857,763	1,198,745	2,085,224	0	**4,775,721**
- Non-trading derivatives	97,570	147,763	328,452	1,287,098	1,572,410	0	**3,433,293**
- Designated as at fair value through profit or loss	29,633	20,777	28,907	2,656	945	0	**82,918**
Investments							
- Available-for-sale	370,473	349,618	850,537	8,019,692	4,867,340	66,163	**14,523,823**
- Held-to-Maturity	0	130,968	153,966	353,135	0	0	**638,069**
Loans and advances to customers	16,233,221	7,748,479	8,072,904	29,258,452	45,131,060	0	**106,444,117**
Intangible assets	0	0	13,860	55,441	0	33,399	**102,700**
Assets held for sale	0	0	0	0	0	0	**0**
Other assets	886,318	9,359	161,522	182,735	22,856	0	**1,262,790**
Remaining assets (where maturities are not applicable)	0	0	0	0	0	780,522	**780,522**
Total	**34,142,422**	**10,409,379**	**10,891,848**	**41,357,978**	**54,136,131**	**880,084**	**151,817,842**

Analysis of assets by contractual maturity (2016)

In EUR thousands	Less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 year	Maturity not applicable	**Total**
Cash and balances with central banks	5,008,639	0	0	0	0	0	**5,008,639**
Amounts due from banks	6,754,934	246,383	1,237,499	925,300	721,305	0	**9,885,421**
Financial assets at fair value through profit or loss							
- Trading assets	741,729	418,148	921,769	2,711,155	3,881,971	0	**8,674,772**
- Non-trading derivatives	148,956	132,494	367,373	1,520,462	2,243,759	0	**4,413,044**
- Designated as at fair value through profit or loss	33,614	22,068	29,994	2,274	0	0	**87,950**
Investments							
- Available-for-sale	355,780	194,569	1,739,097	8,199,040	6,479,024	55,414	**17,022,923**
- Held-to-Maturity	0	45,440	218,532	575,109	86,817	0	**925,897**
Loans and advances to customers	16,503,099	6,782,661	6,887,692	28,457,333	43,001,884	0	**101,632,669**
Intangible assets	0	0	33,308	66,617	0	2,557	**102,483**
Assets held for sale	0	0	0	0	0	0	**0**
Other assets	1,234,921	28,114	64,338	210,434	209,574	0	**1,747,381**
Remaining assets (where maturities are not applicable)	0	0	0	0	0	917,541	**917,541**
Total	**30,781,672**	**7,869,877**	**11,499,602**	**42,667,723**	**56,624,334**	**975,512**	**150,418,720**

Consolidated annual accounts - continued

Analysis of liabilities by contractual maturity (2017)

In EUR thousands	Less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 year	Maturity not applicable	Total
Subordinated loans	0	0	0	0	1,252,255	717,118	**1,969,372**
Debt securities in issue	324,592	311,474	1,762,165	3,483,307	1,079,914	0	**6,961,453**
Other borrowed funds	0	0	0	0	0	0	**0**
Amounts due to banks	9,331,972	879,449	115,659	5,863,859	454,023	0	**16,644,961**
Customer deposits and other funds on deposit	95,308,032	3,773,384	854,169	739,917	220,742	0	**100,896,245**
Financial liabilities at fair value through profit or loss							
- Trading liabilities	357,442	251,891	845,886	1,195,648	2,217,087	0	**4,867,954**
- Non-trading derivatives	164,161	122,243	355,707	1,359,983	2,742,573	0	**4,744,667**
- Designated as at fair value through profit or loss	25,017	7,297	90,508	1,121,253	58,836	0	**1,302,911**
Other liabilities	2,675,551	188,974	364,026	770,563	157,569	0	**4,156,683**
Remaining liabilities (where maturities are not applicable)	0	0	0	0	0	87,208	**87,208**
Total	**108,186,767**	**5,534,711**	**4,388,121**	**14,534,530**	**8,.182,999**	**804,326**	**141,631,454**

Analysis of liabilities by contractual maturity (2016)

In EUR thousands	Less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 year	Maturity not applicable	Total
Subordinated loans	0	0	87,961	33,889	1,318,579	0	**1,440,429**
Debt securities in issue	214,016	270,278	789,536	4,652,614	1,816,807	0	**7,743,252**
Other borrowed funds	0	0	0	0	0	0	**0**
Amounts due to banks	9,579,213	778,285	70,781	2,182,714	722,636	0	**13,333,629**
Customer deposits and other funds on deposit	91,162,586	4,072,133	849,298	660,815	301,466	0	**97,046,298**
Financial liabilities at fair value through profit or loss							
- Trading liabilities	633,535	444,450	1,004,082	2,635,542	4,091,265	0	**8,808,874**
- Non-trading derivatives	230,886	118,016	366,418	1,401,802	3,956,990	0	**6,074,112**
- Designated as at fair value through profit or loss	19,100	102,683	272,029	1,206,482	189,036	0	**1,789,330**
Other liabilities	2,274,801	2,616	469,109	811,302	241,243	0	**3,799,071**
Remaining liabilities (where maturities are not applicable)	0	0	0	0	0	94,002	**94,002**
Total	**104,114,137**	**5,788,460**	**3,909,214**	**13,585,161**	**12,638,022**	**94,002**	**140,128,997**

Funding and Liquidity profile

Funding sources

In 2017, ING Belgium had readily access to a large variety of funding sources, both short term and long term. In the table below, the various funding sources are presented in the funding mix:

Funding mix, per type

In %	2017	2016
Retail deposits	44.0	46.0
Corporate and other deposits	35.0	34.0
Interbank (including central banks)	15.0	12.0
Lending and repurchase agreements	0.0	0.0
Public debts	6.0	8.0
Subordinated debts	0.0	0.0
Total	**100.0**	**100.0**

The table provides an overview of the commercial funding sources of ING Belgium. Over 2017, the funding mix remained very diversified.

Non-Financial risk

Introduction

The Non-Financial Risk (NFR) function encompasses the operational and compliance risk management functions. It ensures appropriate risk controls in these functional areas by implementing clear policies and minimum standards which are embedded in ING Bank business processes in all divisions. The necessary infrastructure is in place to enable management to track events and non-financial risk issues. A comprehensive system of internal controls that are reviewed and updated as necessary creates an environment of continuous improvement in managing non-financial risk.

ING Belgium believes that fully embedding controls preserves and enhances the trust of its customers, staff and shareholders and is essential to build sustainable businesses. The Orange Code sets the foundation for the high ethical standards ING Bank expects from all its business activities. The Orange Code requires all staff to conduct themselves, not only within the spirit and letter of laws and regulations, but above all, with integrity, whilst being honest, prudent and responsible.

Governance

Non-Financial Risk Committees (NFRCs) and Management Teams (MTs) manage, measure and monitor operational and compliance risks. NFRCs exist at Bank level and at other relevant levels. They are chaired by the first line of defence and steer the risk management activities of the first and second lines of defence in their scope. Non-financial risk topics are an integral part of the agenda of regular MTs at all levels in the organisation. The Bank NFRC is the primary approval and oversight committee for non-financial risk matters.

The Head of Operational Risk Management (ORM) and the Chief Compliance Officer report to the Chief Risk Officer (CRO) of ING Belgium and are jointly responsible for developing the framework of non-financial risk policies and standards within ING Belgium and for monitoring the quality of non-financial risk management in the organisation.

The Chief Compliance Officer (CCO) is the general manager of ING Belgium's Compliance Risk Management department. This is an independent function responsible for developing and establishing the policies and minimum standards for managing compliance risks. The CCO assists and supports the ExCo in managing ING Belgium's compliance risks and control framework. The CCO is a permanent participant of the Risk Committee of the BoD and meets regularly with its Chairman.

To avoid potential conflicts of interests, it is imperative that staff in this function are independent and objective when advising business management on non-financial risk matters in their business unit or business line. To facilitate this, a strong functional reporting line to the next higher level within Operational Risk Management (ORM) and Compliance is in place. The functional reporting line has clear accountabilities with regard to objectives setting, remuneration, performance management and appointment of new staff as well as obligations to veto and escalate.

Framework

ING Belgium has a comprehensive framework for non-financial risks that supports and governs the process of identifying, measuring, mitigating, monitoring and reporting non-financial risks. It reflects the stages described in the Enterprise Risk Management model of COSO (Committee of Sponsoring Organisations of the Treadway Commission).

Processes are in place to identify key threats, vulnerabilities and the associated risks which might cause adverse events. Event identification is performed proactively and precedes a risk assessment. Different techniques for risk identification exist within ING Belgium, e.g. Risk & Control Self-Assessments, scenario analysis, external events inventories, internal events analyses (e.g. lessons learned based on information from event reporting), key risk indicators and threat scans.

Advanced Measurement Approach (AMA)

ING Belgium applies ING Bank's Operational Risk Capital model in which the risk profile is closely tailored to the internal risk profile of ING Bank and its divisions, by using scenario data for capturing severe risks and internal loss and RCSA data for capturing day-to-day risks. The business has a strong role in assessing scenario severities and the ORM function in validating the results. The internal data are combined with external loss data (ORX) in the AMA capital calculation.

Risk mitigations

ING Bank is currently not using any insurance or risk transfer mechanisms for the mitigation of risk in the context of the AMA capital calculation.

Operational risk

Definition

Operational risk is defined as the risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems or from external events.

Risk categories

ING Bank categorises operational risks in a number of risk areas:

- Information (Technology) risk is the risk of financial loss, regulatory sanctions or reputational damage due to breaches of confidentiality, integrity or availability within business processes or information or lack of information quality;
- Continuity risk is the risk of financial loss, regulatory sanctions or reputational damage due to business disruptions (loss of people, processes, systems, data, premises);
- Control risk is the risk of financial loss, regulatory sanctions or reputational damage due to ineffective organisation structures and governance procedures (including unclear roles and responsibilities and inadequate reporting structure); monitoring and enforcement of risk mitigating measures; and risk culture;
- Internal fraud risk is the risk of financial loss, regulatory sanctions or reputational damage due to deliberate abuse of procedures, systems, assets, products and/or services of ING by employees (incl. temporary workers, third party contractors, internships and consultants) who intend to deceitfully or unlawfully benefit themselves or others;
- External fraud risk is the risk of financial loss, regulatory sanctions or reputational damage due to deliberate abuse of procedures, systems, assets, products and/or services of ING by external parties (clients, potential clients or other third parties, including vendors and outside agencies) who intend to deceitfully or unlawfully benefit themselves or others;
- Unauthorised activity risk is the risk of financial loss, regulatory sanctions or reputational damage due to employees performing outside the normal course of their business, intentionally giving unauthorised approvals or overstepping of their authority;
- Personal and physical security risk is the risk of financial loss, regulatory sanctions or reputational damage due to criminal and environmental threats that might endanger the security or safety of ING personnel at work, people in ING locations, ING assets or assets entrusted to ING, people at ING event locations, or might have an impact on ING organisation's confidentiality, integrity or availability;
- Processing risk is the risk of financial loss, regulatory sanctions or reputational damage due to failed (transaction) processing (input, execution, output) or failing process management; and
- Employment practice risk is the risk of financial loss, regulatory sanctions or reputational damage due to acts inconsistent with employment, health and/or safety laws, regulations or agreements, from payment of personal injury claims, or from diversity /discrimination events.

Operational risk includes the related risk of reputation loss, as well as legal risk but strategic risks are not included. Reputational risk is defined as the potential that adverse publicity regarding ING Belgium's business practices and associations, whether accurate or not, will cause a loss of confidence in the integrity of ING Belgium. Reputational risk is multidimensional and reflects the perception of other market participants, like customers, counterparties, shareholders, investors or regulators that can adversely affect ING Belgium's ability to maintain existing, or establish new, business relationships and continued access to sources of funding (e.g. through the interbank or securitisation markets).

Legal risk is defined as the risk related to (i) a failure (or perceived failure) to adhere to applicable laws, regulations and standards, (ii) contractual liabilities or contractual obligations that are defaulted or cannot be enforced as intended, or are enforced in an unexpected or adverse way, and (iii) liability (tort) towards third parties due to an act or omission contributable to ING Belgium (potentially) resulting in impairment of ING Belgium's integrity, leading to damage to ING Belgium's reputation, legal or regulatory sanctions, or financial loss. Given the heavy reliance on IT systems in financial institutions, controls that monitor the various aspects of IT risk, such as integrity and confidentiality, are embedded in ING Belgium's risk and control framework.

Compliance risk

Definition

Compliance risk is defined as the risk of impairment of ING Belgium's integrity, leading to damage to ING's reputation, legal or regulatory sanctions, or financial loss, due to a failure (or perceived failure) to comply with applicable laws, regulations and standards and the ING Values as part of the Orange Code. We aim to effectively manage compliance risks that could expose ING Belgium to reputational damage, fines, civil and criminal penalties, payment of damages, court orders and suspension or revocation of licenses that would adversely impact our customers, staff, shareholders and other stakeholders.

Risk categories

ING Bank categorises compliance risk into four conduct-related integrity risk areas:

- *Client conduct* refers to the compliance risks arising from the relationship with or generated by the conduct of our clients and/or business partners, like money laundering or terrorist financing. Those risks are generally defined within ING Bank as Financial Economic Crimes (FEC);
- *Personal conduct* refers to the compliance risks arising from the conduct of ING employees;
- *Financial Services conduct* refers to the compliance risks arising from or generated by the conduct of ING Bank when developing, marketing and/or selling products and services to its clients;
- *Organisational conduct* refers to the compliance risks arising from the way the Bank is organising itself to develop its activities. This category covers for instance the licences required to perform its regulated banking activities or the operating effectiveness of its information barriers.

The controls to mitigate the compliance risks associated with the above mentioned risk areas are designed and embedded within ING Belgium. The effectiveness of the controls as designed is tested periodically, and senior management is aware about their responsibility to ensure their processes are compliant with applicable laws and regulations, internal policies and the Orange Code.

In cases where an employee from ING Belgium suspects a breach of external laws and regulations, internal policies and minimum standards and/or the Orange Code they are encouraged to (anonymously) speak up in line with the Whistle-blower policy using the most appropriate channel, e.g. the (external) ethics line.

Financial Economic Crime (FEC) Policy and Minimum Standards

The ING Bank FEC Policy and Minimum Standards directly reflect relevant national and international laws, regulations and industry standards.

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

Capital management

Objectives

The Capital Management department of ING Belgium is responsible for the sufficient capitalisation of ING Belgium and its subsidiaries at all times, in order to manage the risks associated with ING Belgium's business activities. This involves the management, planning and allocation of capital within ING Belgium.

Capital Management monitors and plans capital adequacy on a consolidated and stand-alone levels. ING Belgium takes an integrated approach to assessing the adequacy of its capital position in relation to its risk profile and its operating environment, including regulatory requirements.

ING applies the following main capital definitions:

- Common Equity Tier 1 (CET1): mainly composed of common stock and retained earnings, reduced by prudential filters and deductible elements;
- Tier 1 capital: composed of Common Equity Tier 1 and hybrid capital;
- Total capital: composed of Tier 1 and Tier 2 capital (subordinated term debt);
- CET1, Tier 1 and Total capital divided by Risk Weighted Assets equal the CET1, Tier 1 and Total capital ratios, respectively.

Developments

In January 2014, ING Belgium officially began reporting capital requirements and available capital as per the CRDIV and CRR1 (commonly referred to as Basel III). ING Belgium maintains healthy solvency ratios following the change.

In March 2015, ING Belgium proceeded with the issue of USD 600 mio subordinated Tier 2 capital. This CRD IV compliant instrument has an original tenor of 10 years, and was issued to parent company ING Bank NV. This issue, in addition to the previous issue of EUR 750 mio in June 2014, brings total Tier 2 to EUR 1.3 bio since 31 March 2015.

In December 2017, ING Belgium proceeded with the issue of EUR 725 million of hybrid capital (i.e. "Additional Tier 1" or "AT1"), as two intragroup perpetual contingent convertible loans from ING Bank NV to ING Belgium NV/SA. One for an amount of USD 590 million and the other one for an amount of EUR 225 million. These AT1 loans are CRD IV compliant instruments.

Policies

The activities of Capital Management are executed on basis of established policies, guidelines and procedures. The main documents that serve as guidelines for managing capital are the Capital Plan (comprising the approved internal targets and regulatory requirements for capital), the ING Bank Capital Investment Policy and the Local Capital Management Policy.

The above-mentioned capital definitions and policies have been approved by the ING Bank Executive Board or delegated authorities.

Processes for managing capital

Capital Management ING Belgium also ensures that sufficient capital is available by setting targets and limits relevant to the above-mentioned metrics for ING Belgium, and by ensuring adherence to the set limits and targets through planning and executing capital management transactions.

This process is supplemented by solvency stress testing and scenario analysis. The ongoing assessment and monitoring of capital adequacy is embedded in Capital Management's capital planning process and results in a quarterly capital update report. The main objective of the assessment is to ensure that ING Belgium as a whole has sufficient capital relative to its risk profile for both the short and medium term (at least 3 years), in compliance with internal and regulatory requirements.

Capital Adequacy Assessment

During 2017, the entities of ING Belgium were adequately capitalised in relation to their risk profile and strategic objectives.

Following the introduction of the Single Supervisory Mechanism (SSM) at the end of 2014, ING Bank and its subsidiaries file a single Internal Capital Adequacy Assessment Process (ICAAP) report to the European Central Bank (ECB).

On a yearly basis ING Belgium provides extensive documentation on the ICAAP to the ECB Joint Supervisory Team as prescribed in the Basel III framework. This documentation includes a description of ING's operating environment, current and forward-looking capital position, risk appetite, stress testing and Economic Capital analysis.

Regulatory capital requirements

Capital is required to support credit, market and operational risks. The adequacy of ING Belgium's capital is monitored using, among other measures, the rules and ratios established by the Basel Committee on Banking Supervision ('BIS rules/ratios') and European Community Directives and Regulations as implemented by the NBB. The BIS solvency ratios compare the amount of eligible capital (CET1, Tier 1 and Total capital) with the total of risk-weighted assets (RWAs).

The revised capital adequacy directive (CRD IV) aims at strengthening the resilience of banks, in particular through the introduction of capital buffers. These buffers are phasing-in annually since January 2016 until they are fully implemented in January 2019.

The Capital Conservation buffer (2.5% of RWA, fully loaded) is designed to ensure that banks build up capital buffers outside periods of stress, which can be drawn down as losses are incurred. This buffer has been phasing in since January 2016 (0.625%).

The Countercyclical buffer (ranges from 0% to 2.5% of RWA) aims to counter the adverse effects of a build-up of system-wide risk. The level of countercyclical buffer requirement per country of exposure and its time of application are determined by national authorities (NBB in Belgium), based on macroeconomic developments.

Banks may also be subject to a Systemic Bank buffer (currently 1% to 5%) determined to reflect their impact on the global economy (Global Systemically Important Banks – GSIB) or on the domestic economy (Domestic Systemically Important Banks – DSIB). The list of GSIBs is published annually by the Financial Stability Board. ING Bank NV is considered a GSIB resulting in a 3% additional capital requirement. ING Belgium is subject to a DSIB buffer of 1.5% in 2018, phasing in annually over 3 years since January 2016.

Excluding the impact of the capital buffers, in 2017 the minimum Pillar I capital requirements were as follows:
- Common Equity Tier 1 ratio: 4.5%,
- Tier 1 ratio: 6%
- Total Capital ratio: 8%.

In order to determine the overall Pillar I capital requirements, these ratios need to be augmented with the combined buffer requirements, i.e. for ING Belgium, on a fully loaded basis: 2.5% Capital Conservation Buffer, 1.5% (DSIB) systemic buffer and 0.04% counter-cyclical buffer. This results in the following ratios:
- Core Tier 1 ratio: 8.54%
- Tier 1 ratio: 10.04%
- Total Capital ratio: 12.04%.

Hereunder the calculation of the Capital Position and the Capital Ratio of ING Belgium:

Capital position - Capital ratio

	2017		2016	
	2017 rules	2019 rules	2016 rules	2019 rules
In EUR millions / in %	(CRR/CRD IV phased in)	(CRR/CRD IV fully loaded)	(CRR/CRD IV phased in)	(CRR/CRD IV fully loaded)
Shareholders' equity	**10,186**	**10,186**	**10,290**	**10,290**
Regulatory adjustments				
Minority interests counting as Common equity Tier 1	29	-32	43	-21
Goodwill and intangibles deducted from Tier 1 [1]	-103	-103	-102	-102
Provision shortfall [2]	-266	-266	-242	-242
Revaluation reserve debt securities	-281	0	-316	0
Revaluation reserve equity securities	0	0	0	0
Revaluation reserve real estate	0	0	0	0
Revaluation reserve cash flow hedges	294	294	140	140
Prudent valuation adjustments	-18	-18	-19	-19
Investments >10 FIs, exceeding 10% threshold	0	0	0	0
Prudential filters				
Profit of the year	-741	-741	-572	-572
Defined benefit remeasurement (IAS19R)	0	0	0	0
Net defined benefit pension fund assets	0	0	0	0
Deferred tax assets	-1	-1	-1	-1
Own credit risk adjustments to derivatives (DVA)	18	18	19	19
Foreseeable dividend	-503	-503	-858	-858
Available capital – Common equity tier 1	**8,615**	**8,835**	**8,381**	**8,633**
Subordinated loans qualifying as Tier 1 capital	717	717	0	0
Deduction of goodwill and other intangibles [1]	0	0	0	0
Provision shortfall [2]	0	0	0	0
Investments >10 FIs, exceeding 10% threshold	0	0	0	0
CRD IV eligible Tier 1 hybrids	0	0	0	0
Investments >10 FIs, exceeding 10% threshold	0	0	0	0
Excess deductions allocated to CET 1 capital	0	0	0	0
Minority interests counting as additional Tier 1 capital	0	0	0	0
Available capital – Tier 1	**9,332**	**9,552**	**8,381**	**8,633**
Supplementary capital – Tier 2	1,250	1,250	1,332	1,332
Provision shortfall [2]	0	0	0	0
IRB excess provision	0	0	14	14
Investments >10 FIs, exceeding 10% threshold	-0	-0	-1	-1
Minority interests counting as Tier 2 capital	0	0	0	0
Available Tier 3 funds	0	0	0	0
BIS capital	**10,583**	**10,802**	**9,727**	**9,979**
Risk weighted assets [3]	***60,262***	***60,626***	***58,744***	***59,359***
Common equity Tier 1 ratio	14.30	14.57	14.27	14.54
Tier 1 ratio	15.49	15.76	14.27	14.54
Total Capital ratio	**17.56**	**17.82**	**16.56**	**16.81**

1. Intangibles: mainly capitalised software
2. In Basel III the provision shortfall is deducted fully from Common Equity Tier 1, while the significant investments in financial institutions, conditionally to certain thresholds, are 250% risk weighted. During the phase-in period (2014-2017) they are gradually shifting from 50% deduction from Additional Tier 1 capital and 50% from Tier 2 capital towards full deduction from Common Equity Tier 1.
3. The internal models related to the Risk Weighted Assets are not audited but validated by the National Bank of Belgium.

Statutory Auditor's report to the general meeting of shareholders of ING Belgium NV/SA on the Consolidated Financial Statements of the year ended 31 December 2017

The Auditor's report relates to the chapters up to 'Consolidated annual accounts'.

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Statutory auditor's report to the general meeting of ING Belgium nv/sa on the consolidated annual accounts as of and for the year ended 31 December 2017

In the context of the statutory audit of the consolidated annual accounts of ING Belgium nv/sa ("the Company") and its subsidiaries (jointly "the Group"), we provide you with our statutory auditor's report. This includes our report on the audit of the consolidated annual accounts for the year ended 31 December 2017, as well as our report on other legal, regulatory and professional requirements. These reports are one and indivisible.

We were appointed as statutory auditor by the general meeting of 27 April 2016, in accordance with the proposal of the Board of directors issued on the recommendation of the Audit committee and as presented by the workers' council. Our mandate will expire on the date of the general meeting deliberating on the annual accounts for the year ended 31 December 2018. We have performed the statutory audit of the consolidated annual accounts of ING Belgium nv/sa for two consecutive financial years.

Report on the audit of the consolidated annual accounts

Unqualified opinion

We have audited the consolidated annual accounts of the Group as of and for the year ended 31 December 2017, prepared in accordance with International Financial Reporting Standards as adopted by the European Union, and with the legal and regulatory requirements applicable in Belgium. These consolidated annual accounts comprise the consolidated statement of financial position as at 31 December 2017, the consolidated statements of profit or loss, comprehensive income, changes in equity and cash flows for the year then ended and notes, comprising a summary of significant accounting policies and other explanatory information. The total of the consolidated statement of financial position amounts to EUR 151,817,843 thousand and the consolidated statement of profit or loss shows a profit for the year of EUR 738,973 thousand.

In our opinion, the consolidated annual accounts give a true and fair view of the Group's equity and financial position as at 31 December 2017 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union, and with the legal and regulatory requirements applicable in Belgium.

Basis for our unqualified opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the "Statutory auditors' responsibility for the audit of the consolidated annual accounts" section of our report. We have complied with the ethical requirements that are relevant to our audit of the consolidated annual accounts in Belgium, including the independence requirements.

Other information on the consolidated accounts - continued

We have obtained from the board of directors and the Company's officials the explanations and information necessary for performing our audit.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated annual accounts of the current period. These matters were addressed in the context of our audit of the consolidated annual accounts as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Estimation uncertainty with respect to impairment losses on loans and advances to customers

Refer to 'Accounting policies' sections Financial assets and Impairment of financial assets and related credit risk disclosures in the 'Risk Management' paragraph of the Consolidated Annual Accounts

Description

The Group's net portfolio of loans and advances to customers amounts to EUR 106,444 million and represents 70% of total assets as at 31 December 2017. These loans and advances to customers are measured at amortized cost, less a provision for loan losses (EUR 673 million). Certain aspects of the accounting for loan losses require significant judgement by the Management, such as the identification of loans and advances to customers that are deteriorating, the assessment of objective evidence for impairment, the value of collateral, and the estimation of the recoverable amount.

Due to the significance of loans and advances to customers and the related estimation uncertainty behind the accounting for loan losses, we consider the valuation of loans and advances to customers as a key audit matter.

Our audit procedures

With the assistance of our IT and financial risk management specialists, we performed the following audit procedures:

- We assessed the design and evaluated the operating effectiveness of key controls around the accuracy of loans and advances to customers, and collateral data, the determination of risk ratings, the identification of arrears and the management thereof, and the approval of the provision for impairment losses, as well as the periodic evaluation of the parameters applied in these models.
- We assessed the appropriateness of the collective impairment methodologies. We evaluated the models and assumptions used by Management to determine the collective provision for impairment losses.
- We assessed the methodology and framework designed and implemented by the Group to determine whether the collective provision model outcomes should be adjusted to better reflect the current circumstances of the portfolio performance and of the general economic conditions.

Other information on the consolidated accounts - continued

Statutory auditor's report to the general meeting of ING Belgium nv/sa on the consolidated annual accounts as of and for the year ended 31 December 2017

- We evaluated data used in the modelling such as loans and advances to customers data and collateral data used to determine the collective impairment. For a sample of loans and advances to customers, we compared data used in the models with underlying documentation such as contracts.
- We tested a sample of loan exposures that either continued to be, have become, or were at risk of being individually impaired. For the selected loan files, we challenged management's estimate of the recoverable amount, including the cash generating capacity and, where applicable, the value of realizable collateral, based on available financial information, market information and, where applicable, the analysis of alternative recovery scenarios.

IT systems and control over financial reporting

Description

We identified IT systems and controls over financial reporting as a key audit matter for the Group because its financial accounting and reporting systems are fundamentally reliant on IT systems and IT controls to process significant transaction volumes. Automated accounting procedures and general control activities over technology, which include IT governance, general IT controls over program development and changes, access to programs and data and IT operations, are required to be designed and to operate effectively to ensure accurate financial reporting. Of particular importance are systems calculations, other IT application controls (including logical access) and interfaces between IT systems.

Our audit procedures

With the assistance of our IT specialists, we performed the following procedures:

- We assessed the framework of governance over the Group's IT organisation;
- We assessed the design and evaluated the operating effectiveness of general IT controls over program development and changes, access to programs and data and IT operations (e.g. job scheduling, backup and recovery procedures);
- We assessed the design and evaluated the operating effectiveness of IT application controls in the key processes impacting financial reporting of the Group;
- We assessed the integrity of data transmission through the different IT systems to the financial reporting systems.

Estimation uncertainty with respect to the restructuring provision

Refer to the 'Accounting policies' section Provisions in the Consolidated annual accounts and related disclosures of reorganization provisions in Note 16 and Note 28 of the consolidated annual accounts.

Document Classification: KPMG Public 3

Other information on the consolidated accounts - continued

Statutory auditor's report to the general meeting of ING Belgium nv/sa on the consolidated annual accounts as of and for the year ended 31 December 2017

Description

We identified the restructuring provision as a key audit matter for the Group due to the combination of the significance of the ongoing restructuring and the high degree of judgment involved:

- The restructuring provision recorded as a consequence of the 'Accelerating Think Forward' strategy publicly announced on 3 October 2016 by ING Group amounts to EUR 576 million as of December 31, 2017.
- The measurement of the restructuring provisions and the determination and selection of underlying assumptions requires significant judgement by management.

Our audit procedures

- We assessed the design and tested the operating effectiveness of controls over the selection and determination of the relevant assumptions and data elements and over the measurement and evaluation of the restructuring provision.
- We assessed the reasonableness of assumptions made and key judgements applied by the Group through a detailed analysis of the contractual arrangements derived from collective bargaining and discussions with the Human Resources and Finance departments.
- We assessed the experience, objectivity and capability of management's actuarial expert used in the preparation of the estimate, involved an actuarial specialist and performed sensitivity analysis over significant assumptions to verify the reasonableness of significant assumptions, we evaluated the consistency of measurement methodologies used and we verified that the provision of the collective labor agreement were properly reflected in the assumptions used to calculate the provision.
- Additionally, we considered whether the disclosures of the application of judgement in estimating provisions adequately reflect the uncertainties associated with determining the restructuring provision.

Estimation of the impact of the adoption of IFRS 9 accounting standard

Refer to the 'Accounting policies' section Upcoming changes in IFRS - EU effective in 2017, IFRS 9 'Financial instruments.

Description

The Group is adopting IFRS 9 'Financial Instruments' effective 1 January 2018 as a result of which it has disclosed an estimate of the financial impact on the opening equity and balance sheet as at 1 January 2018 of the adoption of this new accounting standard in accordance with IAS 8 'Accounting Policies, Change in Accounting Estimates and Errors'. The determination of the impact of the adoption of IFRS 9 requires judgement and management estimates in particular with respect to the classification and measurement of financial assets and liabilities and the impairment of financial assets.

Document Classification: KPMG Public 4

Other information on the consolidated accounts - continued

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Our audit procedures

Our audit approach included testing both the design and effectiveness of controls around management's process for determining the estimated impact of adopting IFRS 9 as well as other audit procedures regarding the disclosure required by IAS 8.

- We considered the appropriateness of key technical positions taken and judgements made in determining the estimate considering the requirements of IFRS 9, the Group's operating model, and our knowledge of the sector. Our procedures over controls included testing controls around the process put in place by management to develop its technical positions.
- Assisted by our financial risk management specialists, we have assessed the Group's controls around the development and implementation of the expected credit loss methodology. In particular, we tested the Group's controls over the selection of multiple macroeconomic scenarios used in the calculation of expected credit losses and over the design, internal validation and implementation of the most significant models used to estimate the expected credit losses.
- Assisted by our financial risk management specialists, we independently verified for a sample of financial instruments the appropriateness of the allocated business model and of management's assessment of the applicability of the solely payment of principal and interest criteria.
- Assisted by our financial risk management specialists, we have assessed the methodology and framework designed and implemented by the Group to determine whether the provision model outcomes and stage allocations (stage 1: Financial instruments that have not had a significant increase in credit risk since initial recognition, stage 2 : Financial instruments that have a significant increase in credit risk since initial recognition and stage 3: Financial instruments that have been impaired), appear reasonable and reflective of Group's expectations of future economic conditions.
- We evaluated the disclosure against the criteria of IAS 8.

Board of directors' responsibilities for the preparation of the consolidated annual accounts

The board of directors is responsible for the preparation of these consolidated annual accounts that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union, and with the legal and regulatory requirements applicable in Belgium, and for such internal control as board of directors determines, is necessary to enable the preparation of consolidated annual accounts that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated annual accounts, the board of directors is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the board of directors either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Other information on the consolidated accounts - continued

Statutory auditor's report to the general meeting of ING Belgium nv/sa on the consolidated annual accounts as of and for the year ended 31 December 2017

Statutory auditor's responsibilities for the audit of the consolidated annual accounts

Our objectives are to obtain reasonable assurance as to whether the consolidated annual accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of the users taken on the basis of these consolidated annual accounts.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional skepticism throughout the audit. We also perform the following procedures:

- Identify and assess the risks of material misstatement of the consolidated annual accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- Obtain an understanding of internal controls relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by board of directors;
- Conclude on the appropriateness of board of directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated annual accounts or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern;
- Evaluate the overall presentation, structure and content of the consolidated annual accounts, including the disclosures, and whether the consolidated annual accounts represent the underlying transactions and events in a manner that achieves fair presentation;

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Other information on the consolidated accounts - continued

KPMG

Statutory auditor's report to the general meeting of ING Belgium nv/sa on the consolidated annual accounts as of and for the year ended 31 December 2017

— Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated annual accounts. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

For the matters communicated with the Audit committee, we determine those matters that were of most significance in the audit of the consolidated annual accounts of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

Report on the other legal, regulatory and professional requirements

Responsibilities of the Board of Directors

The board of directors is responsible for the preparation and the content of the board of directors' annual report on the consolidated annual accounts, and the other information included in the annual report.

Statutory auditor's responsibilities

In the context of our mandate and in accordance with the Belgian standard which is complementary to the International Standards on Auditing as applicable in Belgium, our responsibility is to verify, in all material respects, the board of directors' annual report on the consolidated annual accounts and the other information included in the annual report, and to report on these matters.

Aspects concerning the board of directors' annual report on the consolidated annual accounts and other information included in the annual report

Based on specific work performed on the board of directors' annual report on the consolidated annual accounts, we are of the opinion that this report is consistent with the consolidated annual accounts for the same period and has been prepared in accordance with article 119 of the Companies' Code.

In the context of our audit of the consolidated annual accounts, we are also responsible for considering, in particular based on the knowledge gained throughout the audit, whether the board of directors' annual report on the consolidated annual accounts and other information included in the annual report:

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Other information on the consolidated accounts - continued

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Statutory auditor's report to the general meeting of ING Belgium nv/sa on the consolidated annual accounts as of and for the year ended 31 December 2017

— The information on Corporate Governance and Diversity

contain material misstatements, or information that is incorrectly stated or misleading. In the context of the procedures carried out, we did not identify any material misstatements that we have to report to you.

We do not express any form of assurance on the board of directors' annual report on the consolidated annual accounts and the other information included in the annual report

Information about the independence

— Our audit firm and our network have not performed any engagement which is incompatible with the statutory audit of the consolidated annual accounts and our audit firm remained independent of the Group during the term of our mandate.

— The fees for the additional engagements which are compatible with the statutory audit referred to in article 134 of the Companies' Code were correctly stated and disclosed in the notes to the consolidated annual accounts.

Other aspect

— Reference is made to the board of directors' annual report on the consolidated accounts which states management's view that the Group is exempt from the obligation to prepare and disclose the non-financial information as required by article 119 §2 of the Companies' Code since the Group is a subsidiary of ING Group NV, who prepares a consolidated board of directors' annual report, that includes the consolidated non-financial information, in accordance with the applicable EU directive.

— This report is consistent with our additional report to the Audit committee on the basis of Article 11 of Regulation (EU) No 537/2014.

Zaventem, 10 April 2018

KPMG Bedrijfsrevisoren / Réviseurs d'Entreprises
Statutory auditor
represented by

Olivier Macq

Olivier Macq
Réviseur d'Entreprises / Bedrijfsrevisor

Document Classification: KPMG Public 8

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