Group Management Report
and Consolidated financial statements

2017

ING DiBa
Die Bank und Du

ING-DiBa at a glance – key financial indicators

		2017	2016	Change Percent
Key customer figures				
Total customers		9,065,465	8,781,078	3
in Germany		8,532,397	8,254,062	3
in Austria		533,068	527,016	1
Retail customer Assets segment				
Savings and short-term deposits				
Number of accounts		7,910,285	7,631,380	4
Portfolio volume	€ million	124,844	123,251	1
Securities business				
Number of securities accounts		1,193,480	1,087,148	10
Total securities depot volume	€ million	36,914	30,777	20
of which funds volume	€ million	12,806	10,423	23
Orders executed		10,279,323	8,746,085	18
Current accounts				
Number of accounts		2,082,223	1,732,048	20
Deposit volume	€ million	7,857	5,665	39
Total drawing on credit	€ million	295	272	8
Retail Customer Loans segment				
Mortgage loans				
Number of accounts		850,252	849,828	0
Portfolio volume [1]	€ million	69,695	68,029	2
Confirmed new business	€ million	8,693	9,646	–10
Consumer loans				
Number of accounts		724,448	647,783	12
Portfolio volume [1]	€ million	7,819	6,769	16
Wholesale Banking segment				
Deposits	€ million	945	906	4
Loans	€ million	30,696	25,702	19
Business volume (Management Accounting)	€ million	287,565	269,127	7
Results figures				
Net interest income	€ million	2,134	1,972	8
Risk provision	€ million	57	–31	n/a
Net commission income	€ million	124	104	19
Other comprehensive income	€ million	–74	45	n/a
Other administrative expenses incl. personnel expenses	€ million	–972	–856	14
Profit before tax	€ million	1,269	1,234	3
Cost-income ratio (Financial Accounting)[2]	Percent	44	40	4 Pp.
Key account figures				
Total assets	€ million	162,256	157,553	3
Customer deposits	€ million	133,789	130,151	3
Loans and advances to customers	€ million	113,426	106,459	7
Equity	€ million	7,954	7,690	3
Ratios				
Tier 1 ratio	Percent	14.5	13.2	1 Pp.
Personnel				
Number of employees		4,056	3,938	3
of which trainees		91	102	–11

[1] Presentation changed from Management Accounting figures to Financial Accounting figures.
[2] The ratio stated in the Group Management Report is calculated on the basis of Management Accounting figures.

Contents

ING-DiBa AG

Group Management Report

Consolidated financial statements

Additional information

Message from the Board of Management

Ladies and Gentlemen,

It gives me great pleasure to present our annual report for the first time as the new CEO of ING-DiBa AG. What makes it even better is that we can again show an extraordinarily positive balance for the year 2017: For the fifth time in a row, we have achieved record results. In 2017, we earned EUR 1.269 billion before taxes. We were able to attract 600,000 new customers. With more than 9 million customers and around EUR 162 billion, we now have the tenth largest balance sheet of all banks in Germany.

We are especially pleased to have created significant growth in all the relevant key figures. Our growth is balanced in both quantity and quality. It is based not only on retail banking, but also on a strong wholesale banking business. With a rise of 19 percent, this area was again able to drive the bank's growth. Since 2011, our lending volume in wholesale banking has increased from around EUR 1 billion to around EUR 31 billion. We are now one of the leading providers of export finance in Germany.

In view of the general economic conditions, these developments cannot be considered as normal. The continuing low interest rate environment has presented all banks with a major challenge. Nevertheless, the fact that we have continued to grow and even extended our success makes us especially proud and thankful in the 20th year of our existence in Germany.

Our thanks go in particular to our approximately 4,000 employees in Germany and Austria, who have once more put in a great performance. They have contributed decisively to making ING-DiBa Germany's most popular bank – and one of the most successful. And, of course, we would also like to thank our customers, who gave us their trust again in 2017.

However, there is still much to be done. Our retail banking market share is still only in the mid-single digit percentage range, even for our strongest products. And the competition is not sleeping. More than ever before, the banking industry is being swayed by dynamic upheavals and changes. In this environment, our motto is to intensify our efforts even further.

Therefore, we want to use – and must use – our hard-won position to develop ING-DiBa AG even further. Our goal is to significantly accelerate our growth once more and to become one of the leading universal banks in Germany.

In 2018, we want to ensure that this success story is continued at an even higher level. To achieve this, we must maintain our capacity to shape the dynamics of digital banking as we have done up to now while adapting even better to changing customer needs.

In this way, we want to become our customers' go-to partner for all financial matters. In retail banking especially, this means we have a clear objective: to position our bank as the digital leader in Germany. To do this we have to take the lead in mobile banking. Our goal is to make our 'Banking to go' app the most user-friendly and best-rated app on the German banking market. At the same time, we want to open up new business areas and gain additional market share. For example, in the coming years we plan to make a digital offer available to customers who have a savings and securities volume of more than EUR 50,000.

In the Wholesale Banking segment, our ambition is to be one of the five largest corporate customer banks in Germany by 2022. With the addition in 2017 of the Global Hub for Structured Metals & Energy Finance and Corporate Finance/M&A, we have created a broad portfolio with which we can comprehensively support clients in their future growth plans. We also want to further simplify processes and provide state-of-the-art products and services via platforms. Technologies such as blockchain and artificial intelligence will play an increasingly important role in our wholesale business.

The banking of the future will be digital – we see no alternative. We are confident that the strengths that helped us grow in the retail customer business will enable us not only to successfully master the challenges ahead, but even to be a pioneer in some areas.

I wish you an exciting and inspiring read!

Nick Jue

Nick Jue, CEO of ING-DiBa AG

2017 in Pictures

ING-DiBa receives certificate for energy management in all three locations

Health, family, training – the collective agreement for the future 2.0 is being introduced

The “Banking to go” app is launched

January — February — March — April — May — June

„Successfully different“ – a new profits record is announced at the financial results press conference: EUR 1.2 bn. earnings before taxes and 370,000 new current accounts

ING-DiBa employees support a project for the financial education of young people in Montenegro

Welcome Nick!
A new CEO for ING-DiBa

Partners for life –
Dirk Nowitzki and ING-DiBa sign lifetime partnership

New partnership – ING-DiBa and Scalable Capital start cooperation

Milestone: ING-DiBa reaches the mark of two million current accounts

July — August — September — October — November — December

10 years of BasKIDball – opportunities for children and young people at 17 locations

ING-DiBa and ZEIT Akademie cooperate for a better financial education in Germany

Du und Dein Verein: Once again, 1,000 non-profit associations receive a donation of EUR 1,000 each

Group Management Report

1. General Basis

Corporate structure, segments, and locations

ING-DiBa further consolidated its position as Germany's third largest retail bank in the fiscal year, reporting very satisfactory results in all relevant business segments, while systematically pursuing its digitization drive with the aim of becoming the leading digital bank in Germany.

In line with this strategy, since 2017 the Bank has offered its customers a large number of new digital services that make banking even faster and more convenient. More details are provided in other sections of this report. In the 52nd year of its existence, ING-DiBa had a total of 9.065 million customers as of December 31, 2017, compared with 8.781 million at the end of 2016. This total also included 533 thousand customers in Austria (previous year: 527 thousand). True to its business model, ING-DiBa provides transparent products to its customers and keeps the range intentionally lean. The Bank also attaches great importance to being always accessible for its customers. At the same time, the growing digitization of product processes and services is playing an increasingly important role, always with the objective that these processes offer clearly identifiable benefits to customers. This goes hand-in-hand with a high degree of cost efficiency, achieved primarily due to a lean corporate structure and the absence of a branch network.

The Bank is managed based on three segments: Retail Customer Assets, Retail Customer Loans, and Wholesale Banking. The Retail Customer Assets segment includes all of the investment products the Bank offers. The lending business has been bundled in the Retail Customer Loans segment. Both these segments limit their business to retail customers. Wholesale Banking, on the other hand, covers the entire corporate customer business.

The Bank's headquarters have been in Frankfurt am Main since its founding in 1965. ING-DiBa also has offices in Hanover and Nuremberg. ING-DiBa furthermore maintains a branch named ING Bank, which also has its registered office in Frankfurt am Main; this branch represents the Wholesale Banking business. The Austrian branch, ING-DiBa Austria, is located in Vienna. The Bank also operates the Berlin Representative Office.

ING-DiBa is the parent company of a group. All companies in the group are domiciled in Germany. The activities of the subsidiaries are focused on property and asset management; none of them operates banking business. One company is a special purpose entity created to securitize ING-DiBa AG's mortgage loans. Please refer to note 31 "Disclosures relating to equity investments" in the IFRS notes for information on the Group's organizational structure.

Products, services, and business processes

The product offering is divided into three segments, as shown below.

Segments	Products
Retail Customer Assets	Savings deposits Securities services business Current accounts
Retail Customer Loans	Mortgage loans Consumer loans
Wholesale Banking	Corporate and financial institution lending Industry lending

ING-DiBa's focus is on selling the products directly, although the Bank cooperates with selected alliance partners in the lending business.

The common theme across all the Bank's products and services is that they are designed in all respects to help its customers do their banking easily and quickly. Above all, the Bank aims to give its customers product information that is transparent and easy to understand. Another important objective in the operating business is to ensure long-term customer satisfaction, which is achieved not least by involving customers directly in the digital development processes, thus ensuring that products and services are created that best meet customers' needs.

ING-DiBa introduced a fully digitized process for opening current accounts in the fiscal year. Since then, individual customers have been able to open these accounts without paperwork or a signature. As soon as applicants have entered their personal information and, among other things, agreed to the contract terms and conditions, the application is reviewed in real time and, if successful, the account is opened immediately.

The introduction of online income verification has also made the loan application process simpler and faster. If the customer consents, the income received into their salary account is verified once. If this online check is successful, loan applicants do not have to submit any further proof of income.

In addition, ING-DiBa entered into a partnership agreement with the online asset management arm of Scalable Capital in the fiscal year. Customers have had access to this offering since September 15, 2017. The deal is a far-reaching cooperation agreement between a major German bank and an online asset manager.

Although mobile banking has increasingly been gaining significance, and this trend continued in the year under review, retail customers can still communicate with ING-DiBa via

fixed-line Internet and telebanking. Of course, customers can also continue using the postal service. It is evident that more and more customers want to use their mobile devices to do banking conveniently, even on the go. ING-DiBa has been preparing for this trend for a number of years and in fiscal year 2017 extended its position as one of the leading digital banks by implementing the above-mentioned steps toward digitizing the banking business.

In the Wholesale Banking segment, the Bank cooperates primarily with global corporate customers. These well-known corporate customers operate in sectors such as automotive, chemicals & pharma, consumer, food & retail, industrials, natural resources, power utilities, renewables & infrastructure, telecom, media & technology, transport & logistics as well as financial institutions. Wholesale Banking also provides services to public-sector customers.

Against the backdrop of historically low interest rates, the relevance of Wholesale Banking for ING-DiBa is constantly increasing, because interest income in this segment is determined by borrowers' financial standing and is therefore largely independent of changes in market interest rates. The combination of a broadly based product portfolio with ING's international network has established this segment as one of the Bank's mainstays. Furthermore, some of the income generated by this segment is commission income, which makes a long-term contribution to further diversifying earnings.

Management (as of: December 31, 2017)

Responsibilities of the Management Board members	
Nick Jue	Corporate Audit Services Corporate Communications ING-DiBa Austria Personnel Strategy Management Board Secretariat & Legal
Bernd Geilen	Trade Settlement Consumer Loans Risk Management
Katharina Herrmann (from Feb. 1, 2018: Nick Jue)	Digital Channels Customer Dialog Marketing Product and Target Group Management Mortgage Loan Sales
Željko Kaurin	Facility Management WB Operations Mortgage Loans IT Program and Project Management Service Center Securities
Remco Nieland	Management Accounting Procurement Accounting Taxes Treasury
Dr. Joachim von Schorlemer	Chief Economist Wholesale Banking

As of February 1, 2018, Katharina Herrmann, member of the Management Board of ING-DiBa AG (until January 31, 2018), assumed the position of "Head of Platforms and Beyond Banking" for ING Group N.V. in Amsterdam, Netherlands.

Sales markets and major influencing factors

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

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

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

Control systems

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

Treasury's activities are primarily serve the purposes of the Bank's liquidity management and asset/liability management. As in the previous year, there were no trading book transactions.

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

Business volume is an important key performance figure of this control, through which the Bank's growth can be determined. This figure is composed of the total of all customer positions. In addition to customer loyalty, the Bank strives to continually gain new customers and hence accounts as well, to increase this parameter. The volume of new business is an important driver of the amount of the interest-bearing assets and therefore also has a significant influence on the future financial performance and development of net interest income. In this context, the Bank pursues a balanced refinancing strategy to provide it with the necessary resources at all times and maintained a comfortable liquidity level at all times during the fiscal year. The business volume and the segment volumes it contains are included in the Group management report on the basis of MA figures (IFRSs).

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

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

The return on equity (ROE) is a profitability indicator which is used to evaluate the Bank's results of operations. It is determined from net income for the fiscal year based on the management accounting (MA) figures (IFRS) less risk costs, applying a 12-percent capital-to-risk-weighted-assets ratio.

The Bank carries out an annual survey of employee satisfaction as a key non-financial success factor; this is a significant feedback instrument to enhance the corporate culture. For this purpose, an indicator is determined by an external service provider as part of the largest employer competition, "Great Place to Work".

2. Report on Economic Position

General macroeconomic conditions

Significant signs of recovery were evident in the countries of the European Union and the Economic and Monetary Union in the fiscal year. Most countries managed to overcome the fallout from the euro crisis, which had put the common European currency to the test in previous years, although given the high levels of sovereign debt, especially in Greece and Italy, it is still too early to refer to a sustained recovery in those countries.

Due to the generally positive development, the eurozone economy expanded in 2017 at its fastest rate for several years. For example, in the third quarter alone, gross domestic product (GDP) in the eurozone rose by 2.6 percent compared to the prior-year quarter. The number of people in employment also increased continuously: the seasonally adjusted unemployment rate dropped to 8.7 percent in November 2017, one percentage point down on the prior-year period.

In the fall of the fiscal year under review, however, the European Commission voiced its concerns about persistently high sovereign debt levels, i.e., the ratio of sovereign debt to gross domestic product, in many European Union countries. According to the Commission's forecast, this ratio stood at 89.3 percent in the EU in the fiscal year. Although the ratio may drop to 87.2 percent over the next year, it would still significantly exceed the maximum of 60 percent agreed in the Maastricht treaties on European Economic and Monetary Union.

Positive economic developments in Europe went hand-in-hand with a significant improvement in global economic conditions. According to data presented by the ifo Institute for Economic Research, the global economic climate rose in 2017 to its highest level since the second quarter of 2011. The ifo experts found that the economic climate had improved in almost all regions, with the exception of North Africa and the Middle East.

Among other factors, the continuing growth phase in the United States reinforced the positive performance of the global economic climate. The low unemployment rate and a slight rise in incomes made consumption expenditure the strongest growth driver. In total, private consumption accounted for 70 percent of GDP. Corporate capital expenditure also increased. As a result, GDP in the United States grew by 2.2 percent in 2017.

Economic development in Germany

The stabilizing situation in the member states of the European Union – combined with an overall robust global economy and continuing high domestic demand – ultimately led economic growth in Germany to exceeded initial predictions. GDP rose significantly in the course of the year, on the back of increases in each quarter. Data from the Federal Statistical Office showed that, in the third quarter of 2017 alone, economic growth adjusted for price, seasonal, and calendar effects was up 0.8 percent on the second quarter. Prompted by the buoyant economic performance, the growth forecasts for 2017 were revised significantly upward in the course of the year. Where the ifo Institute's estimates had initially assumed that Germany's economy would grow by 1.9 percent, the forecast was subsequently raised to 2.3 percent. The main drivers of this development were good domestic demand, in particular private consumption, as well as export performance, which was favorable for German industry. However, there were setbacks in individual sectors, including, for example, the insolvency of Germany's second biggest airline, Air Berlin.

Despite the job cuts announced by major companies such as thyssenkrupp and Siemens, which prompted protests throughout Germany in the fiscal year, the German labor market continued to develop positively in 2017 as a result of the good economic conditions. The Federal Employment Agency (*Bundesagentur für Arbeit*) confirmed at the beginning of November 2017 that the dynamic employment trend had continued at the beginning of the fourth quarter, while companies' demand for new employees had increased. In October, the strong recovery in the fall caused the number of unemployed people to decline by 60 thousand to 2.389 million. According to the Agency, this represents a sharper decline than would normally be expected during this season.

Both general employment levels and the number of employed persons subject to social security insurance saw a further significant year-on-year increase. According to information from the Federal Statistical Office, the number of people in employment rose by 41 thousand in September 2017 compared with the previous month. At 44.6 million, the figure was around 655 thousand higher than a year earlier. This increase is mainly attributable to a rise in the number of persons in employment subject to social security insurance.

Demand for employees rose from an already high level: in October 2017, around 780 thousand vacancies were registered with the Federal Employment Agency. Overall, therefore, the situation in the labor market can be described as positive and robust, and this consequently further boosted private sector demand.

Elections were held in both Germany and Austria in 2017, which led to shifts in parliamentary majorities. Following the parliamentary elections in Germany and the significant losses incurred by the CDU/CSU and SPD, which had until then formed the governing grand coalition, attempts were initially made to form a coalition government of CDU/CSU, FDP, and Alliance 90/Greens. However, since exploratory talks aimed at forming a so-called

"Jamaica" coalition collapsed in mid-November 2017, all indications are that the grand coalition will be resurrected.

Economic development in Austria

In Austria, early National Council elections led to a significant shift in the political landscape. The Austrian People's Party (ÖVP) became the largest party in the National Council; it is led by former Foreign Minister Sebastian Kurz, who became Austria's new Federal Chancellor.

The Austrian economy is currently experiencing exceptionally strong growth. According to forecasts published by the Austrian National Bank (Oesterreichische Nationalbank, OeNB) in December 2017, the economy is expected to grow by 3.1 percent in real terms in 2017.

The economic upswing is broadly based, with both domestic and foreign demand contributing substantially to growth. In the process, Austria's economy is benefiting from a widely diversified, sectorally balanced economic structure.

The strong recovery has also benefited the labor market to a significant extent. According to the OeNB, the unemployment rate fell from 6.0 percent in 2016 to 5.6 percent in 2017. Given Austria's low unemployment rate by international standards and the low incidence of strikes, the country is in an excellent position in terms of social stability.

The debt ratio was down significantly in 2017, declining to 78.3 percent of GDP. Austria's total government budget deficit improved to – 0.8 percent of GDP in 2017.

According to the OeNB, Austria ranks among the best performing economies in the eurozone. International investors have confidence in the Austrian economy, and the country maintains its AAA rating from Moody's and DBRS and its AA+ rating from Standard & Poor's and Fitch.

Industry environment

The industry environment in Germany

In the fiscal year, the European Central Bank (ECB) left the key interest rate unchanged at 0.0 percent, and the interest rate on the deposit facility at minus 0.4 percent. This is the interest rate that commercial banks are required to pay to park liquidity at the ECB.

In October 2017, the ECB announced that it would maintain the current asset purchase volume of EUR 60 billion a month under the bond-buying program, and was planning to reduce the volume to EUR 30 million from January 2018.

The low interest rate policy continued to put pressure on the financial sector in the fiscal year, given that most financial institutions depend on the interest business to a considera-

ble extent. According to a study undertaken by the consulting firm Bain & Company, net interest income accounts for 73 percent of income generated by German banks, more than in any other country. As a result, the financial institutions concerned are hit particularly hard by the low or zero interest rate policy.

In recent months, some institutions have attempted to enforce policies that have to date not been common practice in the market, such as negative interest rates on call deposit accounts. These costs for customer savings are frequently referred to as "parking charges for money," i.e., a type of "deposit charge." Many banks have increased their fees, e.g., for maintaining current accounts, for wire transfers, and credit cards. Despite the systematic downsizing of branches, the cost structures at many "branch banks" remain so high that they will face challenges in the future. The only option for many branch banks is thus to increase fees or burden savers with negative interest rates.

The German banking sector continues to be highly fragmented. Germany has around 1,700 financial institutions, almost four times as many as France, and more than ten times as many as Japan, which has a larger population. Economies of scale are difficult to achieve in this environment.

Meanwhile, the ECB's low interest rate policy is not the only challenge facing the banking industry. In addition to interest rates, growing compliance pressure and greater competition – increasingly from digital competitors – are playing a major role. Digitization in its different manifestations will be the factor that determines business success or failure for financial institutions. Examples of factors used to make investment decisions include blockchain (the use of decentralized data chains), instant payments (realtime payments around the clock), and artificial intelligence (AI).

A branchless bank such as ING-DiBa is well positioned in this ever more challenging industry environment. Not least, the annual increases in the number of customers is evidence for this. From the outset – i.e., long before the current challenges – the Bank has always taken care to ensure a lean and transparent cost structure, maintained a clear product portfolio and dispensed with branches, without economizing on quality. Moreover, ING-DiBa set a course for digitization at a very early stage and again made significant progress in this regard in 2017.

The industry environment in Austria

The beneficiaries of the general upswing in Austria also included the banks, whose profits increased again in the first half of 2017. Nevertheless, the banking sector continues to face major challenges, which include a need to increase competitiveness and to guarantee the long-term stability of the financial markets.

According to the OeNB, Austria's banks generated profits totaling EUR 3.4 billion in the first six months of 2017, a year-on-year increase of 16 percent (previous year: EUR 2.9 billion).

As in previous years, deposits payable on demand are by far the most popular investment products among Austrian savers, even though they barely managed to yield any returns. The amount of demand deposits rose yet again in 2017.

Investment in retirement products is below average in Austria. Only one fifth of all financial assets owned by private households is attributable to retirement products, while the EU average is almost twice as high. This investment segment recorded relatively poor growth in Austria in the past twenty years.

Encouraged by the low interest rate policy of recent years, the volume of private household borrowing increased. In 2017, households took out loans totaling around EUR 4.1 billion. Compared with previous years, the appetite for traditional loan financing has risen significantly. The OeNB puts the financial assets owned by private households at EUR 638 billion (June 2017). Private household debt amounted to EUR 181.6 billion in June 2017.

Summary

2017 was another challenging year for many in the financial industry. It must be assumed that the shift toward digitization as well as the low interest rate environment will continue in the coming years. ING-DiBa is successfully positioned for this, reinforced by the profit generated in fiscal year 2017. The Bank is well-equipped to compete with other direct banks, branch banks, online brokers, and mortgage lenders. A key reason for this is its proven business model. The early focus on digitization and the provision of corresponding services for customers have proven to be just as much success factors as the continuous further development of mobile banking and expanding the wholesale banking business. ING-DiBa does not primarily see the so-called FinTechs as competitors, but in some cases as attractive cooperation partners.

Overview of business development

2017 was another successful year for ING-DiBa, although the ECB's persistent low interest rate policy continued to pose considerable challenges for the banking business as a whole in the fiscal year. The Bank again succeeded in improving on the already high levels of some of the relevant indicators. This result was achieved in both the retail business and wholesale banking. Overall, business development in 2017 was once again very satisfactory.

The Bank always takes great care to ensure in particular balanced quantitative as well as qualitative growth, which is again reflected in the overall result for 2017. For example, net income before tax was again increased, reaching a value of EUR 1,269 million (previous year: EUR 1,234 million). By contrast, the Result before Tax MA decreased slightly from EUR 1,277 million in 2016 to EUR 1,220 million in the fiscal year. The difference in performance when compared to net income before tax is attributable in particular to reporting differences between the accounting policies applied in the ING Groep N.V., which are relevant for the MA figures, and those applied in the subgroup financial statements at the level of ING-DiBa. The forecast Result before Tax MA of EUR 1,164 million was slightly exceeded in 2017. This is mainly attributable to significantly lower risk costs than originally anticipated in the business planning.

The return on equity increased by 4 percentage points to 17 percent in the year under review (previous year: 21 percent), and was thus exactly at the level forecast in the business planning. The cost-income-ratio is a profitability indicator that reflects the Bank's efficiency. At 46 percent (previous year: 40 percent), it was again held at a very good level and slightly exceeded the previous year's forecast. Both relative indicators were impacted by an increase in regulatory costs and investments in the further digitization of the product and business processes, among other factors.

At the end of the fiscal year the Bank's business volume, which is determined based on the IFRS figures pursuant to management accounting (MA), was EUR 287.6 billion, compared to EUR 269.1 billion in the previous year. Volume in the individual segments was comprised of the following:

- In the Retail Customer Assets segment, the volume of savings products and current accounts totaled EUR 133.0 billion in the fiscal year (previous year: EUR 129.2 billion), thus generally corresponding to the expectations from the previous year. Also in this segment, the volume of the securities services business was EUR 36.9 billion (previous year: EUR 30.8 billion), around 7 percent above the forecast value. At approximately 10.1 million (previous year: 8.7 million), the number of orders executed was significantly higher than the figure forecast in the previous year. This performance confirms the Bank's success in the securities services business.

- ING-DiBa generated a volume of EUR 76.8 billion in the Retail Customer Loans segment, compared with EUR 74.2 billion in the previous year. This is slightly below the value forecast for 2017.

- At EUR 40.8 billion (previous year: EUR 35.0 billion), the volume in the in the Wholesale Banking segment was around 10 percent above the previous year's expectations.

As of the December 31, 2017 reporting date, ING-DiBa had 9.065 million customers compared with 8.781 million at the end of 2016. Of that number, 8.532 million customers were attributable to Germany (previous year: 8.254 million) and 533 thousand to Austria (previous year: 527 thousand). The Bank had 4,056 employees as of December 31, 2017 (previous year: 3,938), of which 91 were trainees (previous year: 102). Of that total, 224 employees were based in Austria as of the reporting date (previous year: 204).

In the year under review, ING-DiBa took a number of steps aimed at further boosting its transformation into the leading digital bank. Since the spring of 2017, the Bank has offered its customers a large number of new digital services that make banking even faster and more convenient. In addition to opening current accounts online, they can also independently change their name and address in the customer area. Customers can also grant powers of attorney by using the TAN authorization system. The entire Internet banking service has been redesigned in response to customer needs and optimized for mobile devices in order to improve navigation and provide a better product overview.

ING-DiBa increasingly invested in the further development of business processes and customer applications in the fiscal year as part of the ongoing digitization. In this context, development costs amounting to EUR 19.7 million were capitalized for internally generated intangible assets (previous year: EUR 8.8 million). The Bank will also focus on the early identification of digital trends going forward, and this will influence its development.

Retail customers can now open ING-DiBa's current account without paperwork or a signature. Once applicants have entered their personal information and, among other things, agreed to the contract terms and conditions, the application is reviewed in real time and, if successful, the account is opened immediately. Through this process, many applicants get immediate confirmation of their current account, including an IBAN. All the documents needed to open the account are sent to the customer digitally. The only thing customers then have to do is prove their identity – which can only be done online using video identification.

The Internet banking service was redesigned in the fiscal year using agile development methods. At various stages during this process, customers were asked to give feedback, which was in turn incorporated into the ongoing development process. The end result was more customer-friendly navigation in the service area. In addition, the content was opti-

mized for different devices and new functions were developed, which customers can use for faster, more convenient banking: in addition to changing addresses online, as mentioned above, they can block accounts or cancel cards on their own. Moreover, ING-DiBa is the first bank in Germany that enables name changes, for example after getting married, to be made online. Also, individual customers can submit applications for powers of attorney online, confirm the authorization by TAN, and then immediately e-mail it to the authorized party for signature.

Furthermore, ING-DiBa introduced what is known as online income verification in the fiscal year. This makes it even easier for customers to apply for a loan. When the customer has consented, the income received into their salary account is verified once – irrespective of whether their account is with ING-DiBa or a third-party bank. If the online income verification has successfully checked the income received into the salary account, loan applicants do not have to submit any further proof of income. Not only is this process conducted online, it is also much faster and simpler.

In addition, ING-DiBa launched its new "Banking to go" app in 2017, thus making mobile banking even easier and faster. Since then, customers have been able to use a single app to create, verify, and approve transaction instructions. During a pilot phase launched in December 2016, around 5 thousand ING-DiBa customers tested the "Banking to go" app in advance. Their feedback was incorporated into the development of the new online service. Customers can log in to "Banking to go" with a five-digit mobile PIN of their choice or using fingerprint login (for devices with iOS) and authorize wire transfers in the same way.

In the fiscal year, ING-DiBa also entered into a partnership agreement with Scalable Capital. This is the first far-reaching partnership between a major German bank and an online asset manager. It also makes ING-DiBa the pioneer for the entire ING Group. In only a few weeks following the launch of the partnership on September 15, 2017, the new offering was already proving very popular with ING-DiBa's customers. Within less than two months, over 7 thousand Scalable securities accounts had been opened and over EUR 150 million had been invested. Until the end of the fiscal year, ING-DiBa customers opened an average of around one thousand Scalable securities accounts per week.

In 2017, ING-DiBa Austria focused on expanding the business volume and on enhancing the products on offer. Despite increased pressure from the interest rate environment, the customer base remained stable or increased. Special attention was paid to the lending and securities business, where growth rates in the double-digit percent range were achieved through a number of different campaigns. In the savings business, where the pressure exerted by the low interest rate environment is felt the most, the volume was likewise kept largely stable. This was achieved by conducting a number of campaigns, such as an interest rate campaign for new customers. ING-DiBa Austria's business volume declined slightly in the course of the fiscal year, from EUR 8.1 million to EUR 7.9 million.

At its meeting on June 27, 2017, the Supervisory Board of ING-DiBa elected Dr. Claus Dieter Hoffmann as its new Chairman. He has been a member of the Supervisory Board of ING-DiBa since May 2011 and was a member of the Supervisory Board of the ING Group from 2003 until 2011. In addition, Prof. Gesche Joost was elected as a member of the Supervisory Board of ING-DiBa with effect from December 1, 2017.

Dr. Claus Dieter Hoffmann is Managing Director of H+H Senior Advisors GmbH, which was established in 2002. Until his retirement on June 30, 2002, he was Managing Director at Robert Bosch GmbH with responsibility for management accounting, business administration, finance, and procurement.

Also at its meeting on June 27, 2017, the Supervisory Board of ING-DiBa appointed Bernd Geilen as Deputy Chairman of the Management Board. Bernd Geilen studied economic science and business administration at the University of Cologne, where he subsequently became a lecturer and senior research fellow. In 1992, he left academia to pursue a career in business. He worked for, among others, Entrium Direct Bankers in Nuremberg, where headed the Investor Relations and Treasury departments. In this role, he was also involved in the 2003 merger with ING-DiBa, during which he was responsible for integrating the Treasury, Risk Management, and Trade Settlement functions. Until 2007, Bernd Geilen headed the Risk Management and Management Accounting departments at ING-DiBa. In 2006, he was appointed as the Bank's universal agent. In March 2007, ING delegated him to Italy, where he became the CEO of ING Direct in Milan. Bernd Geilen has been a member of the Management Board of ING-DiBa since October 2010.

ING-DiBa awarded the Helmut Schmidt Award for Journalism for the 22nd time in a row in the fiscal year. The award ceremony took place in Frankfurt am Main on October 26, 2017. For the first time, the Bank also honored the achievements of up-and-coming journalists. The guests attending the ceremony were given the opportunity live at the event to vote for the winner from three finalists. Till Krause and Hannes Grassegger came first with their report entitled #insidefacebook published in SZ-Magazin.

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

Retail Customer Assets

General

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

Savings deposits

In view of the ECB's persistent low- or zero-interest-rate policy, savers and investors looking above all for maximum security again faced challenges in 2017. With traditional savings products, it was either impossible to generate returns or these were extremely low. The real interest rate, i.e., the rate of interest after inflation, was generally even negative. By its nature, this interest rate policy poses challenges for all banks – including ING-DiBa. Despite that, the Bank succeeded in offering its customers an interest rate that was broadly above the average offered by other banks in Germany and Austria in fiscal year 2017. It was once again confirmed that customers do not only seek returns, but also value convenience and customer-based service. This was again appreciated by customers in the fiscal year and enabled ING-DiBa to expand its savings deposits further.

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

For Extra account deposits, up to March 14 of the 2017 fiscal year ING-DiBa paid 0.35 percent interest p. a. on balances of up to EUR 100 thousand and 0.05 percent on balances of EUR 100 thousand and above. From March 15, 2017 to August 14, 2017, 0.2 percent was paid on balances of up to EUR 100 thousand, with the rate remaining 0.05 percent on balances of EUR 100 thousand or above. From August 15, 2017 onward, 0.1 percent was paid on balances of up to EUR 50 thousand and 0.05 percent on balances above this amount.

Until February 14, 2017, savers in Austria received 0.4 percent p. a. on Direkt-Sparen account balances. For the period from February 15, 2017 to July 31, 2017, they were paid 0.25 percent, and after that 0.15 was paid on short-term deposits.

The Bank's savings and short-term deposits rose to EUR 124.8 billion in the fiscal year, as against EUR 123.3 billion as of December 31, 2016. The customer deposits at ING-DiBa Austria included in that figure amounted to EUR 7.3 billion (previous year: EUR 7.7 billion).

Securities services business

The global economic situation, which was positive on the whole, was also reflected on the major stock exchanges. The DAX broke through the 13 thousand point barrier for the first time in the fall of 2017, before closing at 12,918 points on the last trading day of the year, December 29, 2017 (previous year: 11,481 points). As a result, investments in equities and equity funds continued to attract increasing numbers of investors seeking returns during the fiscal year, especially in view of the very low interest rates for traditional savings products.

Exchange-traded funds (ETFs) were also particularly popular among retail investors. Since November 8, 2017, ING-DiBa's customers have also had the option to invest in ING Global Index Portfolios. ING's investment strategists select ETFs for this purpose that are particularly cost-effective while at the same time ensuring the best possible diversification. The ING Global Index Portfolios are available in the "defensive," "balanced," and "dynamic" variants. The three portfolios differ in terms of the different equity and bond weightings; they comprise major regional share indices on the one hand and ETFs tracking government and corporate bonds on the other. With the introduction of the ING Global Index Portfolios, ING-DiBa has strengthened its position as a provider of ETFs in Germany.

In the fiscal year, ING-DiBa executed 10.1 million securities orders for its customers (previous year: 8.7 million). The securities account volume was EUR 36.9 billion (previous year: EUR 30.8 billion).

Current accounts

The number of current accounts held at ING-DiBa again increased significantly in the fiscal year, exceeding the two million mark in the course of 2017. As of December 31, 2017, ING-DiBa managed 2.1 million current accounts for its customers, compared with 1.7 million at the end of the previous year. The deposit volume also increased, rising to EUR 7.9 billion (previous year: EUR 5.7 billion). Overdrafts on current accounts totaled EUR 295 million as of the reporting date (previous year: EUR 272 million).

For current accounts, the Bank continues to offer free-of-charge management that is not subject to any terms and conditions. With the ING-DiBa current account, customers also receive a girocard and a VISA card free of charge. They can use the VISA card to withdraw cash without fees throughout Germany and all eurozone countries. Both cards give customers the option to make contactless payments using near-field communication (NFC) technology.

Retail Customer Loans

General

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

Mortgage loans

Attractive financing terms and the desire of many people to own the home in which they live again led to strong demand for the relevant properties in 2017. Condominiums in large and medium-sized cities were again particularly popular. The persistently high demand faces an increasing shortage of suitable real estate in prime locations, and this led to significant price increases in some cases.

According to figures from the German Real Estate Association (Immobilienverband Deutschland, IVD), residential property prices rose again in the fiscal year, thus maintaining an unbroken upward trend since 2010. The reasons for this are firstly the rush into real estate, fueled by low or zero interest rates, and secondly the shortage of residential real estate in large parts of Germany. Data published by the IVD shows that prices for existing condominiums rose by 6.56 percent by the end of the third quarter of 2017 compared with the same period of the previous year. The prices paid for newly built condominiums rose by 5.96 percent, for freestanding houses by 5.44 percent, and for terraced houses by 5.96 percent. According to the IVD, vacant building land in normal residential areas had become 6.11 percent more expensive by the third quarter of 2017, compared with a rise of 4.95 percent in the prior-year period.

ING-DiBa is one of the leading mortgage lenders in Germany, and the Bank was able to expand this position further in the fiscal year. On the one hand, the Bank offers financing for owner-occupied residential property with fixed interest rate periods of between 5 and 15 years. The very low interest rates mean that the majority of customers again opted for the longest possible term and higher repayment rates in the fiscal year. On the other hand, many customers decided on follow-up financing at favorable terms. At the customer's request, both new and follow-up financing can be combined with selected programs offered by the KfW development bank. Possibilities for new financing include KfW's programs for "financing of residential property" as well as parts of the program for "energy-efficient construction." New and follow-up financing may also be combined with KfW's "Energy efficient refurbishment" program.

ING-DiBa's mortgage loan portfolio volume amounted to EUR 69.7 billion as of the end of the reporting period (previous year: EUR 68.0 billion)[1]. EUR 5.2 billion (previous year: EUR 5.4 billion) of the loan commitments had not yet been drawn.

In cooperation with Sprengnetter GmbH, ING-DiBa launched the "ImmoWert2Go" app in the fiscal year. This app can be used to value real estate quickly and easily, even on the go. It allows interested parties to determine the indicative value of a property without having to engage an expert or pay for the valuation.

The "ImmoWert2Go" app determines the estimated value of a property on the basis of a photo, distinguishing between houses and apartments in this process. The value is determined on the basis of the property type detected and its location. The app bases its estimate on a year of construction typical of the location and the average accommodation size of comparable properties in the immediate vicinity of the property in the photograph. If the user knows the exact year of construction and the size of the dwelling, they can adjust these two variables and immediately get a more accurate valuation.

Consumer loans

The positive economic conditions in Germany and the relatively relaxed situation on the labor market led to another increase in consumer spending in the fiscal year. Many consumers are taking advantage of the low interest rates to make new purchases funded by cheap consumer credit. The consumer loan portfolio volume totaled EUR 7.8 billion as of December 31, 2017 (previous year: EUR 6.8 billion)[1]. In its consumer loans business, the Bank continues not to insist on contract components that place retail customers at an additional disadvantage – such as compulsory residual debt insurance.

[1] Presentation changed from Management Accounting figures to Financial Accounting figures.

Wholesale Banking

General

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

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

Customers in Germany

The portfolio offered in the Wholesale Banking segment comprises mainly loans, transaction services, and financial markets products. In the lending business, the Bank offers the entire range of products that allow major companies to finance themselves. Transaction

Services focuses on cash management and payments, trade finance services, i.e., guarantees and letters of credit, as well as working capital solutions. Through its Financial Markets unit, Wholesale Banking provides access to ING Service for extensive hedges for currency, commodity, interest rate and other risks as well as the distribution of bonds and notes in the primary and secondary markets. The sectors in which ING-DiBa is active for corporate customers in Germany are: automotive; chemicals & pharma; consumer, food & retail; industrials; natural resources; power, utilities, renewables & infrastructure; telecoms, media & technology; transport & logistics; as well as services for financial institutions.

Global investors

In its Wholesale Banking segment, ING-DiBa offers global investors and projects structured finance solutions, which focus on four different sectors: Structured Export Finance primarily supports German business with the export of merchandise by granting loans for exports to developing countries which are covered by a governmental export credit insurer, e.g., Euler Hermes. ING Structured Export Finance has a leading role in the German market. Since 2013, Frankfurt am Main has been the global competence center of ING Groep N.V. for structured export finance. Since 2015, Frankfurt am Main has been the global competence center for the automotive platform for corporate clients as well as for rail and aviation finance. Since 2017, Frankfurt has also been the global point of contact for structured metals and energy finance.

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

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

During the fiscal year, the Bank again gained well-known German and international companies either as new customers or strengthened relationships with existing customers. Some of the growth in this segment is attributable to asset transfers within the ING Group. The quality of the loan portfolio developed in line with the Bank's strategic guidelines.

Wholesale Banking's loan volume totaled EUR 30.7 billion as of December 31, 2017 (previous year: EUR 25.7 billion). Guarantees, contingent liabilities, and irrevocable loan commitments increased during the fiscal year to EUR 10.8 billion (previous year: EUR 9.8 billion).

Results of operations

Group overall results of operations

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

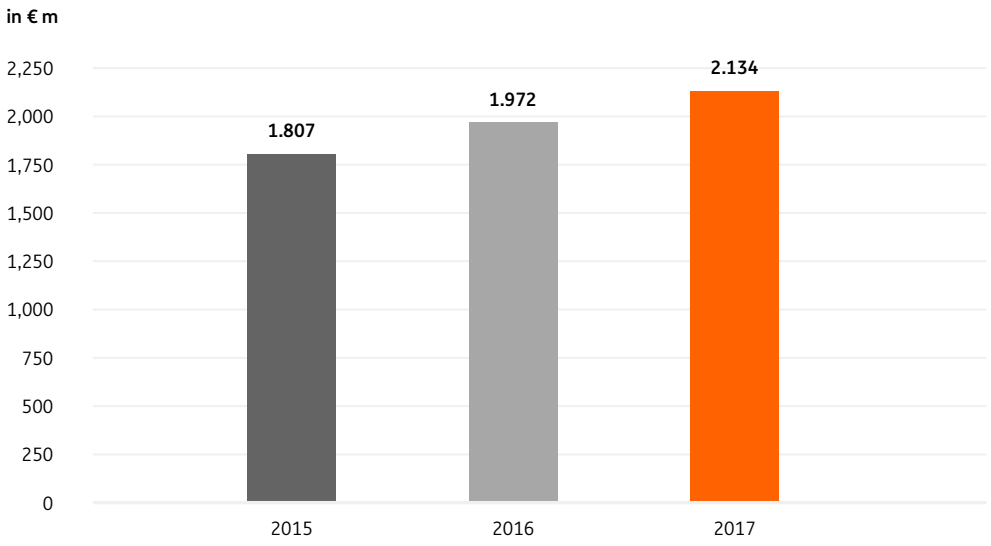
Income Statement	2017 € m	2016 € m	Change € m
Net interest income	2,134	1,972	162
Net commission income	124	104	20
Other net income	–74	45	–119
Risk provision	57	–31	88
Personnel expenses	–378	–342	–36
Other administrative expenses	–594	–514	–80
Profit before tax	1,269	1,234	35
Income tax	–392	–375	–17
Profit after tax	877	859	18

In fiscal year 2017 the ING-DiBa Group generated EUR 1,269 million in profit before tax, representing a 2.8 percent increase as compared to the previous year, despite a challenging industry environment.

Net interest income

	2017 € m	2016 € m
Interest income		
Interest income from lending transactions	2,964	2,991
Interest income from available-for-sale securities	479	581
Interest income from held-to-maturity securities	14	16
Other interest income	–573	–753
Negative interest	50	16
Total interest income	2,934	2,851
Interest expenses		
Interest expenses on deposits from banks	344	289
Interest expenses on amounts due to customers	297	537
Interest expenses on subordinated debts	1	0
Interest expenses on securitized liabilities	14	20
Other interest expenses	82	14
Negative interest	62	19
Total interest expenses	800	879
Net interest income	2,134	1,972

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



In the banking industry, the main factors impacting the year under review were competition and the continuing low overall interest rate levels. In this environment, the Bank increased net interest income in the fiscal year by 8.2 percent, from EUR 1,972 million to EUR 2,134 million. Despite an increase in the deposit volume, this development was largely driven by a decline in interest expenses on customer deposits. This decrease essentially resulted from interest rate adjustments to match the capital market during the course of the fiscal year. The continued expansion of the wholesale banking business made a positive contribution.

Interest income from lending transactions declined by EUR 27 million to EUR 2,964 million (2016: EUR 2,991 million) despite higher lending volume. This decrease essentially resulted from changes in terms and conditions in the lending business driven by changes in market interest rates. Interest income from securities decreased from EUR 597 million in fiscal year 2016 to EUR 493 million for fiscal year 2017.

Other interest income, which includes net interest income on hedging derivatives, improved to EUR –573 million (2016: EUR –753 million).

Overall, interest income rose by EUR 83 million to EUR 2,934 million, while interest expenses fell by EUR 79 million to EUR 800 million.

Net commission income

Net commission income totaled EUR 124 million in fiscal year 2017 (2016: EUR 104 million). Commission income increased from EUR 243 million to EUR 273 million. This development was mainly attributable to higher commission income in the securities business due to increased customer trading activity. On balance, commission expenses increased slightly, driven by additional costs attributable to payment transactions.

Other net income

Other net income includes EUR –75 million in measurement gains on derivatives and hedged items (2016: EUR 27 million), EUR 36 million in other gains on financial investments and investment property (2016: EUR 48 million), and net income from other income and expenses of EUR –35 million (2016: EUR –30 million).

Gains from the optimization of the securities portfolio were the primary contributor to other gains on financial investments and investment property in fiscal year 2017. The sale of shares in Visa Europe resulted in a gain of EUR 13 million.

The net income from other income and expenses in fiscal year 2017 included currency translation expenses amounting to EUR 37 million (2016: EUR 24 million).

Risk provision

Risk provisioning expenses declined by EUR 88 million year on year in fiscal year 2017, leading to income totaling EUR 57 million. The positive trend in the risk provision is attributable to two factors: firstly the adjustments to measurement inputs in the credit risk models, and secondly the decline in the incidence of defaults on mortgage loans. The generally favorable economic conditions in Germany (declining unemployment and the upward trend in real estate prices) contributed to this development.

At the end of the year, the Bank's valuation allowances (including provisions for credit risks) totaled EUR 471 million (previous year: EUR 567 million). The total amount comprises specific impairment allowances of EUR 69 million (previous year: EUR 81 million), portfolio-based specific impairment allowances of EUR 273 million (previous year: EUR 304 million), and portfolio-based impairment allowances of EUR 129 million (previous year: EUR 182 million). Of these amounts, the retail customer business accounts for specific impairment allowances of EUR 36 million (previous year: EUR 45 million), portfolio-based specific impairment allowances of EUR 273 million (previous year: EUR 304 million), and portfolio-based impairment allowances of EUR 108 million (previous year: EUR 162 million).

Personnel expenses

Personnel expenses increased by 10.5 percent year on year, from EUR 342 million to EUR 378 million, in particular as a consequence of the hiring of new employees.

Other administrative expenses

Other administrative expenses including depreciation, amortization, and write-downs increased from EUR 514 million in the prior-year period to EUR 594 million in fiscal year 2017. This development was primarily attributable to higher legal and consulting expenses as well as IT costs for the Bank's further development (Project "Welcome" aimed at optimizing and digitizing internal processes). Premiums for the bank restructuring funds (bank levies) and contributions for deposit protection increased year on year, from EUR 85 million to EUR 115 million.

Income tax

Income tax amounted to EUR 392 million (2016: EUR 375 million) and comprised the current tax expense of EUR 348 million (2016: EUR 371 million) and deferred tax expense of EUR 44 million (2016: EUR 4 million).

A profit and loss transfer agreement in accordance with section 291 (1) of the German Stock Corporation Act (*Aktiengesetz*, "AktG") is in place between ING-DiBa and ING Deutschland GmbH. This agreement forms the basis for a tax group for corporate income tax and trade tax. Under this arrangement, ING-DiBa is a tax group subsidiary and ING Holding Deutschland GmbH is the tax group parent. An allocation agreement has been in place for this tax group since 2017.

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

At 30.9 percent, the effective tax rate for 2017 was below the nominal tax rate of 31.8 percent. In 2016, the effective tax rate of 30.4 percent was below the nominal tax rate of 31.6 percent. There were no notable events having a material effect on the tax rate during the reporting period.

Results of operations by segment

	2017 Retail Customer Loans € m	2017 Retail Customer Assets € m	2017 Wholesale Banking € m	2017 MA total € m	2017 Reconciliation € m	2017 IFRS € m
Net interest income	771	946	443	2,160	-26	2,134
Net commission income	-73	103	54	84	40	124
Other income	0	-42	18	-24	-50	-74
MA income	698	1,007	515	2,220	-36	2,184
Risk provision	3	6	-5	14	43	57
Administrative expenses	-216	-683	-115	-1,014	42	-972
Pre-tax MA result	485	330	405	1,220	49	1,269

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

Retail Customer Loans segment

The core products of the Retail Customer Loans segment include mortgage and consumer loans. Earnings from the Retail Customer Loans segment declined by EUR 7 million in fiscal year 2017 to EUR 485 million (2016: EUR 492 million). Net interest income increased by EUR 28 million, from EUR 743 million to EUR 771 million in fiscal year 2017. The risk provision was influenced by a positive effect of EUR 3 million during the year. The positive trend in the risk provision is attributable to two factors: firstly the adjustments to measurement inputs in the credit risk models, and secondly the decline in the incidence of defaults on mortgage loans.

The positive development of net interest income was due to factors including further growth in volumes for both mortgage and consumer loan products. In addition, the effect of changes in terms and conditions driven by changes in market interest rates had a positive impact on net interest income.

In addition, net commission income increased by EUR 11 million to EUR –73 million (2016: EUR –84 million) due to lower bonus payments and a decrease in new business from brokers.

Administrative expenses rose by EUR 27 million to EUR 216 million (previous year: EUR 189 million).

Retail Customer Assets segment

The Retail Customer Assets segment includes the core products of savings deposits, securities business, and current accounts. Earnings from the Retail Customer Assets segment decreased by EUR 152 million to EUR 330 million in fiscal year 2017 (2016: EUR 482 million). This was due in particular to negative other income and higher administrative expenses.

Net interest income continued to improve slightly, growing by EUR 15 million as against the prior year.

Of the EUR 17 million increase in net commission income, EUR 18 million was attributable to higher net commission income in the securities business due to a rise in securities transactions, portfolio commissions, and front-end loads.

Administrative expenses for the Retail Customer Assets segment increased by EUR 109 million to EUR 683 million (previous year: EUR 574 million) due to higher personnel expenses and IT and consulting expenses.

Other income amounted to EUR –42 million in fiscal year 2017 (previous year: EUR 43 million), a year-on-year deterioration of EUR 85 million. This is mainly due to a poorer hedge result.

Wholesale Banking segment

Earnings from the Wholesale Banking segment increased by EUR 102 million to EUR 405 million in fiscal year 2017 (previous year: EUR 303 million). This increase was mainly due to the EUR 118 million total rise in net interest income resulting from the increased volume of lending and new business.

The EUR 22 million increase in administrative expenses in this segment was attributable to the hiring of additional employees, increased project costs, and services due to the higher business volume in fiscal year 2017, as well as a rise in recharged costs.

Assets, liabilities, and financial position

Development of the statement of financial position

The following presents the development of the key measures of assets, liabilities and financial position as of December 31, 2017, as compared to the previous year.

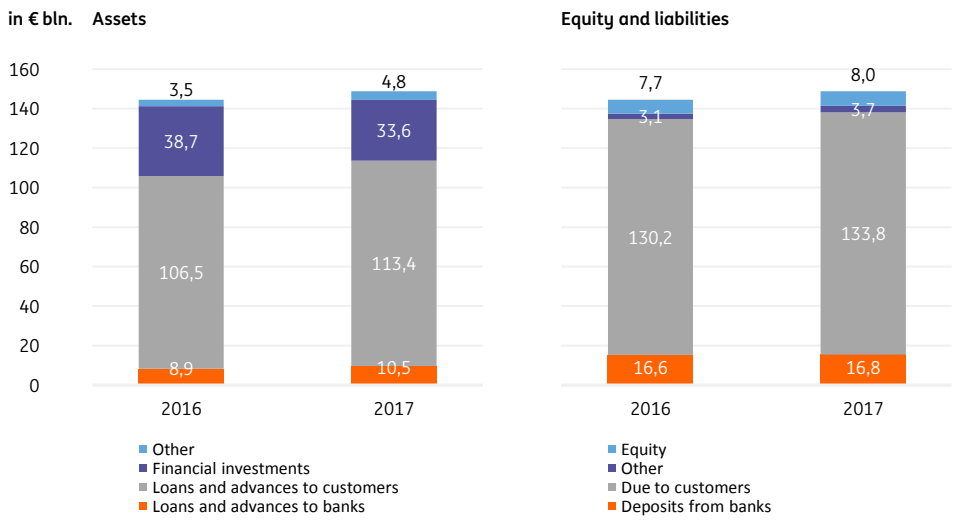
Consolidated statement of financial position	12/31/2017 € m	12/31/2016 € m	Change € m	Change Percent
Assets				
Loans and advances to banks	10,494	8,881	1,613	18
Loans and advances to customers	113,426	106,459	6,967	7
Adjustment to portfolio fair value hedges	439	879	–440	–50
Financial investments	33,574	38,738	–5,164	–13
Derivatives with positive fair value	524	345	179	52
Other assets	3,799	2,251	1,548	69
Total assets	162,256	157,553	4,703	3
Equity and liabilities				
Equity	7,954	7,690	264	3
	1,400	0	1,400	0
Securitized liabilities	1,218	1,272	–54	–4
Deposits from banks	16,755	16,595	160	1
Due to customers	133,789	130,151	3,638	3
Derivatives with negative fair value	78	336	–258	–77
Other liabilities	1,062	1,509	–447	–30
Total equity and liabilities	162,256	157,553	4,703	3

The ING-DiBa Group's total assets grew by 3.0 percent to EUR 162.3 billion as of December 31, 2017 (December 31, 2016: EUR 157.6 billion). Assets are characterized by loans and

advances to customers and financial investments. The Bank's liquidity position was continuously good during the fiscal year. Regulatory requirements were complied with at all times in the fiscal year. Please refer to the section entitled "Monitoring and management of liquidity risks" in chapter 4 – Risk report for a presentation of the liquidity analysis, the capital structure and the results therefrom. The changes in cash flows from operating, investing and financing activities for the fiscal year and the previous fiscal year are presented in the statement of cash flows in the consolidated financial statements.

Contingent liabilities increased to EUR 16.4 billion at the end of the fiscal year (December 31, 2016: EUR 15.6 billion).Contingent liabilities included EUR 15.1 billion in irrevocable loan commitments as of December 31, 2017 (December 31, 2016: EUR 14.5 billion).

Structure of the statement of financial position



Assets

Loans and advances to banks increased by EUR 1.6 billion to EUR 10.5 billion in fiscal year 2017. The change compared to the previous year essentially resulted from an increase in collateralized deposits with the Group parent, ING Bank N.V.

Loans and advances to customers increased from EUR 106.5 billion to EUR 113.4 billion in fiscal year 2017. The EUR 7.0 billion increase in loans and advances compared to December 31, 2016 is attributable primarily to the growth in the corporate customer business as well as in mortgage financing and consumer loans.

The portfolio of financial investments decreased by EUR 5.2 billion to EUR 33.6 billion in 2017. This change is mainly the result of securities reaching maturity.

Other assets primarily present interest accruals and the cash reserve.

Equity and liabilities

Subordinated liabilities in a nominal amount of EUR 1,400 million were drawn down in 2017.

Deposits from banks increased only slightly in fiscal year 2017 to EUR 16.8 billion (previous year: EUR 16.6 billion).

Despite the generally low market interest rates in fiscal year 2017, ING-DiBa was able to increase the deposit volume once again. Amounts due to customers increased by 2.8 percent or EUR 3.6 billion to EUR 133.8 billion (previous year: EUR 130.1 billion).

The growth was based on increases in current accounts and call deposit accounts (Extra account). ING-DiBa's average interest rate on call deposits was above normal industry levels.

Equity increased from EUR 7.7 billion as of December 31, 2016 to EUR 8.0 billion as of December 31, 2017. ING-DiBa's share capital was completely held by ING Deutschland GmbH, Frankfurt am Main, as of December 31, 2017.

Derivative financial instruments

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

Overall statement

ING-DiBa again attained its goal of realizing a moderate rise in business volume in fiscal year 2017. The expectation that this would have a positive effect on net interest income was also met. Administrative expenses also increased, as expected, in line with the rise in business volume. As anticipated, the Result before Tax MA decreased in the course of the fiscal year. Contrary to expectations, net income before tax increased moderately. The assets, liabilities, financial position, and results of operations were extremely satisfactory at the end of the year under review.

Non-financial performance indicators

ING-DiBa's economic performance and its further development are also affected decisively by non-financial factors. For example, corporate social responsibility to customers and employees is a particular focus of the Bank. Important in equal measure are aspects that motivate employees and encourage their involvement in ING-DiBa's success.

ING-DiBa is exempt from the requirement to prepare a non-financial statement pursuant to section 289b HGB. This requirement is met by ING Groep N.V., Amsterdam, Netherlands, in accordance with Dutch law. The report is published in English on its website, www.ing.com.

Key non-financial performance indicators

Employee satisfaction and culture

Typifying this is a culture that is characterized by open communication, short decision-making processes and recognition of special performance. Our employees confirm this in regular internal surveys with high overall satisfaction. For example, ING-DiBa was selected as one of Germany's best employers in the "Great Place To Work" competition for the eleventh time in a row. The survey serves as an important feedback tool, above all for discussing the corporate culture throughout the Company in all our teams in order to further develop this culture. In the survey, 81 percent (previous year: 82 percent) of employees indicated that they are highly satisfied with their job at ING-DiBa. With a difference of one percentage, this puts the result very close to the level forecast in the previous year.

Other non-financial performance indicators

Number of customers

As already mentioned, ING-DiBa's customer base again grew significantly in fiscal year 2017. The number of customers in Germany and Austria rose by 284 thousand as against 2016 to almost 9.065 million (previous year: 8.781 million). This success emphasizes the fact that the Bank's strategy of offering customer proximity and simple, fair banking is consistently meeting with a very positive response on the market, despite the continuing challenges posed by the market environment. Constantly high customer satisfaction is a key factor for the Bank's continuing customer growth.

Customer satisfaction

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

The winner in the "Germany's Most Popular Bank" category was determined by more than 150 thousand bank customers, who voted on this issue. Participants evaluated factors including the banks' product portfolios, account fees, the interest rates on deposits and lending, as well as the quality of online banking.

The "Germany's Best Bank" award illustrates that ING-DiBa's customers were the most satisfied overall with their bank. The contributing factors in winning the award included the current account, which remains free of charge, good terms and conditions for installment loans, and the securities account, which is equally suitable for beginners and advanced investors.

A key figure for quantifying customer satisfaction is the Net Promoter Score (NPS). To determine this score, customers are regularly surveyed online on a voluntary basis about their willingness to recommend ING-DiBa to friends or relatives. NPS represents the proportion of customers who would recommend the Bank less those who would not make such a recommendation. In the year under review, ING-DiBa achieved a very good score of 41 percent (previous year: 36 percent).

Service level

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

"FAIRantwortung"

In addition to corporate culture, social commitment is a decisive factor for ING-DiBa's continuing success. With that in mind, the Bank relies on the principle called "FAIRantwortung" (a play on the German word for responsibility, "Verantwortung"). Based on the corporate values of fairness and responsibility, it covers the following four dimensions:

1. Sustainable banking business

Our commitment to sustainability covers the responsible handling of customer deposits and resources, as well as the opportunities that a more sustainable society and economy offer our customers and our Bank.

- Retail: Securities campaign on sustainability. In September and October of the fiscal year, the "Nordea Global Climate and Environment Fund" (global equity fund focusing on companies with climate solutions) and the iShares MSCI Europe SRI UCITS ETF EUR (ETF focusing on European equities) were marketed on ING-DiBa's website.

- Wholesale Banking: Sustainability is an integral part of the corporate customer business. A significant deal in 2017, for example, was the green bond issued by MANN+HUMMEL, for which ING Bank was one of the arrangers.

2. Understanding finance

ING-DiBa encourages consumers to be self-reliant in financial matters – by providing simple, transparent banking products and services that help customers make decisions.

- Online financial adviser: According to a study conducted by ING-DiBa and market research firm Ipsos, over half of Germans refer to themselves as "financially illiterate." ING-DiBa gives its customers free access to the ZEIT Akademie's new video tutorial, "Das Einmaleins für Finanzen – Wie Sie einfach mehr von Ihrem Geld haben" (The basics of finance – how easy it is to get more out of your money).

- "Barcamp Entrepreneurial Journalism": At the event to mark the Helmut Schmidt Award for Journalism, over 50 participating journalists exchanged news and views on "crowdfunding, paywalls, communication or corporate publishing – how will freelance journalists make their money in future?".

3. Employees

As an employer, ING-DiBa encourages its employees to develop their individual strengths and aims to provide them with a "great place to work."

In 2017, ING-DiBa expanded the scope of the forward-looking collective bargaining agreement. The new features include:

- Pro-health budget: Every employee has an annual pro-health budget of EUR 300, which they can use, for example, to pay a proportion of the membership fee of their local sports club or gym.

- DiBa Flexi-Time gives employees the opportunity to take a break of one to three months and use the time as they see fit, e.g., for travel, social involvement, or further training. In special life situations, ING-DiBa also provides financial support, e.g., for looking after relatives.

4. Social commitment

Wider society should also benefit from ING-DiBa's success. As a good corporate citizen, we therefore support the voluntary commitment of citizens and our employees, as well as selected UNICEF projects.

- "*Du und Dein Verein*" (You and your association): The 2017 fiscal year is the fifth year in which ING-DiBa has supported volunteer and charitable work in associations in Germany, granting EUR 1 million in total. In Germany's biggest campaign involving clubs and associations, the 10,600 participating associations were invited to vote for the one thousand most popular ones.

- "Champions for Charity": For the second time in succession, Dirk Nowitzki and ING-DiBa hosted a benefit football match in Mainz in 2017. Dirk Nowitzki and Mick Schumacher and their teams of prominent players again raised EUR 100 thousand: EUR 50 thousand each will support projects of the Dirk Nowitzki Foundation and the Keep Fighting Foundation.

- As part of the "Give five!" annual corporate volunteering program, ING-DiBa employees have the opportunity to choose a project of a charitable organization to which they then donate a day's volunteer work.

Dirk Nowitzki and ING-DiBa resolved to intensify the long-standing successful cooperation, agreeing a lifetime partnership in July 2017.

Handling diversity

The Bank places great value on a work environment that is characterized by respect, fairness, tolerance and equal opportunity. An open, diverse workforce promotes motivation and performance and thus provides an important contribution to the corporate culture and sustainability as an employer. Through the "Diversity Council", ING-DiBa is pursuing the goal of attaining a good understanding and high degree of penetration for the topic of diversity among employees and managers. The Diversity Council's work focuses on the topics "women and career," "age mix," and "work-life balance." The Bank's "Opportunities through Training" program fosters versatility, self-determination, and inclusiveness in its own organization. As part of its "Education 50+" program, ING-DiBa has been training people over 50 to be banking assistants with a focus on real estate financing or customer dialog since 2006. With an expanded training offering, parents can now also complete part-time training in office management or dialog marketing. In the same manner, persons with handicaps can train as a bank business management assistant or IT specialist. ING-DiBa has already been presented with the "Diversity" special award by the "Great Place to Work" Institute for this program.

Healthy with "DiBa FIT"

The topic of health is also a fixed component of the corporate culture. "DiBa FIT" provides employees with offerings on a range of topics, such as nutrition and exercise as well as psychological and preventive healthcare. In order to anchor health even more strongly in the consciousness of employees and managers, all managers receive regular training on the subject of "Healthy management". A new benefit that has been introduced is the "pro-

health budget," which allows employees to take advantage of preventive healthcare offerings free of charge each year, using a points account. Among other benefits, this includes incentives to take part in private initiatives such as regular gym visits or sports club memberships. In this role, managers regularly and actively approach employees in order to address health topics. ING-DiBa was awarded the Corporate Health Award for its health management program.

Forward-looking collective bargaining agreement with ver.di

Many of the measures already described were set forth in a forward-looking collective bargaining agreement, which the Bank has agreed to together with the ver.di service union. The agreement was renewed in 2017. It supplements the Bank's existing collective bargaining agreement by additional, attractive offerings, among them on topics such as childcare, adult care, health, sabbaticals, further training, and phased retirement. The forward-looking collective bargaining agreement is a first in the banking industry. The goal of the agreement is to live up to changing life and work conditions sustainably in the future as well.

Corporate Governance Declaration

Promotion of women

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

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

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

Current status and target quotas for the promotion of women

	Men 12/31/2017	Women 12/31/2017	Total 12/31/2017	Percentage of women 12/31/2016	Percentage of women 12/31/2017	1st level target quota in percent 6/30/2017	2nd level target quota in percent 6/30/2020
Supervisory Board	9	3	12	18	25	25	33
Management Board	5	1	6	17	17	20	20
Senior management	39	9	48	12	19	22	30

The Bank combines the two management levels below the Management Board in senior management. As of the closing date, the first management level had four women out of 24 employees. The ratio of women at this level thus declined slightly, from 18 percent in the previous year to approximately 17 percent in the fiscal year under review. The percentage of women at the second management level was 21 percent at the end of the fiscal year (previous year: 5 percent), confirming the Bank's approach to the promotion of women.

The target quotas are identical for both the first and second management levels and they are combined within the goals for senior management. Overall, the percentage of women in the Bank's management levels is heading in a positive direction. The first target quota in 2017 was met on the Supervisory Board, where a ratio of 25 percent was achieved. At the Management Board level, the proportion of women was unchanged as of the reporting date, which means that the ratio falls slightly short of the 20 percent target. A significant increase in the proportion of women at the senior management level to a total of 19 percent (previous year: 12 percent) confirms the Bank's measures to promote women, even though the 22 percent target set for 2017 has not quite been achieved.

Compatibility of career and family

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

- The job guarantee allows the return to their job within twelve months after the birth of a child. The Bank maintains active contact with its employees during parental leave.
- ING-DiBa supports its employees with childcare centers at all locations, a monthly expense allowance for childcare as well as care during vacations and emergencies.
- Employees who care for a family member privately received a care allowance and free consulting as well as support in the search for the appropriate type of care.

Award for compatibility of career, family, and caregiving

For its involvement in and commitment to the compatibility of career, family, and caregiving, ING-DiBa was awarded the Otto Heinemann Prize for the first time in 2017. In addition, berufundfamilie Service GmbH again certified ING-DiBa as one of Germany's most family-friendly employers, an accolade the Bank has received regularly since 2005.

3. Risk Report

Principles of risk management

Risk categories

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

Market price risk relates to the potential loss resulting from a change in market parameters. In this risk category, ING-DiBa differentiates between interest rate risk, basis risk, spread risk and currency risk.

Liquidity risk is defined as the risk of not being able to meet current or future payment obligations on the agreed date (liquidity risk in the narrow sense). Intraday liquidity risk, i.e., the risk that the Bank will not be able to meet its payment obligations at the expected time on a given day, is a subset of this risk type. Liquidity transformation risk, which is the risk of loss in earnings as a result of deteriorating refinancing terms with respect to deposits by retail customers that cannot be attributed to interest rate risk materializing, is another component of liquidity risk. In addition, this risk category subsumes potential losses as a result of the increase in the cost of refinancing funds on the money and capital markets (funding liquidity risk) as well as the risk of a shortfall in proceeds from the sale of assets due to market conditions (market liquidity risk). Liquidity risks can arise in different currencies.

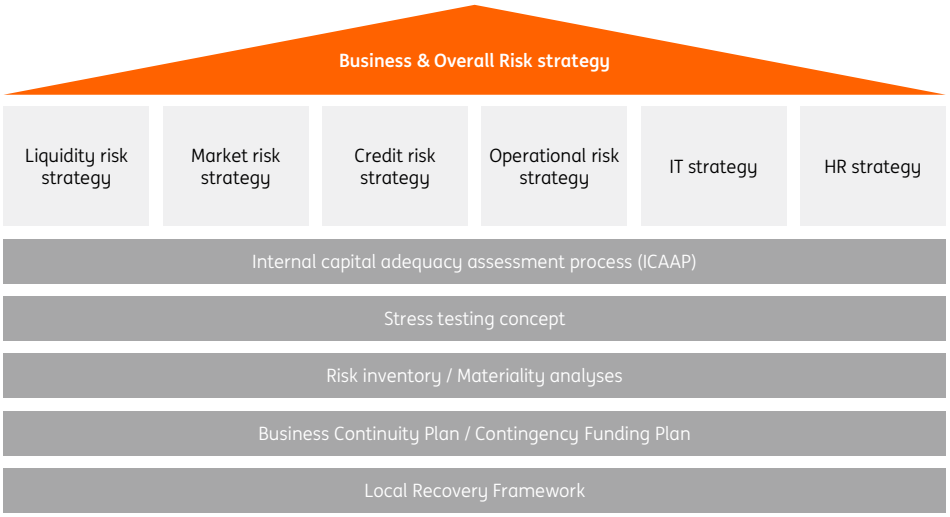
Traditional credit risk is a component of counterparty default risk and represents the risk of a loss due to the default or deterioration in creditworthiness of an external counterparty.

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

Organization

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

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



Policies
(i.a. structural & operational organisation, segregation of duties, model concepts)

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

The respective Risk Management organizational units are responsible for independently managing ING-DiBa's risks: Market & Integrative Risk Management, Credit Risk Manage-

ment as well as Non-Financial Risk Management & Compliance. All the above units report directly to the Chief Risk Officer. Corporate Audit Services reviews the risk management system as a rule on an annual basis, however at a minimum every second year.

Risk committees

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

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

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

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

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

Risk strategy

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

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

tions. In conjunction with the risk-bearing capacity, the overall risk strategy reflects the Bank's risk appetite.

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

The Bank's strategic risk orientation is derived from the idea of fairness and ING-DiBa's express focus on quality, which includes a sound and trustworthy way of doing business. Consequently, risks may only be incurred with respect to all business activities to the extent necessary to reach the Bank's strategic goals. An unnecessarily risky and complex business and risk policy is strictly rejected.

Risk-Bearing Capacity Concept

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

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

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

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

In order to determine the overall risk position, the individual risk types are first observed separately. Each risk type is quantified using appropriate models. When quantifying the default and operational risks, the same methods are used as for calculating the economic and regulatory minimum capital requirements under Basel III (Internal Ratings-Based Ap-

proach (IRBA) or Advanced Measurement Approach (AMA)). The market price risk is quantified using periodic analysis as well as present-value analysis on the basis of internal simulation models.

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

Risk-taking potential and risk limits

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

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

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

Risk-bearing capacity in the year under review

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

The Bank's risk-bearing capacity was ensured at all times during the course of the 2017 fiscal year. The existing limits were not exceeded. The limits and risk-taking capital, as well as their relevant utilization as of December 31, 2017, are quantified in the table below.

	12/31/2017 Limits € m	12/31/2017 Utilization of limit Percent limit	12/31/2016 Limits € m	12/31/2016 Utilization of limit Percent limit
Counterparty default risk	700	66	700	70
Market price risk	700	50	700	36
Operational risk	40	75	40	72
Overall limit and limit utilization	1,440	59	1,440	54
Risk-taking capital and utilization	3,463	24	2,378	33

ING-DiBa's risk-taking capital amounted to EUR 3,463 million as of December 31, 2017, an increase of EUR 1,085 million compared with the previous year (EUR 2,378 million). This is due to the fact that in fiscal year 2017, through ING Deutschland GmbH and ING Holding Deutschland GmbH, ING-DiBa received capital instruments from ING Bank N.V. that qualify as Tier 2 capital and thus increase regulatory capital.

The utilization of the overall limit was above the previous year's level and amounted to 59 percent as of December 31, 2017 (previous year's level: 54 percent). The increase resulted primarily from higher market price risk, which is attributable to investments in the Bank's liquidity portfolio.

As in the previous year, the limit buffer totaled EUR 550 million. The risk-taking potential thus amounted to EUR 4,013 million as of December 31, 2017 (previous year: EUR 2,928 million).

Stress tests

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

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

The effects of a strong global recession in conjunction with an increase in interest rates, an increase in the EUR/USD exchange rate, and an expansion of spreads are examined for all significant risk types in the representative stress scenarios and observed in the context of the going-concern assumption in the Risk-Bearing Capacity Concept. The objective is to

review the Bank's risk-bearing capacity in the event of a potentially sharp economic downturn. The review is carried out for all risk types relevant to the Risk-Bearing Capacity Concept. The results of the representative stress tests across risk categories conducted as of December 31, 2017, show that the available risk-taking capital also sufficiently covers the overall risk exposure under the stress conditions observed.

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

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

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

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

As part of adverse capital planning, all risk types relevant to the going-concern approach are stress-tested, and a reverse stress test is performed in another scenario.

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

Risk concentration

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

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

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

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

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

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

Risk reporting

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

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

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

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

Monitoring and management of market price risks

Risk definition

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

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

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

Organization

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

Market price risk strategy

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

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

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

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

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

- The Bank wants to limit fluctuations in the expected net interest income of the next 12 months as a result of changes in interest rates
- The Bank wants to limit fluctuations in the net present value as a result of changes in interest rates
- The Bank wants to limit fluctuations in the revaluation reserve (IFRS) as a result of changes in market prices

- The Bank's risk-bearing capacity should always be ensured
- The Bank wants to limit fluctuations in the IFRS income statement as a result of changes in market prices
- The Bank wants to avoid fluctuations in the net present value as a result of changes in foreign exchange rates.

Operational risk management and risk control

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

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

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

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

ING-DiBa applies the net present value at risk (NPV@R) approach on the basis of a detailed present value model as a metric for measuring the effect of the interest rate risk on present value. Net present value describes the sum of the carrying amount of shareholders' equity and "added value", which is defined as the present value of all future cash flows

from continuing operations less the carrying amount of shareholders' equity. It is an indicator for the increase in value of the banking book.

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

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

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

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

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

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

Sensitivity analysis in the year under review

The sensitivity of net interest income measures the effect on net interest income in the next twelve months in the event of a shock-like increase or decline in the yield curve by 90

basis points (bp). The absence of a floor of zero in the latter scenario following the transition is evident from the fact that the plus and minus signs in the sensitivity analysis have been reversed. Following the ad hoc change, the analysis assumes that the interest rate remains at the changed level for one year. The table below shows the results of measuring the sensitivity of net interest income:

Sensitivity of net interest income Scenario	12/31/2017 Percent	12/31/2016 Percent
+90 bp (previous year: +100bp)	0.09	4.42
–90 bp (previous year: –100 bp)	–2.14	1.30

As of December 31, 2017, assuming a parallel interest rate increase of 90 basis points, the results of the sensitivity analysis show a 0.09 percent increase in net interest income compared with the starting point (previous year's increase of 100 basis points: increase of 4.42 percent). Assuming a parallel interest rate decrease of 90 basis points, net interest income would decrease by 2.14 percent (previous year's decrease of 100 basis points: increase of 1.30 percent). Interest rate sensitivity remained at a low level.

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

Sensitivity of net present value Scenario	12/31/2017 Percent	12/31/2016 Percent
+90 bp (previous year: +100 bp)	–3.21	–2.49
–90 bp (previous year: –100 bp)	0.23	–0.81

Assuming an interest rate shock of +90 basis points, net present value as of December 31, 2017 would decrease by 3.21 percent (previous year + 100 basis points: –2.49 percent), whereas a change of 0.23 percent would result from a corresponding decline in the interest rate (previous year –100 basis points: –0.81 percent). As the regulatory floor of zero is considered at an interest rate shock of –90 basis points, this is de facto a tilting scenario (the market interest rates at the front end of the yield curve as of December 31, 2017 are already in negative territory and can no longer move due to the floor in the scenario. Due to the steepness of the market interest rate curve, there is still an interval to the zero line at the long end; the interest rate shock can still have an impact here). The informative value is thus limited (as was also the case in the previous year), meaning that no useful comparison with the prior-year figure is possible.

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

Sensitivity of revaluation reserve Scenario	12/31/2017 € m	12/31/2016 € m
+90 bp (previous year: +100 bp)	–214	–716
–90 bp (previous year: –100 bp)	224	215

Assuming an interest rate shock of +90 basis points, the revaluation reserve as of December 31, 2017 would decrease by EUR –214 million (previous year+100 basis points: EUR –716 million), whereas a decrease in the interest rate would result in an increase of EUR 224 million (previous year –100 basis points: EUR +215 million).

Limitation

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

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

Market price risk reporting

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

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

Monitoring and management of liquidity risks

Risk definition

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

With respect to liquidity risk, the Bank therefore differentiates between

- Insolvency risk (liquidity risk in the narrow sense), i.e., the risk that the Bank cannot meet its payment obligations in full or on the agreed date.
- The liquidity risk in foreign currency, i.e., the risk that the Bank cannot obtain the necessary currencies on the market.
- Intraday liquidity risk, i.e., the risk that the Bank will not be able to meet its payment obligations at the expected time on a given day (including in foreign currencies).
- Liquidity transformation risk, which is the risk of loss in earnings as a result of deteriorating refinancing terms with respect to deposits by retail customers that cannot be attributed to interest rate risk materializing.
- Refinancing risk, i.e., the risk of a potential loss of earnings that arises as a result of a deterioration in the Bank's refinancing terms and conditions on the money or capital market. The most important cause is a change in the Bank's credit rating by other market participants.
- The market liquidity risk, i.e., the risk of potential losses that have to be carried if low levels of liquidity in individual market segments require transactions to be entered into on terms and conditions that do not correspond to fair market value. Market liquidity risks may result primarily from securities positions in the trading and banking books.

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

Organization

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

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

Liquidity risk strategy

As a result of its specific business model, ING-DiBa's assets are normally less liquid than its liabilities, the majority of which are comprised of technically short-term demand deposits by retail customers. Based on historical analyses, a significantly longer holding period is assumed for these payable-on-demand deposits for the purpose of liquidity risk management. Consequently, ING-DiBa's primary liquidity risk is an adverse trend in the volume of retail deposits given a fixed commitment of longer-term assets (withdrawal of deposits). Such a case could result in losses if assets either have to be liquidated or alternatively refinanced via the money and capital markets. In this context, please see note 17 "Due to customers" and note 24 "Expected periods of realization" in the notes to the IFRS consolidated financial statements.

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

- The Bank aims to fulfill the regulatory liquidity requirements even after a mild stress situation.
- The Bank aims to fulfill its payment obligations in EUR at all times, even after a strong stress situation.
- The Bank aims to comply with the limits and requirements allocated to it by ING Bank N.V.

- The Bank aims to meet its USD payment obligations for three months even if the USD funding market is closed for it.
- The Bank aims to avoid roll-over-risk on at least 2/3 of its USD loan volume.

Contingency Funding Plan (CFP)

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

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

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

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

- Defined criteria for reaching a pre-crisis level or for initiating the CFP
- Strategy for covering liquidity shortages in emergency situations
- Rules for tasks, responsibilities, and decision-making authority in a crisis
- Rules for informing management and preparing the information in a timely manner
- The internal and external paths of communication used in the event of a liquidity shortage
- Measures that are continuously reviewed for their ability to be executed and adjusted if necessary
- The results of stress tests to be taken into account
- Planning of alternative refinancing sources, taking any income shortfall into account.

Operational risk management and risk control

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

- To ensure position data is entered correctly
- To check that limits are complied with, and when necessary to obtain approval of limit excesses from the authorized decision maker
- To determine the medium and long-term refinancing structure within the scope of multi-period planning
- To measure and manage liquidity risk
- To prepare, maintain, and further develop the liquidity risk model
- To keep management adequately informed of the risk situation
- To execute stress tests
- To determine internal transfer prices for liquidity as part of the funds transfer pricing methodology
- To monitor transactions with Group companies from a liquidity perspective
- To develop and implement a contingency plan for liquidity risks including regular monitoring.

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

Refinancing structure	12/31/2017 Percent	12/31/2016 Percent
Due to customers	82	83
of which with indefinite terms	76	74
of which definite terms	6	9
Other liabilities	13	12
Equity	5	5
Equity and liabilities	100	100

The sum of equity and liabilities is broken down according to amounts due to customers, other liabilities, and equity. The portfolio of amounts due to customers includes customer deposits with indefinite terms (such as Extra accounts payable on demand) and with definite terms (such as fixed-term deposits and savings bonds), as well as, in both categories, other deposits from institutional customers, and recorded an increase of approximately EUR 3.6 billion in the fiscal year. At 82 percent in fiscal year 2017, the ratio of amounts due to customers to total liabilities remained at the previous year's level. Other liabilities essentially include securitized liabilities in connection with Pfandbrief issues and amounts due to banks. As a proportion of total equity and liabilities, they were likewise on a par with fiscal year 2017, at 13 percent. As in the previous year, equity accounted for 5 percent of total equity and liabilities.

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

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

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

- Active acquisition of Wholesale Banking deposits.

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

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

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

Insolvency risk is regularly monitored by the Market & Integrative Risk Management organizational unit by means of scenario analysis on the basis of a cash flow-based gap calculation. As a part of its daily activities, Treasury monitors the intraday liquidity risk based on intraday simulations. In addition, the Market & Integrative Risk Management organizational unit carries out a monthly stress test. The liquidity transformation risk is monitored by Market & Liquidity Risk Management on a monthly basis. The funding liquidity risk can be classified as low due to ING-DiBa's low dependency on the money and capital markets as a source of refinancing. Market liquidity risk is factored into market price risk. To supplement the regulatory Liquidity Coverage Ratio (LCR), which the reporting system has to produce on a monthly basis, Market & Integrative Risk Management calculates an LCR each day using simplified, more conservative assumptions in order to ensure compliance at all times.

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

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

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

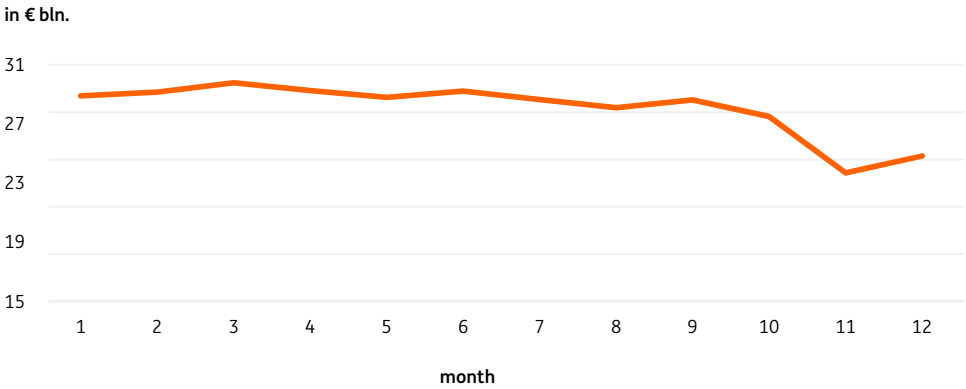
For selected scenarios, the Bank also calculates whether the criteria for complying with the LCR as a regulatory metric will still be met after the occurrence of a scenario.

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

Liquidity was consistently positive throughout the year 2017, not only for the base scenario but also for all stress scenarios used.

The chart below shows the liquidity forecast for the base scenario for the next 12 months. The maturity of the Pure German Lions RMBSs issued by the Bank will lead to a significant decline in the liquidity forecast from month 11 onward. Until then, the ECB-eligible securities can count toward liquidity, if an appropriate haircut is applied.

Liquidity forecast



In addition, the regulatory minimum liquidity requirements were complied with at all times in fiscal year 2017.

Limitation

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

Liquidity risk reporting

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

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

Monitoring and management of counterparty default risks

Risk definition

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

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

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

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

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

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

Organization

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

The Credit Risk Management organizational unit has been given general responsibility by the Management Board for managing credit risks for ING-DiBa. In addition to the Retail and Institutional Business, this also includes operational management of credit risks arising from Wholesale Banking. In addition, a risk unit with specialists was founded specifically for the North American market environment and is responsible for a specified portion of the Wholesale Banking portfolio.

The Credit Risk Management organizational unit is also responsible for operational limit monitoring. In so doing, Credit Risk Management works closely with the Market & Integrative Risk Management organizational unit. This unit was given the responsibility for the applied methods and models for identifying, quantifying, and managing the credit risks. In addition, Market & Integrative Risk Management formulates the Bank's credit risk strategy based on the directives from the full Management Board. In addition, the full Management Board determines the Bank's risk appetite.

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

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

Credit risk strategy

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

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

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

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

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

Operational risk management and risk control

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

Management elements of the bank‘s credit risk strategy

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

IRBA: Internal Ratings-Based Approach; EL: expected loss; UL: unexpected loss; PBIA: portfolio-based impairment allowance;

SIA: specific impairment allowance; PBSIA: portfolio-based specific impairment allowance; RWA: risk-weighted assets

Credit risk policy

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

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

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

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

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

Credit risk measurement and management

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

The internal rating models in the retail business were developed in coordination with the Group parent, ING. In wholesale banking and the institutional business, ING-DiBa uses the global IRBA models devised centrally by ING for Group-wide uniform implementation. Within the scope of monitoring the ratings system, Market & Integrative Risk Management routinely reviews, among other things, the forecast quality, accuracy, and stability of the models, and ensures their functionality and proper application. In addition, the models are reviewed on an annual basis as part of model validations. To this end, local model performance analyses are carried out and additional model analyses are performed by ING's Group-wide independent model validation unit. In this way, potential changes in the loss history impacting on the functionality of the ratings system can be identified early and adjusted if needed within the scope of the applicable model governance guideline. The Bank's Management Board receives regular information on the functionality of the IRBA models as well as on the results of the ratings performed as part of the management reporting process.

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

Credit risk management

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

The adequate segregation of functions between front office, back office, and risk monitoring in accordance with regulatory requirements (KWG, MaRisk) is essential for loan approval. The majority of ING-DiBa's standardized retail business is not risk-relevant. For real es-

tate loans in the retail business classified as risk-relevant, the loan decision-making authority lies with the responsible Management Board members. The Bank has established an authority matrix for decision-making powers in the wholesale banking lending business based on the riskiness of the transactions. Approval in the institutional business is granted within the scope of the limit system established by the full Management Board.

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

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

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

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

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

The Bank follows the market fluctuation concept for residential units produced by the German Banking Industry Committee of the Bundesverband deutscher Banken e.V., Berlin (Association of German Banks). The market fluctuation concept has been recognized by BaFin and the Deutsche Bundesbank as a statistical method under the German Banking

Act (*Kreditwesengesetz*, "KWG"). The Bank uses this method to ensure that significant house price fluctuations are identified during the annual analysis. In addition, ING-DiBa carries out an annual update of the valuation for investment properties in the credit risk-relevant real estate loan business (loan amounts in excess of EUR 1.5 million). The relevant real estate markets are also periodically analyzed.

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

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

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

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

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

Prior to the date on which the lending commitment is terminated (or for mortgage loans prior to internal termination), intensified management of retail loans in arrears is the responsibility of the team specialized in dunning procedures within the mortgage loan and other

retail loans product area. Subsequently, the Collection organizational unit in Credit Risk Management takes over responsibility for the market sale, foreclosure sale, and collection.

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

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

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

Credit risk control

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

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

Loan portfolio

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

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

Structural risk profile

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

Driven by a positive market environment, demand for mortgage loans remained stable at a high level in fiscal year 2017. The committed new volume was EUR 8.8 billion (previous year: EUR 9.6 billion). The risk profile of this new business likewise corresponds to the excellent positive level achieved in previous years. ING-DiBa's existing mortgage portfolio also showed a high degree of stability without structural changes in the risk profile over the course of the year.

Demand for consumer loans was strong in recent fiscal years. As in the previous years, this trend persisted in fiscal year 2017. The committed new loan volume increased by 10.1 percent (previous year: 10.5 percent) to around EUR 3.2 billion at year-end (previous year: EUR 2.9 billion).

There was continued strong demand for current accounts in 2017. In total, 373,000 new accounts were opened in fiscal year 2017. The number of accounts stood at around 2.1 million at the end of the year (previous year: 1.7 million accounts).

The lending business in the Corporate Lending and Financial Institutions Lending sections of the Wholesale Banking segment mostly encompasses the financing and provision of tailored financing solutions for reputable German or Austrian corporate customers and their foreign and domestic subsidiaries. The focus lies in particular on large corporates in sound financial standing. The expanded target group includes companies with a revenue volume > EUR 250 million. In addition to traditional loan products for financing investments

and working capital, the product range also includes the hedging of customers' payment risks in transactions with selected foreign banks. Individual credit solutions in the area of long-term export financing form one point of focus in Structured Finance, where ING-DiBa strives for the most effective coverage of the financing package possible through government export credit insurance in order to minimize the associated economic and political risks. In addition, in the interest of product and feature diversification, the Bank offers other special forms of finance, such as national and international infrastructure finance. The expansion of the Wholesale Banking segment continued in 2017. The total loan volume climbed by 24.4 percent to EUR 35.9 billion at the end of 2017 (previous year: EUR 28.9 billion). The significant rise is mainly attributable to buoyant new business. The existing loan portfolio of sub-participations of another Group unit totaled EUR 4.6 billion, slightly down on the previous year's level of EUR 4.9 billion.

ING-DiBa's investment policy in the institutional business is primarily aimed at security and liquidity. Pursuing this objective, the Bank is restrictive when establishing the spectrum of permissible transactions and the credit criteria for counterparties, issuers, or issues and does not enter into any trading book positions. The investment focus is on interest-bearing bonds of governments and local authorities as well as on collateralized (i.e., covered) bonds. In addition, the Bank continued in fiscal year 2017 to use the attractive investment opportunities within the Group to facilitate asset/liability management and liquidity management. Intra-Group transactions relate on the one hand to fully collateralized covered bonds issued by ING and its subsidiaries (AAA rating). On the other hand, currency derivatives are entered into with the Group parent in order to refinance the growing Wholesale Banking business with foreign currency loans. The "collateralized deposit" product was introduced to further manage foreign currency refinancing. Collateralized deposits are euro-denominated loans to ING Bank N.V., which are secured by foreign currency deposits made by ING Bank N.V. with ING-DiBa. For euro-denominated loans granted to ING Bank N.V. under these transactions, ING Bank N.V. has to pledge collateral in the amount of the euro equivalent of the loan amounts outstanding, plus a safety margin. The significant majority of intra-Group transactions therefore lies outside of eligible liabilities (bail-in) in accordance with the German Recovery and Resolution Act (*Sanierungs-und Abwicklungsgesetz*, "SAG").

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

Geographically, the institutional business focuses on selected countries of the European Union, with the Netherlands at 45.5 percent (previous year: 42.7 percent) due to intra-Group investments and Germany at 32.6 percent (previous year: 30.2 percent) still accounting for the largest share. The geographical selection of possible investments is subject to a strict criteria catalog. Fiscal and geopolitical developments are closely monitored

at the same time. Please refer to the section entitled "Regional breakdown of the loan portfolio" for a detailed presentation of the overall exposure.

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

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

New lines for counterparties and issues are generally only granted if they have at least an investment grade rating. The entire institutional portfolio continues to have a very positive risk structure with around 70.9 percent attributable to AAA-/AA-rated exposures as of the end of the year (previous year: 72.9 percent).

Industry structure of the loan portfolio

The overviews below show the composition of the loan portfolio broken down by sector. The presentation in all tables of the risk report is based on nominal values unless otherwise indicated and includes contingent liabilities entered into in the Wholesale Banking segment amounting to EUR 2.8 billion as of December 31, 2017 (previous year: EUR 1.6 billion). The disclosures include the Austrian Wholesale Banking business, amounting to EUR 642.6 million as of December 31, 2017.

The disclosures for the retail business are based on the main lending business affecting the statement of financial position (mortgage loans, installment loans, lines of credit, current accounts) in Germany. The ING-DiBa Austria branch offers installment loans as its only retail loan product, as well as overdraft facilities on current accounts. The lending business of the Austrian branch is not classified as risk-relevant due to the currently low business volume; it is therefore not included in the following tables. The ING-DiBa Austria branch's retail loan portfolio included loans and advances of EUR 215.6 million as of December 31, 2017 (previous year: EUR 167.2 million).

In addition to the retail loans extended, which are contained in the following overviews as business affecting the statement of financial position, there are retail lending transactions not recognized in the statement of financial position, consisting primarily of irrevocable mortgage loan commitments not yet drawn down amounting to EUR 5.1 billion as of December 31, 2017 (previous year: EUR 5.3 billion). There are also irrevocable loan commitments in the Wholesale Banking segment amounting to EUR 9.9 billion as of December 31, 2017 (previous year: EUR 9.0 billion), which were also not included in the following overviews.

Distribution of the overall portfolio by sector (percentage distribution)

	Retail 12/31/2017 Percent	Institutional 12/31/2017 Percent	Wholesale Banking 12/31/2017 Percent	Total 12/31/2017 Percent
Retail customers	100.0	0.0	0.0	48.4
Pfandbriefe/ covered securities[1]	0.0	18.6	0.0	5.4
Governments/ local authorities	0.0	32.4	0.0	9.4
Banks/ financial institutions (unsecured)	0.0	0.0	0.0	0.0
ABS/MBS	0.0	1.1	0.0	0.3
Repos	0.0	0.6	0.0	0.2
Corporates/Corporate lending	0.0	2.9	28.5	7.2
Structured finance	0.0	0.0	62.6	14.2
Intercompany (ING)	0.0	44.4	8.9	14.9
Total	100.0	100.0	100.0	100.0

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

Distribution of the overall portfolio by sector (nominal values)

	Retail 12/31/2017 € m	Institutional 12/31/2017 € m	Wholesale Banking 12/31/2017 € m	Total 12/31/2017 € m
Retail customers	76,794.5	0.0	0.0	76,794.5
Pfandbriefe/ covered securities [1]	0.0	8,572.3	0.0	8,572.3
Governments/ local authorities	0.0	14,894.1	0.0	14,894.1
Banks/ financial institutions (unsecured)	0.0	0.0	0.0	0.0
ABS/MBS	0.0	502.3	0.0	502.3
Repos	0.0	286.6	0.0	286.6
Corporates/ Corporate lending	0.0	1,311.7	10,225.2	11,536.9
Structured finance	0.0	0.0	22,481.0	22,481.0
Intercompany (ING)	0.0	20,407.2	3,210.8	23,618.0
Total	76,794.5	45,974.2	35,917.0	158,685.7

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

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

Regional breakdown of the loan portfolio

The Bank is exposed to country risks as part of its investment business on the money and capital markets as well as through Wholesale Banking's business activities. According to the strategic focus, retail loans are only granted to borrowers residing in Germany, so that foreign exposures can only arise in exceptional circumstances, if the borrower moves abroad.

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

Risk concentration by geographic area

	12/31/2017 € m	12/31/2017 Percent	12/31/2016 € m	12/31/2016 Percent
Germany	98,810.3	62.3	94,259.4	61.6
EMU	37,908.2	23.9	38,158.1	24.9
Other EU	3,433.6	2.1	3,416.3	2.2
Non-EU	18,533.6	11.7	17,306.9	11.3
Total	158,685.7	100.0	153,140.7	100.0

At 62.3 percent, the major portion of the loan portfolio can be attributed to exposures in the German domestic market (previous year: 61.6 percent). Another 23.9 percent of the overall loan portfolio was attributable to loans and advances to borrowers within the Economic and Monetary Union of the European Union (EMU) as of the end of 2017 (previous year: 24.9 percent). As in the previous year, loans and advances to borrowers in the Netherlands make up the largest share of this loan portfolio at 16.5 percent (previous year: 16.2 percent). The share of the overall exposure to borrowers from the peripheral European countries (Portugal, Italy, Ireland, Greece and Spain) remained small, amounting to 0.5 percent (previous year: 1.1 percent). For loans and advances to borrowers outside of the European Union, the USA (4.5 percent of the loan portfolio; previous year: 4.1 percent) represented the largest position.

There are exposures to Russian borrowers through the Wholesale Banking segment. The share of the loan portfolio attributable to Russian borrowers amounted to 0.7 percent for 2017, similar to the prior-year level (previous year: 0.6 percent). In relation to the allocated limit, less than 44 percent (previous year: 25 percent) or EUR 0.6 billion (previous year: EUR 0.3 billion) of the existing exposure to Russian customers is not backed by government export credit insurance (e.g., Hermes coverage). The exposure in Ukraine remains at a negligibly low level. As part of its stress-testing framework, the Bank continuously analyzes economic and political scenarios to determine their relevance to and potential impact on ING-DiBa.

Credit quality structure of the loan portfolio

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

Within the ING Group, all internal ratings are plotted on a uniform master scale, which assigns a risk class or a certain probability of default to each ratings result. The risk classes

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

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

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

	Mortgage loans 12/31/2017 € m	Other retail loans 12/31/2017 € m	Total 12/31/2017 € m
Low risk (AAA to A)	13,450.3	908.0	14,358.3
Medium risk (BBB to BB)	52,193.4	5,623.1	57,816.5
High risk (B to CCC)	2,790.4	704.1	3,494.5
Total	68,434.1	7,235.2	75,669.3

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

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

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

	Uncovered securities 12/31/2017 € m	Covered securities 12/31/2017 € m	ABS/ MBS 12/31/2017 € m	Repos / lending 12/31/2017 € m	Short-term lending to municipalities 12/31/2017 € m	Collateralised Deposit 12/31/2017 € m	Total 12/31/2017 € m
Low risk (AAA to A)	11,985.0	20,203.9	502.3	1,164.1	3,888.4	7,714.8	45,458.5
Medium risk (BBB to BB)	347.3	168.4	0.0	0.0	0.0	0.0	515.7
High risk (B to CCC)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total	12,332.3	20,372.3	502.3	1,164.1	3,888.4	7,714.8	45,974.2

	Uncovered securities 12/31/2016 € m	Covered securities 12/31/2016 € m	ABS/ MBS 12/31/2016 € m	Repos / lending 12/31/2016 € m	Short-term lending to municipalities 12/31/2016 € m	Collateralised Deposit 12/31/2016 € m	Total 12/31/2016 € m
Low risk (AAA to A)	0.0	1,067.2	0.0	2,763.7	0.0	4,148.6	16,375.7
Medium risk (BBB to BB)	0.0	0.0	0.0	0.0	0.0	0.0	347.3
High risk (B to CCC)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total	0.0	1,067.2	0.0	2,763.7	0.0	4,148.6	16,723.0

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

2 Covered securities include covered bonds, in particular Pfandbriefe, as well as securities covered by government guarantees.

3 Cash collateral amounting to EUR 8,718 million for fiscal year 2017 and EUR 7,436 million for fiscal year 2016 was provided for collateralized deposits. The prior-year risk report only disclosed the amount of cash collateral in foreign currency, which amounted to the equivalent of EUR 7,662 million.

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

	Corporate Lending 12/31/2017 € m	Structured Finance 12/31/2017 € m	Total 12/31/2017 € m
Low risk (AAA to A)	2,715.2	5,191.8	7,907.0
Medium risk (BBB to BB)	7,776.0	17,754.3	25,530.3
High risk (B to CCC)	128.2	2,194.7	2,322.9
Total	10,619.4	25,140.8	35,760.2

	Corporate Lending 12/31/2017 € m	Structured Finance 12/31/2017 € m	Total 12/31/2017 € m
Low risk (AAA to A)	1,979.6	2,198.4	4,178.0
Medium risk (BBB to BB)	5,990.2	16,746.1	22,736.3
High risk (B to CCC)	42.7	1,849.5	1,892.2
Total	8,012.5	20,794.0	28,806.5

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

Collateralization of the loan portfolio

The tables below provide an overview of the collateral accepted in the retail and wholesale banking business for the reporting dates for fiscal years 2017 and 2016. The collateral is divided into three categories for presentation purposes. In addition to real estate pledged as collateral, guarantees, including export credit insurance (e.g., Hermes coverage) are reported. The "Other" category includes all types of collateral that cannot be allocated to either of the other categories.

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

Collateralization in fiscal year 2017

	12/31/2017 Business volume € m	12/31/2017 Real estate[1] € m	12/31/2017 Guarantees[2] € m	12/31/2017 Other € m	12/31/2017 Total[3] € m
Mortgage loans	69,264.1	109,933.0	0.0	0.0	109,933.0
of which not impaired	68,834.7	109,477.5	0.0	0.0	109,477.5
of which impaired	429.4	455.5	0.0	0.0	455.5
Other retail business	7,530.3	0.0	0.0	0.0	0.0
Wholesale Banking	35,917.0	6,149.9	9,444.4	4,701.3	20,295.6
of which not impaired	35,760.2	6,149.9	9,332.5	4,698.7	20,181.1
of which impaired	156.8	0.0	111.9	2.6	114.5
Total	112,711.4	116,082.9	9,444.4	4,701.3	130,228.6

Collateralization in fiscal year 2016

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

1 An annual test is performed to establish whether the collateral needs to be remeasured. Retail loans under EUR 1.5 million are covered by the regulatory market fluctuation concept. Loans in excess of EUR 1.5 million are tested individually once a year.
2 Incl. intercompany guarantee of EUR 6 million (2016: EUR 69 million).
3 Total of collateral provided. Since some loans may be overcollateralized, the list should not be used for net analysis.

Securitization

With its ABS/MBS portfolio for the Retail Banking core business, the Bank holds comparable assets from other markets (credit substitution business). The ABS/MBS portfolio declined by 78.6 percent year on year as of December 31, 2017. As a result, the ABS/MBS portfolio amounted to 0.3 percent of the total loan portfolio (previous year: 1.5 percent) and 1.1 percent of the institutional loan portfolio (previous year: 4.7 percent). The approximately

EUR 1.8 billion decrease in the securitization portfolio was due primarily to the redemption of intra-Group investments in securitizations (Orange Lions) in the amount of EUR 1.7 billion.

The large share of AAA-/AA-rated investments of 68.9 percent (previous year: 88.8 percent) reflects a very conservative approach in this segment. Overall, partially government-guaranteed positions in ABS consumer loans (excluding credit card receivables) and auto ABS represent the highest share (69.6 percent, previous year: 15.5 percent).

Securitization portfolio broken down by rating

	ABS 12/31/2017 € m	MBS 12/31/2017 € m	Total 12/31/2017 € m
Low risk (AAA to A)	349.7	152.6	502.3
Medium risk (BBB to BB)	0.0	0.0	0.0
High risk (B to CCC)	0.0	0.0	0.0
Total	349.7	152.6	502.3

	ABS 12/31/2016 € m	MBS 12/31/2016 € m	Total 12/31/2016 € m
Low risk (AAA to A)	364.2	1.947.7	2.311.9
Medium risk (BBB to BB)	0.0	31.6	31.6
High risk (B to CCC)	0.0	0.0	0.0
Total	364.2	1.979.3	2.343.5

	ABS 12/31/2017 Percent	MBS 12/31/2017 Percent	Total 12/31/2017 Percent
Low risk (AAA to A)	69.6	30.4	100.0
Medium risk (BBB to BB)	0.0	0.0	0.0
High risk (B to CCC)	0.0	0.0	0.0
Total	69.6	30.4	100.0

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

Securitization portfolio by country

Following the redemption of intra-Group investments in securitizations (Orange Lions), the securitization portfolio is evenly split between European (previous year: 85.5 percent) and non-European issues. The non-European investments exclusively comprise partially government-guaranteed positions in American ABS consumer loans (excluding credit card receivables).

	ABS 12/31/2017 € m	MBS 12/31/2017 € m	Total 12/31/2017 € m
Germany	98.6	0.0	98.6
EMU	0.0	152.6	152.6
Other EU	0.0	0.0	0.0
Non-EU	251.1	0.0	251.1
Total	349.7	152.6	502.3

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

	ABS 12/31/2017 Percent	MBS 12/31/2017 Percent	Total 12/31/2017 Percent
Germany	28.2	0.0	19.6
EMU	0.0	100.0	30.4
Other EU	0.0	0.0	0.0
Non-EU	71.8	0.0	50.0
Total	100.0	100.0	100.0

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

In 2008, the Bank issued an RMBS securitization for which it also acted as investor. Accordingly, the transaction is not included in the securitization portfolio. It related to the securitization of private mortgages from the ING-DiBa portfolio with a volume of EUR 4.7 billion. The securities issued by the special purpose entity Pure German Lion RMBS 2008 GmbH were repurchased by the Bank in full. This transaction was intentionally executed in this form to meet the goal of an additional liquidity buffer of ECB-eligible securities. A potential risk transfer is not the focus of this transaction.

Delinquent loan volume and problem loans

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

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

Credit quality of outstanding loans[1, 2]

	Mortgage loans 12/31/2017 € m	Other retail loans 12/31/2017 € m	Total retail portfolio 12/31/2017 € m	Institutional portfolio 12/31/2017 € m	Wholesale Banking 12/31/2017 € m	Total 12/31/2017 € m
Neither delinquent nor impaired	68,434.1	7,235.2	75,669.3	45,974.2	35,760.2	157,403.7
Delinquent but not impaired (1 - 90 days)	400.6	88.6	489.2	0.0	0.0	489.2
Impaired	429.4	206.6	636.0	0.0	156.8	792.8
Total	69,264.1	7,530.4	76,794.5	45,974.2	35,917.0	158,685.7

	Mortgage loans 12/31/2016 € m	Other retail loans 12/31/2016 € m	Total retail portfolio 12/31/2016 € m	Institutional portfolio 12/31/2016 € m	Wholesale Banking 12/31/2016 € m	Total 12/31/2016 € m
Neither delinquent nor impaired	63,687.8	5,515.0	69,202.8	52,834.3	17,071.8	139,108.9
Delinquent but not impaired (1 - 90 days)	415.3	66.1	481.4	0.0	0.0	481.4
Impaired	580.7	163.4	744.1	0.0	60.4	804.5
Total	64,683.8	5,744.5	70,428.3	52,834.3	171,029.1	217,264.5

1 The impaired exposures shown are presented at nominal values.

2 The volume of impaired loans and advances reported for Wholesale Banking includes exposures of EUR 63 million (previous year: EUR 6.1 million) for which no specific impairment allowances have been recognized because, for example, no losses are expected due to sufficient security, in particular from guarantees from other companies belonging to the ING Group.

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

Loans classified as non-performing on the basis of the forbearance definition of the European Banking Authority are included in the impaired loans and advances category. The total amount of forborne loans and advances as of December 31, 2017 was EUR 413.9 million in mortgage loans (previous year: EUR 504.2 million) and EUR 100.8 million in the other retail business (previous year: EUR 109.5 million). Out of these totals, the amount of loans classified as non-performing purely on the basis of the forbearance definition was EUR 24.8 million in mortgage lending (previous year: EUR 32.8 million) and EUR 2.3 million in the other retail business (previous year: EUR 5.7 million).

In Wholesale Banking, forborne loans and advances amounted to EUR 174.4 million (previous year: EUR 150.7 million). Of this amount, EUR 113.6 million (previous year: EUR 16.8 million) has been classified as non-performing forborne loans and advances.

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

	Mortgage loans 12/31/2017 € m	Other retail loans 12/31/2017 € m	Total 12/31/2017 € m
Delinquent 1–30 days	189.9	11.7	201.6
Delinquent 31–60 days	169.5	60.2	229.7
Delinquent 61–90 days	41.2	16.7	57.9
Total	400.6	88.6	489.2

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

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

The ratio of delinquent loans and advances to the total retail portfolio (0.6 percent) is slightly down on the previous year (0.7 percent). As with the current portfolio, no significant concentration of any specific type of credit was observed in the delinquent portfolio segment.

Risk provision

The loan loss provisions in the lending business include portfolio-based impairment allowances determined at individual loan level, portfolio-based specific impairment allowances, specific impairment allowances, and provisions for credit risk from obligations not recognized in the statement of financial position. The IRBA credit risk models are used to calculate portfolio-based specific impairment allowances as well as the portfolio-based impairment allowances. In addition, specific impairment allowances or provisions for credit risk from obligations not recognized in the statement of financial position are recognized as

appropriate for all terminated mortgage loans before the disposal of collateral and all material defaulted receivables in the Wholesale Banking segment (receivable volume > EUR 1 million). The need for risk provisions is calculated quarterly and approved by the full Management Board.

Development of the risk provision under IFRS

	12/31/2017 € m	12/31/2016 € m
Opening balance	–567	–564
Utilization of existing allowances	47	51
Additions to/ reversals of risk provision	49	–55
Other changes	0	1
Closing balance	–471	–567

[1] Net figure for additions and reversals excluding recoveries on loans and advances written off

The risk costs were down year on year in 2017 due to the good market environment. This was boosted by the healthy economic situation in Germany, in particular for mortgage loans.

Monitoring and management of operational risks

Risk definition

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

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

Organization

The Non-Financial Risk Management & Compliance organizational unit is responsible for coordinating all activities with regard to management of the operational risk. Among others, its duties include the methodical specifications for identifying, quantifying, and managing operational risks and adequate risk reporting to the NFRC as well quarterly reports to ING within the framework of the Non-Financial Risk Dashboard (NFRD). In this function, the Non-Financial Risk Management & Compliance organizational unit works closely with the functional departments.

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

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

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

Operational risk strategy

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

Operational risk management and risk control

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

Incident reporting and risk assessments

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

Information security

The Bank has specified detailed information security (IS) guidelines and minimum standards to ensure that the confidentiality, availability, and integrity of all information requiring protection and information-processing IT systems are maintained. Compliance with these guidelines is continuously monitored by the Non-Financial Risk Management & Compliance organizational unit.

Legal security

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

Business Continuity Plan

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

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

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

Risk management at the portfolio level

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

comprehensive external loss database of the Operational Riskdata eXchange Association (ORX) containing anonymized losses suffered by comparable credit institutions.

Risk situation

Thanks to its conservative strategic risk orientation, the Bank continued to enjoy a positive risk profile overall in fiscal year 2017. ING-DiBa's comfortable risk situation is illustrated by an analysis of its risk-bearing capacity, which (taking into consideration the risk mitigation measures) reveals a 24 percent utilization of the available risk-taking capital under the going-concern assumption as of the end of fiscal year 2017 (previous year: 33 percent). The Bank's capital reserves are therefore sufficient to guarantee its risk-bearing capacity even in the event of adverse developments.

As in the previous years, ING-DiBa's liquidity level was comfortable at all times in fiscal year 2017. In addition, the regulatory minimum liquidity requirements were complied with at all times. This was particularly visible in the Bank's liquidity coverage ratio, which was constantly above 125 percent.

As part of the ING Group, ING-DiBa was subject to the European Central Bank's Supervisory Review and Evaluation Process (SREP) in fiscal year 2017. The objective of the annual assessment for all banks directly supervised by the ECB is to obtain a full overview of the current business situation and the sustainability of the banks' business model based on an analysis of the business model, an assessment of internal governance, and an assessment of capital and liquidity risks. As a result, the banks studied are notified of an individual minimum capital requirement and, beyond this, a capital recommendation.

With a Tier 1 ratio of 14.5 percent (previous year: 13.2 percent) at the end of 2017, the equity base remains significantly above the Bank's individual supervisory minimum ratio applicable in the reporting year just ended and the corresponding supervisory capital recommendation. Additionally, the multi-year capital planning, which is updated regularly, also ensures that future own funds requirements will be adhered to as well.

As of the end of fiscal year 2017, the sum of the capital requirement from the overall risk exposure and the supplemental capital requirement pursuant to Article 500 of the CRR amounting to EUR 5.8 billion (previous year: EUR 5.4 billion) was covered by Tier 1 capital amounting to EUR 6.4 billion (previous year: EUR 5.9 billion).

The Bank will continue its conservative strategic risk orientation in fiscal year 2018. Based on forecasts for economic development, it can be assumed that the risk situation will be similar to that of the fiscal year just ended. Against this backdrop, the Bank does not see any indications of potential non-compliance with the regulatory requirements.

4. Additional disclosures under IFRS 7

Maximum default risk for each class of financial instrument

	12/31/2017 € m	12/31/2016 € m
Balance sheet assets		
Cash reserve	3,077	1,487
Loans and advances to banks		
Payable on demand	226	604
Other loans and advances	10,268	8,277
Loans and advances to customers		
Mortgage loans	69,695	68,029
Consumer loans	7,819	6,769
Public sector loans and other loans and advances	4,848	3,481
Corporate loans	30,987	25,628
Asset-backed securities/ mortgage-backed securities	415	2,270
Pfandbriefe	122	835
Risk provision	-460	-553
Adjustment to portfolio fair value hedges	439	879
Derivatives with positive fair value		
Hedging derivatives	110	0
Other derivatives	414	345
Financial investments		
Held to Maturity	687	1,228
Available for sale	32,887	37,510
Other assets		
Accrued interest on loans and advances to banks	3	4
Accrued interest on HtM financial investments	10	15
Accrued interest on AfS financial investments	331	414
Accrued interest on loans and advances to customers	86	77
Accrued interest on hedging derivatives	-3	0
Accrued interest on other derivatives	-3	1
Other	159	126
Maximum default risk for assets in statement of financial position	162,117	157,426
Financial guarantees	1,364	458
Irrevocable loan commitments	15,075	14,479
Maximum default risk	178,556	172,363

Loans and advances to banks are offset by reverse repo transactions of EUR 813 million (December 31, 2016: EUR 514 million) and cash-collateralized loans and advances to the Group parent, ING Bank N.V., of EUR 7,715 million (December 31, 2016: EUR 6,575 million). In the previous year, there had also been cash collateral for derivatives provided to the Group parent, ING Bank N.V., in an amount of EUR 425 million.

IFRS 7.36 requires the disclosure of the maximum exposure to credit risk at the end of the reporting period without taking account of any collateral held.

Contrary to this requirement, the maximum exposure to credit risk in the previous year's consolidated financial statements for "Other loans and advances" had been reported under the "Loans and advances to banks" item on a net basis as of December 31, 2016, i.e., the amount disclosed was determined on the basis of the carrying amount less the collateral held. As a result, the amount of EUR 763 million disclosed in the previous year was increased by the collateral of EUR 7,514 million to EUR 8,277 million.

The error occurred only once in the consolidated financial statements for the previous fiscal year, and only in the disclosure of the amount as of the end of the reporting period, December 31, 2016. The error has been corrected in accordance with IAS 8.49 in the table above as well as in the explanation in the preceding paragraph.

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

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

Reconciliation of IFRS carrying amounts to risk report

	Descriptions from risk report	12/31/2017 IFRS carrying amount € m	12/31/2017 Risk report nominal € m
Balance sheet assets			
Cash reserve		3,077	
Payable on demand		226	
	Corporates/ Corporate lending		185
Other loans and advances		10,268	
	Reverse repo		960
	Uncovered securities [1]		15
	Covered securities [1]		0
	Collateralized Deposit		7,715
	Corporates/ Corporate lending		456
	Structured finance		1,612
Loans and advances to customers		10,494	10,943
Mortgage loans	Mortgage loans	69,695	69,264
Consumer loans	Other retail loans	7,819	7,530
Public sector loans, other loans and advances		4,848	
	Short-term lending to municipalities		3,889
	Uncovered securities		685
	Covered securities [1]		50
	Corporates/ Corporate lending		506
	Structured finance		3,664
Corporate loans		30,987	
	Corporates/ Corporate lending		7,295
	Structured finance		19,979
Asset-backed securities (ABS)/ mortgage-backed securities (MBS)	ABS/ MBS	415	414
Pfandbriefe	Covered securities [1]	122	118
Risk provision		–460	
Loans and advances to customers		113,426	113,394
Adjustment to portfolio fair value hedges		439	
Hedging derivatives		110	
Other derivatives		414	
	Uncovered securities		0
Derivatives with positive fair value		524	0

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Continued	Descriptions from risk report	12/31/2017 IFRS carrying amount € m	12/31/2017 Risk report nominal € m
Balance sheet assets			
Held to Maturity		687	
	Uncovered securities		0
	Covered securities		657
Available for sale		32,887	
	Uncovered securities		11,632
	Covered securities		19,547
	ABS/ MBS		88
Financial investments		33,574	31,924
Accrued interest on loans and advances to banks		3	
Accrued interest on HfS financial investments		10	
Accrued interest on AfS financial investments		331	
Accrued interest on loans and advances to customers		86	
Accrued interest on hedging derivatives		–3	
Accrued interest on other derivatives		–3	
Other		159	
Other assets		583	
Maximum default risk for assets in statement of financial position		162,117	156,261
Guarantees and letters of credit[2]		0	
	Corporates/ Corporate lending		1,077
	Structured finance		21
Irrevocable loan commitments		15,075	15,055
Financial guarantees		1,364	
	Corporates/ Corporate lending		1,123
	Structured finance		0
Total assets		178,556	173,537

(1) This item includes collateralized and uncollateralized loans against borrower's notes.
(2) Guarantees and letters of credit are not financial instruments within the scope of IAS 39.

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

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Continued	Descriptions from risk report	12/31/2016 IFRS carrying amount € m	12/31/2016 Risk report nominal € m
Balance sheet assets			
Held for Maturity		1,228	
	Uncovered securities		430
	Covered securities		1,256
Available-for-sale		37,510	
	Uncovered securities		14,310
	Covered securities		20,300
	ABS/ MBS		88
Other assets		38,738	36,384
Accrued interest on loans and advances to banks		4	
		15	
Accrued interest on AfS financial investments		414	
Accrued interest on receivables from customers		77	
Accrued interest on hedging derivatives		0	
Accrued interest on other derivatives		1	
Other		126	
Other assets		637	
Maximum default risk for assets in statement of financial position		157,426	151,140
Guarantees and letters of credit[2]		0	
	Corporates/ Corporate lending		992
	Structured finance		2
Irrevocable loan commitments		14,479	14,351
Financial guarantees		458	
	Corporates/ Corporate lending		445
	Structured finance		0
Total assets		172,363	166,930

(1) This item includes collateralized and uncollateralized loans against borrower's notes.
(2) Guarantees and letters of credit are not financial instruments within the scope of IAS 39.

5. Internal Control System for Group Accounting

Goal of the internal control and risk management system

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

Risks associated with accounting

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

General conditions for ICS Ac

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

Control objectives for accounting are the

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

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

Organization of the ICS Ac

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

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

The Bank prepares its financial reports on the basis of data processing systems commonly used in the market, which are connected to the operational upstream systems via technical interfaces and within which the controls over the process of preparing the consolidated financial statements are largely automated. As part of a continuous improvement process, the Bank aims to further improve the level of automation of the ICS Ac, replacing

manual controls with automated controls that are integrated into the system in order to continuously improve the quality of the ICS Ac in this way.

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

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

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

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

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

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

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

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

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

6. Report on Opportunities and Expected Developments

Opportunities

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

In light of this, ING-DiBa has identified the following opportunities for fiscal year 2018:

- The ECB's low interest rate policy was already putting pressure on traditional business models, especially those of branch banks, in previous years. Since significant increases in interest rates are not likely, at least in the medium term, this process is expected to continue. A trend emerging in the past two years is that a number of banks are raising their fees or are planning to impose fees on services that were previously free of charge. In addition, further branch closures are expected. As a consequence, banks are increasingly moving away from the face-to-face contact that they had always emphasized as their added value compared to direct banks without branches. If branch banks are thus forced to increasingly opt out of maintaining a local presence due to cost reasons and simultaneously increase fees or even contemplate introducing negative interest rates, even more branch bank customers could move to ING-DiBa. Although it is admittedly becoming increasingly difficult to improve on levels that are already high, there is a good chance that ING-DiBa will once more gain a considerable number of new customers in 2018.

- Digitization in the banking industry will remain a key topic in 2018. Mobile banking and mobile payment and, in the medium term, the use of artificial intelligence will gain in importance in this process. ING-DiBa has taken important steps in recent years towards achieving its goal of becoming Germany's leading digital bank. The Bank will continue to pursue this strategy systematically in 2018 in order to achieve state-of-the-art status in digitization. To this end, ING-DiBa will continue to selectively collaborate with the so-called FinTechs going forward, provided that this promises adequate solutions to take advantage of sustainable future digital trends.

- Demand for residential property is expected to continue in 2018 despite significant price increases on the German real estate market, boosted by extremely low interest rates for long-term mortgage loans, higher income, and increasing demand for assets. The "affordability index" of the German Real Estate Association (Immobilienverband Deutschland, IVD) clearly shows that more Germans than ever before can afford home

ownership, despite the price increases. In this respect, ING-DiBa assumes further increasing demand for real estate loans.

- ING-DiBa's Wholesale Banking segment operates in an intensely competitive market environment. Nevertheless, the Bank plans to push forward with its growth in all areas of the Wholesale Banking segment in the coming fiscal year and thus continue to benefit from ING's powerful international network. The focus in this process will be on combined sector expertise, the strengthening of the global competence centers at the Frankfurt am Main location, and a broader product range.

Forecast macroeconomic environment

At the turn of 2017/2018, large parts of the global economy were in robust shape, and clearly prosperous in some countries and regions. For example, the sentiment indicators in the countries of both the European Economic and Monetary Union and the wider EU reached record levels. The economy in the United States also started the new year on a buoyant note. Consumer sentiment there has remained high for several months already. Experts attribute this primarily to the low unemployment rate and record highs on the stock markets.

According to the OECD, the global economy grew at its fastest pace for seven years in 2017. For 2018, the organization expects global economic growth of 3.7 percent.

By its nature, this overall very encouraging picture of the economy tends to benefit export-oriented economies, such as Germany and Austria. The forecasts that research economists produced for these two countries at the turn of 2017/2018 were therefore rather positive. In its projection in the fall of 2017, the Federal Ministry for Economic Affairs and Energy said the German economy was experiencing a "steady, broad-based upswing." The federal government expects Germany's gross domestic product (GDP) to increase by 1.9 percent in 2018. According to its forecast, domestic demand is anticipated to rise by 2.1 percent, while exports could increase by as much as 4.0 percent. Furthermore, the federal government assumes a slight decline in the number of unemployed from 2.54 million in 2017 to 2.47 million in 2018.

In Austria, GDP growth started to gain traction again in 2017 following a temporary period of relatively slow economic expansion. According to the Vienna-based Austrian Institute for Economic Research, this trend is expected to continue in 2018. For the period from 2018 to 2022, the Institute's research economists predict average GDP growth of 2.0 percent p.a., putting Austria's economic growth slightly ahead of the expected eurozone average.

Forecast Industry environment

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

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

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

Overall, ING-DiBa again expects a demanding environment for the banking industry for 2018, but as before considers itself well positioned in this competition.

Forecast business, earnings, and financial situation

Regardless of the historically low interest rates, in 2018 customers are expected to continue favoring forms of saving that are payable on demand and offer interest rates that at least minimize the loss of real purchasing power. Bank customers are not expected to take kindly to negative interest rates and will probably look for alternatives in the near term. ING-DiBa's Extra account is an uncomplicated product that as far as possible offers a fair interest rate and features daily availability.

For investors planning for the longer term, the securities business remains an alternative, especially in view of the low interest rates. Fund products such as ETFs will also remain of interest to many investors. If, against all forecasts, there is a notable increase in interest rates in 2018, demand could weaken, and this could in turn lead to a decline in the securities services business.

Demand for residential real estate as a crisis-proof asset will continue in 2018. As a result, the mortgage loans business is expected to increase further. Such a development would have a positive impact on the Bank's net interest income, even though the low interest rates could have a negative effect on profit margins in this segment.

The increases in wages and salaries in many areas and the stable employment situation could further stimulate consumer spending and prompt new purchases. This is boosted by the low interest rates. For this reason, demand for consumer loans is expected to be stable

overall, providing no external influences worsen the economic situation and thus dent consumer confidence.

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

Based on these assumptions, the Bank anticipates the positive trend in the Retail Customer Assets segment to continue in fiscal year 2018. Although the situation in this segment remains competitive, ING-DiBa expects the volumes of savings products and current accounts to rise slightly. The current account with direct salary deposit is a particular focus of the Bank in this segment. Against the backdrop of continued uncertainties surrounding global economic and financial policy, short-term planning in the securities business is subject to uncertainties. Based on the current situation, order numbers in this segment are expected to increase moderately, while the securities account volume will expand significantly.

The strong consumer confidence and the stable labor market situation in Germany indicate that the Retail Customer Loans segment continue to perform well. The continuous demand for mortgage loans is expected to remain steady in 2018, and alongside the low interest rates, it will contribute to a slight rise in volumes in this segment.

The Wholesale Banking segment is making a steadily increasing contribution to ING-DiBa's business success. Due to its special expertise and the demand-driven services portfolio, Wholesale Banking has the potential to intensify existing business relationships and expand the global network. Irrespective of the situation on the capital markets and in the economic environment, the Bank expects significant growth in the corporate customer business for 2018.

ING-DiBa's business volume is expected to continue to grow moderately over the next year, reflecting the sustained growth in the three business segments. Similarly, a slight volume-driven rise in net interest income is anticipated, which – in combination with virtually unchanged administrative expenses – is expected to contribute to a stable Result before Tax MA.

Given the offsetting changes in the factors driving net income and the own funds requirement, the return on equity performance indicator is expected to remain virtually unchanged. The relative cost-income ratio is expected to fall slightly on the back of similar administrative expenses in combination with a slight increase in net interest income, again confirming the Bank's cost efficiency.

With respect to the its growth and the increase in regulatory capital requirements, the Bank is expected to strengthen its equity base in the new fiscal year.

The corporate culture and the willingness and commitment of employees to further develop it are instrumental in the business success of ING-DiBa. In this context, the Bank focuses in particular on employee satisfaction as a key performance indicator. For the 2018 fiscal year, the Bank expects a "Great Place to Work" result on the same high level as in the fiscal year under review.

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

Consolidated financial statements

Consolidated statement of financial position

	Note	12/31/2017 € m	12/31/2016 € m
Assets			
Cash reserve	1	3,077	1,487
Loans and advances to banks	2	10,494	8,881
Loans and advances to customers	3	113,426	106,459
Adjustment to portfolio fair value hedges	4	439	879
Financial investments	5	33,574	38,738
Derivatives with positive fair value	6	524	345
Investment property	7	12	12
Property and equipment and Group-occupied property	8	60	64
Intangible assets	9	34	23
Income tax assets	10	30	21
Deferred tax assets	11	3	7
Other assets	12	583	637
Total assets		162,256	157,553
Equity and liabilities			
EQUITY			
Subscribed capital		100	100
Reserves		7,854	7,590
Non-controlling interests		0	0
Equity	13	7,954	7,690
LIABILITIES			
Subordinated liabilities	14	1,400	0
Securitized liabilities	15	1,218	1,272
Deposits from banks	16	16,755	16,595
Due to customers	17	133,789	130,151
Derivatives with negative fair value	18	78	336
Income tax liabilities	19	0	0
Deferred tax liabilities	20	110	164
Non-current provisions	21	221	199
Other liabilities	22	731	1,146
Total equity and liabilities		162,256	157,553

Consolidated income statement

	Note	2017 € m	2016 € m
Interest income		2,934	2,851
Interest expense		– 800	– 879
Net interest income	34	2,134	1,972
Commission income		273	243
Commission expense		– 149	– 139
Net commission income	35	124	104
Net gains/losses on measurement of derivatives and hedged items	36	– 75	27
Other net gains/losses on financial investments and investment property	37	36	48
Other income and expenses	38	– 35	– 30
Total income		2,184	2,121
Risk provision	39	57	– 31
Personnel expenses	40	– 378	– 342
Other administrative expenses	41	– 594	– 514
Total expenses		– 915	– 887
Profit before tax		1,269	1,234
Income tax	42	– 392	– 375
Profit after tax		877	859
attributable to non-controlling interests		0	0
attributable to owners of the parent		877	859

Consolidated statement of comprehensive income

	Note	2017 Amount before tax € m	2017 Income tax € m	2017 Amount after tax € m
Remeasurements of Group-occupied property	8, 13	0	0	0
Remeasurement gains/losses related to defined benefit plans	13, 21	– 6	– 2	– 4
Other comprehensive income from items that, in accordance with other IFRSs, will not be reclassified subsequently to profit or loss		– 6	– 2	– 4
Realized gains/losses transferred to profit or loss	5, 13	– 48	– 15	– 33
Remeasurements of available for sale financial investments	5, 13	– 229	– 72	– 157
Changes in cash flow hedge reserve	13, 25	– 17	– 5	– 12
Other comprehensive income from items that are, in accordance with other IFRSs, eligible for subsequent reclassification to profit or loss		– 294	– 92	– 202
Consolidated other comprehensive income		– 300	– 94	– 206
Profit		1,269	392	877
Total comprehensive income		969	298	671
attributable to non-controlling interests				0
attributable to owners of the parent				671

		2016 Amount before tax € m	2016 Income tax € m	2016 Amount after tax € m
Remeasurements of Group-occupied property	8, 13	0	0	0
Remeasurement gains/losses related to defined benefit plans	13, 21	– 20	– 6	– 14
Other comprehensive income from items that, in accordance with other IFRSs, will not be reclassified subsequently to profit or loss		– 20	– 6	– 14
Impairment losses	5, 13	0	0	0
Realized gains/losses transferred to profit or loss	5, 13	– 20	– 6	– 14
Remeasurements of available for sale financial investments	5, 13	11	3	8
Changes in cash flow hedge reserve	13, 25	6	2	4
Other comprehensive income from items that are, in accordance with other IFRSs, eligible for subsequent reclassification to profit or loss		– 3	– 1	– 2
Consolidated other comprehensive income		– 23	– 7	– 16
Profit		1,234	375	859
Total comprehensive income		1,211	368	843
attributable to non-controlling interests				0
attributable to owners of the parent				843

Consolidated statement of changes in equity

	2017 Subscribed capital € m	2017 Other reserves € m	2017 Total € m
Consolidated equity as of Jan. 1	100	7,590	7,690
Remeasurement of available for sale financial investments	0	– 157	– 157
Realized gains/losses transferred to profit or loss	0	– 33	– 33
Changes in the cash flow hedge reserve	0	– 12	– 12
Remeasurement gains/ losses related to defined benefit plans	0	– 4	– 4
Other remeasurements	0	0	0
Consolidated other comprehensive income	0	– 206	– 206
Subtotal	100	7,384	7,484
Other changes	0	5	5
Contribution of Wholesale Banking Austria	0	0	0
Profit transfer	0	– 357	– 357
Contribution from tax group (push-down method)	0	– 55	– 55
Profit after tax	0	877	877
Consolidated equity as of Dec. 31	100	7,854	7,954

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

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

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

Consolidated statement of cash flows

	2017 € m	2016 € m
Profit before tax	1,269	1,234
Non-cash items included in profit before tax and reconciliation to cash flow from operating activities		
Depreciation and write-downs of property and equipment, write-downs of loans and advances, financial investments and intangible assets, and reversals of impairment losses on these items	– 21	59
Increase/decrease in provisions	2	9
Gains/losses on disposal of financial investments and property and equipment	0	– 4
Other non-cash items of total comprehensive income	– 798	19
Income tax paid	– 410	0
Subtotal	42	1,317
Cash changes in operating assets and liabilities		
Loans and advances to banks	– 1,245	– 3,603
Loans and advances to customers	– 6,608	– 8,752
Other operating assets	526	552
Deposits from banks	368	2,541
Due to customers	3,643	8,941
Other operating liabilities	– 590	– 565
Cash Flows from derivative upfront and closing	– 975	552
Net cash flows from operating activities	– 4,839	983
Investing activities		
Proceeds from		
Disposal of financial investments and other investments	2,392	154
Maturity of financial investments and other investments	5,195	3,272
Proceeds from		
Disposal of property and equipment	0	0
Payments for investments in		
Financial investments and other investments	– 1,902	– 4,486
Property and equipment	– 17	– 26
Intangible assets	– 20	– 18
Cash and cash equivalents from contribution of Wholesale Banking Austria	0	91
Net cash flows from investing activities	5,648	– 1,013

Continued on next page

	2017 € m	2016 € m
Financing activities		
Issuance of subordinated liabilities	1,400	0
Issuance of securitized liabilities	0	493
Maturity of securitized liabilities	– 50	– 500
Profit transfer	– 740	– 644
Other	1	0
Net cash flows from financing activities	611	– 651
Net cash flow	1,420	– 681
Effects of exchange rate changes	0	0
Cash and cash equivalents at start of period	766	1,447
Cash and cash equivalents at end of period	2,186	766
The cash flows from operating activities include		
Interest received	3,122	3,279
Interest paid	– 824	– 1,011
Cash and cash equivalents include		
Cash reserve	3,077	1,487
Loans and advances to banks, payable on demand	226	604
Deposits from banks, payable on demand	– 1,117	– 1,325
Cash and cash equivalents at end of period	2,186	766

The statement of cash flows is explained in note 44.

IFRS notes to the consolidated financial statements

General information

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

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

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

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

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

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

ING-DiBa AG is the parent company of a subgroup; the subgroup is hereinafter referred to as ING-DiBa. All companies in the subgroup are domiciled in Germany. The activities of the subsidiaries are focused on property and asset management; none of them operates banking business. One company is a special purpose entity created to securitize ING-DiBa's mortgage loans (note 31).

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

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

ING-DiBa participates in the deposit protection fund of the Bundesverband deutscher Banken e.V. (Association of German Banks), Berlin, and the restructuring fund of the Bundesanstalt für Finanzmarktstabilisierung (Federal Agency for Financial Market Stabilization),

Frankfurt am Main. In addition, ING-DiBa makes contributions for the single resolution fund (referred to as "bank levy," note 41) to the Federal Agency for Financial Market Stabilization. It also belongs to the Entschädigungseinrichtung deutscher Banken GmbH (Compensation Scheme of German Banks), Berlin.

Since 2011, ING-DiBa AG has been issuing mortgage bonds (*Hypothekenpfandbriefe*, note 15), which are placed on the organized market, and has thus acquired the status of a capital-market-oriented company under German commercial law.

The Management Board approved these consolidated financial statements and sent them to the Supervisory Board.

These consolidated financial statements for the fiscal year ended December 31, 2017, were prepared on the basis of Article 4 of Regulation (EC) No. 1606/2002 dated July 19, 2002, in accordance with the International Financial Reporting Standards (IFRSs), as adopted in the European Union. In addition, the commercial law provisions in accordance with section 315 e (1) HGB were also applied.

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

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

The components of the risk report in accordance with IFRS 7.31-41 have essentially been incorporated into the following sections of the Group management report: "Principles of risk management", "Monitoring and management of market price risks", "Monitoring and management of liquidity risks", "Monitoring and management of counterparty default risks", "Monitoring and management of operational risks", as well as the section entitled "Additional disclosures under IFRS 7". The disclosures under IFRS 7.39 are contained in note 24 and the collateral as defined in IFRS 7.38 is presented in the explanations of the respective items. Disclosures under IFRS 7.42 are centralized under note 26.

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

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

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

The comparative period is the 2016 fiscal year; the comparative reporting date is December 31, 2016.

Significant accounting policies

a) Consolidation

Consolidation methods

In accordance with IFRS 10.19, the consolidated financial statements of ING-DiBa have been prepared in accordance with uniform Group accounting policies. The scope of the subsidiaries to be consolidated is reviewed every six months. December 31, 2017, is the reporting date for the financial statements of all entities included in consolidation.

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

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

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

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

Acquisition accounting uses the acquisition method in accordance with IFRS 10.21 in conjunction with IFRS 10.B86 (b) and IFRS 3.4 et seq. The principles of the acquisition method entail the recognition and measurement of the identifiable assets, the liabilities assumed, and all non-controlling interests in the acquiree. If the deduction of the fair value of the share of the equity determined at the acquisition date for the entity to be consolidated

from the fair value of the consideration transferred for the acquisition (cost) results in a positive difference, this amount is recognized as goodwill and reported under other assets. Goodwill, if any, is tested for impairment at least annually. If the difference is negative, the resulting amount is recognized in profit or loss at the acquisition date.

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

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

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

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

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

Basis of consolidation

For the subsidiaries in whose capital ING-DiBa holds shares, the consolidation requirement in fiscal year 2017 arises directly from the fact that, without exception, the direct equity investments are wholly owned and convey corresponding unrestricted voting rights. There is no need for judgments due to the clear control relationship.

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

agement any influence beyond administration. Due to the absence of a majority of voting rights, judgment was exercised in this respect to assess the issue of consolidation.

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

Note 31 contains detailed disclosures on entities included in consolidation.

b) Basis of presentation

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

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

c) Financial instruments

Financial assets and financial liabilities

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

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

- Cash reserve
- Loans and advances to banks
- Loans and advances to customers
- Financial investments
- Derivatives with positive fair value
- Subordinated liabilities

- Securitized liabilities
- Deposits from banks
- Due to customers
- Derivatives with negative fair value.

Date of recognition

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

Derecognition

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

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

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

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

Offsetting

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

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

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

ING-DiBa reports on offsetting, master netting agreements, and similar agreements in note 27.

Initial recognition

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

Classification and subsequent measurement of financial assets

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

- Financial assets at fair value through profit or loss (FVTPL)
- Held-to-maturity (HtM) investments
- Loans and receivables (LaR)
- Available-for-sale (AfS) financial assets.

Financial assets at fair value through profit or loss

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

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

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

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

This means that the group of financial instruments measured at fair value through profit or loss is made up exclusively of derivatives not designated as hedging instruments. The resulting measurement gains or losses are included in the "net gains/losses on measurement of derivatives and hedged items" caption (note 36), as is the associated interest income and expense. For foreign currency derivatives, the measurement effects from changes in exchange rates are reported under "other income and expenses" (note 38).

The respective derivatives are reported under "derivatives with positive fair value" (note 6) or "derivatives with negative fair value" (note 18).

Held-to-maturity investments

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

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

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

The interest income is allocated to the period in which it accrues; it is recognized in the Bank's net interest income (note 34).

Loans and receivables

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

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

The interest income is allocated to the period in which it accrues; it is recognized under net interest income (note 34). The "loans and receivables" category includes in particular balances with central banks under the "cash reserve" (note 1), "loans and advances to banks" (note 2), and "loans and advances to customers" (note 3).

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

Available-for-sale financial assets

The "available-for-sale" category primarily contains debt instruments not assigned to any of the above categories as well as financial instruments reclassified from the "held-to-maturity" category in fiscal year 2012. Since fiscal year 2017, ING-DiBa has held foreign currency bonds, which are categorized as AfS financial instruments.

They are presented in the "financial investments" account (note 5).

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

As soon as AfS financial instruments are derecognized or written down for impairment, the changes in fair value accumulated up to then in changes in accumulated other comprehensive income are assigned to "other gains/losses on financial investments and investment property" (note 37) in the consolidated income statement.

The interest income is allocated to the period in which it accrues; it is recognized in the Bank's net interest income (note 34).

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

Dividends from AfS equity investments are recognized under "other gains/losses on financial investments and investment property" (note 37).

Reclassifications

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

Financial liabilities

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

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

In ING-DiBa's consolidated financial statements, the financial liabilities subsequently measured at amortized cost are reported under "subordinated liabilities" (note 14) "securitized liabilities" (note 15), "deposits from banks" (note 16), "due to customers" (note 17), and "other liabilities" (note 22).

Valuation techniques

Fair value measurement

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

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

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

Please refer to note 33 for commentary on the methods used.

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

Amortized cost and effective interest method

Amortized cost is the amount at which a financial asset or financial liability is initially recognized, minus principal repayments and any impairment losses and the cumulative amortization, calculated using the effective interest method of any difference between the

initial amount and the maturity amount. The effective interest method is used to allocate interest income and interest expense over the relevant period.

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

Currency translation

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

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

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

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

Currency translation gains and losses are a component of "other income and expenses" (note 38).

Risk provision and impairment

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

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

- There is an increased probability that the counterparty will become insolvent or start financial recovery proceedings.

- There is already delay or default on interest or principal payments.
- The counterparty is in considerable financial difficulties, which may negatively impact future cash flows.
- Based on experience and current data, there are clear indications that part of a group of financial assets is substantively impaired, although it is too soon for the internal risk management system to capture these impairment triggers with respect to individual assets.
- Under the IFRSs as applied in the EU, forbearance is generally considered an indication of impairment. In such cases, the net present value of the moratorium amount and/or the reduction in debt and/or the reduction in interest payments is taken into account when determining an appropriate risk provision.

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

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

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

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

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

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

The amount of the risk provision for LaR receivables and HtM financial investments is calculated as the difference between the carrying amount and the present value of expected future cash flows. The basis for determining the amount of the impairment allowance to be recognized is firstly the contractually agreed cash flows and secondly the defaults normally expected, based on experience, for similarly structured products. The amounts determined on the basis of experience are reviewed with the help of observable current data.

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

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

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

Recoveries on loans and advances previously written off are recognized in the income statement under "risk provision" (note 39).

The allowances for losses on loans and advances to customers are discussed in notes 3 and 39.

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

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

If AfS equity instruments that are not listed on a stock exchange are recognized at cost because it is not possible to reliably measure their fair value, the amount of a necessary impairment is calculated as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows, which are discounted using the current market rate of return on a comparable financial asset. No such impairments were recognized in fiscal years 2017 and 2016.

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

There are no plans in Retail Banking for renegotiating the terms of financial assets that would otherwise have been overdue or impaired; in Wholesale Banking the terms are only renegotiated in exceptional circumstances.

Derivative financial instruments

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

The respective derivatives are reported under "derivatives with positive fair value" (note 6) or "derivatives with negative fair value" (note 18). Accrued interest is included in "other assets" (note 12) or "other liabilities" (note 22).

ING-DiBa enters into OTC interest rate swaps, foreign currency swaps, such as FX swaps and FX forwards, as well as cross-currency swaps.

The changes in fair value of foreign currency derivatives are reported under "net gains/losses on measurement of derivatives and hedged items" (note 36). The effects of currency translation are reported under "other income and expenses" (note 38).

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

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

As OTC transactions, the derivatives are subject to the market-based mark-to-model measurement of Level 2 of the fair value hierarchy described below (note 33).

The resulting measurement gains or losses are included in the "net gains/losses on measurement of derivatives and hedged items" caption (note 36). The net interest income from derivatives used in effective hedges is reported under "other interest income" (note 34), which also includes changes in fair value arising from the pull-to-par effect of derivatives in effective fair value hedges.

The interest income and expense in relation to derivatives not designated as hedges (hereinafter "other derivatives") are reported under "Net gains/losses on measurement of derivatives and hedged items" (note 36).

Embedded derivatives

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

Hedge accounting

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

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

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

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

The hedged items continue to be reported under the respective captions in the statement of financial position, because the nature and function of the hedged item are not affected by the hedging relationship. Note 25 shows the derivatives broken down by type of hedge. Since the hedging derivatives serve to hedge against interest rate risks, the interest ex-

pense on the hedging derivatives is reported together with interest income on the hedged items within "interest income" (note 34) to the extent the hedge meets the requirements for effectiveness. In the event the hedge is ineffective, both the fair value change in the derivatives and the related interest are reported in "net gains/losses on measurement of derivatives and hedged items" (note 36).

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

Changes in fair value of derivatives (hedges) which relate to the interest rate risk (hedged risk) are reported in the income statement under "net gains/losses on measurement of derivatives and hedged items" (note 36) together with the changes in the market value of the hedged items.

Fair value hedge accounting

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

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

- Financial instruments in the LaR category
- Financial instruments in the AfS category
- Financial instruments in the financial liabilities category.

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

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

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

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

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

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

Cash flow hedge accounting

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

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

The hedging instruments are recognized at their fair values. The portion of the fair value changes of the hedged items that is effective in relation to the hedged risk is recognized directly in changes in accumulated other comprehensive income for cash flow hedges under equity (notes 13 and 25). Hedge ineffectiveness is the quantification of the difference between the accumulated changes in the fair value of the hedge derivative used and the changes in the fair value of a hypothetically perfect hedge. If the cash flow hedge is not 100% effective, but falls within the effectiveness range required by IAS 39, the amount

recognized in the equity account is the lower of the accumulated changes in the fair value of the hedging instruments and the hedged cash flows.

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

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

For more information on hedge accounting, see notes 25 and 36.

Repo and reverse repo transactions

Because of the risks and rewards of ownership, securities that are part of repo transactions remain in ING-DiBa's statement of financial position. The corresponding liabilities are reported either as deposits from banks (note 16) or as amounts due to customers (note 17), depending on the counterparty.

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

For detailed information on repo and reverse repo transactions, refer to note 26.

Financial guarantees

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

If the probability of a payment under a financial guarantee issued is greater than 50 percent, a provision is recognized, with the expense included in profit or loss from "risk provision" (note 39).

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

Classes of financial instruments under IFRS 7 and IFRS 13

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

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

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

d) Other items

Investment property

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

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

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

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

Group-occupied property and property and equipment

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

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

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

Operating and office equipment is subsequently measured at depreciated cost using the cost method under IAS 16.30. Depreciation is recognized on a straight-line basis over the expected useful life. The expense is included in "other administrative expenses" in the consolidated income statement (note 41).

Intangible assets

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

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

ING-DiBa recognizes both purchased and internally generated intangible assets. They are initially recognized at cost and subsequently measured at amortized cost. Useful lives of

three years are normally assumed for software. Intangible assets are amortized pro rata temporis on a straight-line basis. The expense is included in "other administrative expenses" in the notes to the consolidated income statement (note 41).

Impairment of property and equipment and intangible assets

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

- the market value of an asset has declined significantly more than would be expected as a result of normal use;
- significant changes with an adverse effect on the entity have taken place or will take place in the technological, market, economic, or legal environment;
- market interest rates that affect the discount rate used in calculating an asset's value in use have increased and thus decrease the asset's recoverable amount materially as defined in the IFRSs;
- there is substantial evidence of obsolescence or physical damage of an asset; or
- as a result of internal restructuring the asset is no longer suitable for generating benefits for the entity in the same way as before or evidence is available that the economic performance of the asset is worse than expected.

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

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

Tax items

A profit and loss transfer agreement in accordance with section 291 (1) of the German Stock Corporation Act (*Aktiengesetz*, "AktG") is in place between ING-DiBa and ING Deutschland GmbH. This agreement forms the basis for a tax group for corporate income tax and trade tax purposes. Under this arrangement, ING-DiBa is a tax group subsidiary and ING Deutschland GmbH is the tax group parent. An allocation agreement has been in place for this tax group since 2017.

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

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

The current income taxes not covered by the allocation agreement, which are paid by the tax group parent, are presented as a capital contribution by the tax group parent under other reserves in equity.

The ING-DiBa Austria branch is exempt from German tax and, as a separate taxable entity, is subject to Austrian tax.

The "tax assets" (note 10) and "tax liabilities" (note 19) items comprise current tax assets and liabilities for the current and previous fiscal years.

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

Future, and therefore deferred, tax effects arising from changes in carrying amounts are reported under "deferred tax assets" (note 11) and "deferred tax liabilities" (note 20).

Depending on the treatment of the underlying item, deferred taxes are taken directly to the respective equity account or recognized in profit or loss. If they are recognized in profit or loss, they are reported under "income tax" (note 42) in the income statement.

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

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

Other assets

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

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

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

The interest in the associate is accounted for using the equity method (note 31).

Provisions

Pension provisions (note 21) are recognized according to the projected unit credit method for defined benefit pension plans.

Some of the pension plans are backed by plan assets.

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

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

Actuarial reports are used to measure pension provisions as well as provisions for long-service bonuses and partial retirement (note 21).

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

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

In addition to personnel provisions, there is a small amount of other non-current provisions (note 21).

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

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

The amount provided for is based on the best estimate of the settlement amount. Provisions are only discounted, using interest rates for items with matching maturities applicable as of the end of the reporting period, if the interest effect is material. Interest cost from the unwinding of the discount is in such cases reported under net interest income (note 34). The interest effect is immaterial in the periods under review, which means that no discounting of the other non-current provisions was recognized.

Other liabilities

"Other liabilities" (note 22) include primarily accrued interest on deposits from banks, amounts due to customers, derivatives and other financial liabilities, allocated over the relevant periods.

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

e) Contingent liabilities

Contingent liabilities within the meaning of IAS 37 are reported off the statement of financial position, in the notes to the IFRS financial statements (note 28). They arise on the one hand as possible obligations whose existence has not yet been confirmed, for which the likelihood of realization is estimated to be below 50 percent or for which the amount cannot be estimated with sufficient reliability. The estimated settlement amounts are disclosed in the notes. They normally correspond to the nominal amounts. Contingent liabilities relate primarily to irrevocable loan commitments, guarantees and letters of credit.

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

f) Items in the consolidated income statement

Net interest income

Interest income and expense (note 34) is recognized in profit or loss for the period on an accrual basis. For loans and advances on which impairment allowances have been recognized, the discount applied to arrive at the present value as of the end of the subsequent reporting period is unwound through interest income.

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

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

Negative interest in relation to the investment and borrowing of funds is recognized under net interest income and discussed in note 34. Given the immateriality of the amounts, these are not presented in a separate line item of the income statement.

Net commission income

Fee and commission income is generally recognized at the time the service is provided. Net commission income is explained in note 35.

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

Brokerage payments similar to interest are allocated over the (minimum) term of the contracts and presented in net interest income (note 34).

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

Net gains/losses on measurement of derivatives and hedged items

The net gains/losses on measurement of derivatives and hedged items (note 36) include the changes in fair value from the measurement of derivatives (whether or not they are designated as hedges) as well as of hedged items, to the extent this is not attributable to pull-to-par effects from hedging derivatives. In addition, this item includes interest income and expense related to derivatives not used in hedging relationships.

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

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

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

g) Additional information

Leasing obligations

A lease is an agreement under which the lessor conveys to the lessee, in return for a payment or series of payments, the right to use an asset for an agreed period of time. The determination as to whether an arrangement is or includes a lease must be based on the

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

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

ING-DiBa AG generally only operates as a lessee. All leases are classified as operating leases. The useful lives of the leased assets, market price assumptions, and discount rates are subject to management judgment. Lease installments are recognized under other administrative expenses. If any, lease installments due for payment are reported as financial liabilities under "other liabilities" (note 22). Note 30 provides a summary of expected future lease obligations.

h) Material estimates and uses of judgment

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

Estimates are required in particular for:

- Determining the fair values of financial assets and financial liabilities in cases where there are no active market prices and this necessitates the application of valuation techniques using significant inputs that are not observable in the market (see note 33 – "Fair value reporting – Valuation techniques").

- Determining pension obligations under defined benefit plans, where in particular actuarial assumptions, such as the discount rate, expected future salary and pension increases, the mortality rate, and changes in plan assets, are subject to estimates (see note 21 – "Non-current provisions").

- Impairment allowances for the risk provision in the lending business, for which estimates are made about, among other factors, the overall portfolio risk and current market developments. Over time, these estimates are subject to change and may require adjustments to be made to the allowance (see note 39 – "Risk provision" in the notes to the financial statements and the section entitled "Monitoring and management of counterparty default risks" in the Group management report).

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

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

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

- Measuring Group-occupied land and buildings, particularly in relation to the discount rate and valuation technique used (see note 8 "Property and equipment and Group-occupied properties").

- Determining potentially applicable probabilities and settlement amounts when recognizing other provisions as well as estimating contingent liabilities not recognized in the statement of financial position (see note 21 – "Non-current provisions" and note 28 – "Contingent liabilities").

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

Judgment has to be exercised primarily for:

- Estimating the deferred tax effect on the basis of temporary differences between the tax base and the carrying amount in the IFRS statement of financial position, to which the operation's particular average tax rate is applied (see note 11 – "Deferred tax assets," note 20 – "Deferred tax liabilities," note 42 – "Disclosures relating to income tax expenses," and the section entitled "Significant accounting policies – d) Other items – Tax items").

i) Disclosures relating to changes in reporting standards and correction of errors in accordance with IAS 8

Amendments to the IFRSs adopted by the EU entered into force in 2017. All standards and amendments to standards whose first-time application is mandatory as from the effective date January 1, 2017 have been applied in these financial statements. This had no material impact on the statement of financial position, profit or loss, other comprehensive income, or on the associated disclosures in the notes to the consolidated financial statements. No interpretations, amendments, or standards have been applied voluntarily prior to the mandatory effective date for the EU.

Future amendments to standards (not yet adopted into EU law)

Amendments to standards that may be relevant to future reporting periods were published as of December 31, 2017. Some of the amendments have not yet been adopted into applicable EU law and ING-DiBa will not opt for voluntary early application. Unless otherwise indicated, ING-DiBa is in the process of assessing the effects. The amendments are not expected to have any material effects on ING-DiBa's consolidated financial statements.

Future amendments to standards (adopted into EU law)

The following section presents the changes in relation to IFRS 9, IFRS 15, and IFRS 16, which have already been adopted into EU law. ING-DiBa is not planning early application of other standards already adopted into applicable EU law if their first-time application is only mandatory in subsequent years. These amendments are not expected to have any material effects on ING-DiBa's consolidated financial statements.

IFRS 9 – Financial Instruments

On July 24, 2014, the International Accounting Standards Board (IASB) issued the final version of IFRS 9 "Financial Instruments," which replaces IAS 39 "Financial Instruments: Recognition and Measurement." IFRS 9 contains revised guidance on the classification and measurement of financial instruments, including a new model of expected credit losses for calculating impairment losses on financial assets, as well as new general hedge accounting rules. The new standard largely retains the guidance of IAS 39 on recognizing and derec-

ognizing financial instruments. IFRS 9 was adopted into EU law in November 2016 and will enter into mandatory effect for reporting periods beginning on or after January 1, 2018. All changes to accounting policies resulting from the application of IFRS 9 will be applied retrospectively, except in the following cases:

- The ING Group will exercise the exemption that allows entities to not restate comparative information for prior periods to reflect changes to classification and measurement (including impairment). All differences between the carrying amounts of financial assets and financial liabilities due to the application of IFRS 9 will generally be recognized in retained earnings and other reserves as of January 1, 2018.

- The business model according to which a financial asset is held will be determined on the basis of the facts and circumstances prevailing at the time of initial application.

According to a central decision taken at ING Group level, hedge accounting will be continued in accordance with the existing guidance of IAS 39 by applying the EU "carve out." The revised hedge accounting disclosure requirements of IFRS 7 "Financial Instruments: Disclosures" will be implemented with effect from January 1, 2018.

The requirements for the application of IFRS 9 centrally specified by the ING Group, as presented in this section, will be adopted by ING-DiBa for local purposes. Where the local application differs from the central approach, this will be explained separately. All quantitative information disclosed in this section is based on expected amounts, which are still subject to change until the first financial statements following the application of IFRS 9 have been prepared as of December 31, 2018.

IFRS 9 implementation – project structure and status

The IFRS 9 implementation project was launched at the level of ING Groep N.V. (Group level) and of ING-DiBa on the basis of the three phases of IFRS 9: classification and measurement, impairment, and hedge accounting. Experts from accounting, risk management, treasury, operations, and the business segments are involved in the components of the project. The Technical Board, which has been established at the Group level of the project and of which ING-DiBa is a member, supports the IFRS 9 Steering Committee by reviewing central guidance and instructions on implementing IFRS 9 created by the central working groups. The Technical Board comprises senior employees in the Accounting and Risk Management departments. The Technical Board is also relevant for the local project conducted within ING-DiBa. The Steering Committee is the highest decision-making body at Group level. It consists of members of senior management from Group Finance, Risk Management, Bank Treasury, and Wholesale Banking Lending Services. The Management Board Banking and the Audit Committee receive regular updates about the progress of IFRS 9 implementation and will be actively involved in key decisions.

In 2017, the project focused in particular on the following aspects:

- Performing quarterly parallel runs to test the readiness of the affected systems, processes, and controls for transition to IFRS 9 as of January 1, 2018,
- Finalizing and validating the expected credit loss (ECL) models of IFRS 9,
- Developing and implementing processes for allocating financial instruments to the 3-stage model and using forward-looking economic guidance in the ECL model,
- Finalizing the technical interpretation of IFRS 9,
- Finalizing the business model test and the test to determine whether the contractual cash flows are solely payments of principal and interest (SPPI),
- Implementing and testing system changes,
- Updating the policies, governance, and control framework affected by IFRS 9 and starting to embed these changes into everyday business and financial reporting cycles,
- Preparing disclosures in the notes required under IFRS 9 for the transition date (initial application).

The activities relating to the initial application of IFRS 9 are currently being finalized, both locally and at Group level. This includes primarily transferring project results up the reporting line and finalizing the remaining model validations.

IFRS 9 – classification and measurement

IFRS 9 is built on a single approach for classifying and measuring financial assets on the basis of the business model in which the financial assets are managed as well as their cash flow characteristics.

Under IFRS 9, the classification and measurement are determined on the basis of two criteria:

1. Business model criterion: in a first step, the underlying business model is assessed to determine how a financial asset is managed in order to classify the business model as hold to collect (HtC), hold to collect and sell (HtC&S), or other. The business model can be tested at the portfolio level, if the portfolios meet the homogeneity requirements of IFRS 9.

2. Cash flow criterion: in a second step, the contractual cash flows of the financial instruments in each business model are analyzed in order to determine whether they 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, and for other basic lending risk and costs as well as an adequate margin. The cash flow criterion must be tested at the level of the individual financial asset.

These criteria determine whether a financial asset is classified and measured:

- at amortized cost (AC),
- at fair value through other comprehensive income (FVOCI), or
- at fair value through profit or loss (FVTPL).

A financial asset is measured at amortized cost if it is held within an HtC business model and the contractual cash flows are solely payments of principal and interest. A financial asset is measured at fair value through other comprehensive income if it is held within an HtC&S business model, the contractual cash flows are solely payments of principal and interest, and it is not designated as measured at fair value through profit or loss. Financial assets that are not covered by either of these categories are measured at fair value through profit or loss. The standard eliminates the existing IAS 39 categories of held to maturity (HtM), loans and receivables (LaR), and available for sale (AfS).

The business models are in line with ING-DiBa's local business organization and are based on the globally implemented business model blueprint. The definition of the business models takes into account how performance is measured and controlled and reported to management. It also reflects considerations on underlying business risk and on historic and expected future sales. The SPPI test was performed on a sample basis by allocating the financial assets within the business models to portfolios with similar risks, based on an analysis of their contractual characteristics. The contractual terms of the financial assets were tested to determine whether they contain any clauses that change the amount or timing of the cash flows in a way that may cause them to fail the SPPI test, such that they are no longer solely payments of principal and interest within the meaning of IFRS 9.

For the classification and measurement of financial assets, accounting policy choices were taken throughout the Group. Examples are permissible sales in HtC business models, the accounting treatment of equity instruments, and prepayments. The decision-making process for such policy choices followed the IFRS 9 project governance, with technical matters

analyzed, decisions documented, and conclusions proposed by the IFRS 9 Technical Board for approval by the IFRS 9 Steering Committee.

Impact

As a result of the combined application of the business model and cash flow criteria, the classification and measurement of the following portfolios will change:

- Based on the underlying business models, the investment portfolio that was previously classified as AfS will be split into a portfolio measured at amortized cost (HtC) and a portfolio measured at fair value through other comprehensive income (HtC&S). Around EUR 22,573 million of the bonds classified as AfS under IAS 39 as of December 31, 2017 are measured at amortized cost in the HtC business model under IFRS 9. Net of the effects of the continuing application of hedge accounting in accordance with IAS 39, the reclassification is expected to result in a reduction in changes in accumulated other comprehensive income (OCI) of around EUR – 394 million at the date of initial application.

- Due to intra-Group back transfers, a portfolio with loans (which contains transactions with ING Capital LLC) has been allocated to an HtC&S business model locally at the level of ING-DiBa; it is measured at fair value through other comprehensive income. We expect that the transition to fair value measurement will have an effect of around EUR 19 million on the carrying amount of the loans and of around EUR 13 million on equity.

- In addition, in accordance with IFRS 9, securities from the ABS loan portfolio (LaR, part of the liquidity portfolio) measured at amortized cost under IAS 39 with a carrying amount of approximately EUR 290 million will be allocated to the HtC&S measurement category. This will result in measurement effects, reducing their carrying amount (by approximately EUR 5 million) and equity (by approximately EUR 4 million).

- Approximately EUR 140 million of the ABS securities previously classified as loans or measured at amortized cost, will be measured at fair value through profit or loss under IFRS 9, because they do not meet the cash flow criterion. We expect the transition to fair value measurement to reduce both the carrying amount of the ABS securities and equity by around EUR – 1 million.

In addition, the classification will result in changes to ING-DiBa's statement of financial position, but they will have no impact on equity.

- ING-DiBa recognizes equity instruments in an amount of around EUR 5 million. For the strategic investment in equity instruments (EUR 0 million), a decision was taken at Group level to apply the option to designate these instruments at fair value through other comprehensive income. Upon disposal, any fair value changes will not be recycled

from the revaluation reserve to profit or loss. Only the dividends received on these instruments will be recognized through profit or loss.

IFRS 9 – impairment

The implementation of IFRS 9 has a significant impact on the impairment methodology in the ING Group. The impairment model of IFRS 9 is more forward-looking than that of IAS 39 and replaces the "incurred losses" model under IAS 39 with an "expected credit losses (ECL)" model. This requires considerable judgment in determining to what extent the expected credit losses are influenced by changes in economic factors. This assessment is made on the basis of weighted probabilities. The expected credit losses in the ECL model under IFRS 9 must be determined on the basis of unbiased, probability-weighted estimates and take account of supportable information about past events, current conditions, and forecasts of future economic developments. The ECL also incorporates various macroeconomic scenarios and the time value of money. The scope of the new impairment requirements covers financial assets (with the exception of equity instruments held as financial assets) measured at amortized cost or at fair value through other comprehensive income (FVTOCI), such as receivables, debt securities, bonds, and lease receivables, as well as financial assets not recognized in the statement of financial position, such as certain loan commitments, financial guarantees, and undrawn committed revolving credit facilities. The most significant change compared with IAS 39 is that financial assets in the HtC&S business models are included in the calculation of ECL. The Bank has aligned the definition of credit losses under IFRS 9 with the definitions used for prudential purposes.

ING Group's approach is based on supervisory advanced internal ratings based (AIRB) models, which have been enhanced for the purposes of IFRS 9. For portfolios that have to date used the standard approach to determine risk provisions, ING has developed new ECL-based models. The amounts determined at Group level are applied locally.

3-stage approach

The 3-stage approach for determining expected credit losses specified by IFRS 9 is being implemented throughout ING Groep N.V.

- Stage 1: 12-month expected credit loss (12-month ECL) – no significant increase in credit risk.
  If at the reporting date the credit risk of financial instruments has not increased significantly since initial recognition, the impairment to be recognized for this financial instrument is determined in the amount of the 12-month expected credit loss (12-month ECL). For financial assets with a remaining maturity of less than 12 months, a probability of default (PD) is used that matches the remaining maturity.

- Stage 2: Lifetime expected credit loss (lifetime ECL) – significant increase in credit risk.
  If the credit risk has increased significantly since the financial instrument was initially recognized, the total credit loss expected over the remaining maturity of the instrument is recognized in the amount of the present value of the expected credit losses (lifetime ECL).

- Stage 3: Lifetime expected credit loss (lifetime ECL) – defaulted.
  If there is objective evidence of impairment, the financial instrument must be allocated to stage 3 and the expected credit loss must be determined for the remaining maturity (lifetime ECL).

Significant increase in credit risk

A financial asset is transferred from stage 1 to stage 2 of the 3-stage approach when there is a significant increase in credit risk since initial recognition. ING Groep N.V. has established a framework that incorporates quantitative and qualitative factors in identifying a significant increase in credit risk. Each financial instrument is tested as of the reporting date for a significant increase in credit risk. The Group, and consequently also ING-DiBa, assesses whether there has been a significant deterioration that may result in moving the instrument from stage 1 to stage 2 on the basis of the following criteria:

- Significant increase in lifetime default probability,

- Watchlist status. Loans on the watchlist are tested individually to establish whether they should be allocated to stage 2 of the impairment model,

- High absolute default probability,

- Forbearance status,

- Internal rating,

- Intensive care management, and

- The "more-than-30-days-past-due" backstop for transfers from stage 1 to stage 2.

A significant increase in the lifetime probability of default is the main trigger of a transfer from stage 1 to stage 2. It is determined by comparing the probability of default at origination with the probability of default at the reporting date, taking the remaining maturity into account. Transfers between stages can be made in both directions, if the triggers for the previous transfer are no longer applicable (taking into account the regulatory probation periods). The 3-stage model will be implemented in the central credit risk systems.

Macroeconomic factors

At the Group level, a quarterly process is used to develop forward-looking macroeconomic scenarios and probability weightings for ECL calculation purposes. The Bank applies predominantly data from a leading external 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, the Bank applies a market-neutral view combining consensus forecasts for economic variables such as unemployment rates, GDP growth, property 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 forecast errors observed in the past, adjusted for the risks affecting the economy today, and the forecast horizon. The probability weightings 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.

At ING-DiBa, the approach presented above is used in particular for stage 1 and stage 2. For stage 3, various approaches are used depending on the locality; they also take account of a number of scenarios that may differ from the above in some cases.

As the inclusion of forward-looking macroeconomic scenarios requires judgment, a "macroeconomic scenarios team" and a "macroeconomic scenarios expert panel" were established. The "macroeconomic scenarios team" is responsible for the macroeconomic scenarios used in determining IFRS ECL. The outcomes are verified by the "macroeconomic scenarios expert panel". This ensures that the macroeconomic scenarios are sufficiently challenged and that key economic risks, including immediate economic risks, are taken into consideration when developing the macroeconomic scenarios used in the calculation of ECL. The "macroeconomic scenarios expert panel" is a team composed of senior management representatives from Risk Management and Finance, and an external member.

Measuring impairment

ECL is determined on the basis of existing models for determining expected credit losses (PD, EAD, LGD), which are already used to calculate regulatory capital, economic capital, and the risk provision under the current IAS 39 framework. The following adjustments are made:

- Embedded prudential conservatism (such as PD floors) is removed.
- Forward-looking point-in-time estimates are provided, based on macroeconomic predictions.

- A 12-month credit risk is taken into account, or alternatively lifetime features such as default behavior over a period of time, behavior immediately after default, repayment schedules, and early settlements.

For most financial instruments, the expected life is equivalent to the remaining maturity. For overdrafts and certain undrawn revolving credit facilities, assumptions are made about the end of the contract, as these do not have a fixed term or repayment schedule.

ING calculates ECL on the basis of PD x EAD x LGD, incorporating the time value of money. PD stands for probability of default, EAD for exposure at default, and LGD for loss given default. For financial instruments assigned to stage 1 of the impairment model, the underlying inputs are considered over a 12-month horizon, while for stage 2 instruments, they are considered over the lifetime of the asset. The lifetime ECL is the discounted total of the losses in relation to single default events within all 12-month windows to maturity. For assets assigned to stage 3 of the impairment model, PD equals 100%. LGD and EAD represent a lifetime view of the losses based on the characteristics of defaulted exposures.

IFRS 9 – impact of first-time adoption

As a result of the new IFRS 9 impairment requirements, ING-DiBa expects that the risk provision will increase by approximately EUR 69 million.

Under IFRS 9, the risk provision is estimated at EUR 540 million, compared with an IAS 39 risk provision of EUR 471 million. This equates to a transition impact of EUR 69 million (before tax). The differences in the risk provision between IAS 39 and IFRS 9 are primarily attributable to:

- Recognition of lifetime ECL for stage 2 assets,
- Adjustment to the loss identification period (LIP),
- Inclusion of macroeconomic conditions and scenarios,

Capital and other regulatory requirements

Regulatory capital is not determined at the level of the ING-DiBa AG subgroup and not on the basis of IFRS accounting policies. For general information on the regulatory capital of the credit institution ING-DiBa AG at single-entity level and on the basis of accounting in accordance with the German Commercial Code (HGB), please see the Regulatory Disclosure Report (www.bundesanzeiger.de). For information on the regulatory capital of the ING-DiBa subgroup, please refer to note (44) Regulatory capital and risk-weighted assets.

Impact on shareholders' equity (after tax)

We expect the first-time application of IFRS 9 to result in a change in shareholders' equity, as shown in the table below. The table shows the expected after-tax amounts, which may still be subject to change.

	Estimated impact of adopting IFRS 9 at 1 January 2018 on shareholders' equity
Increase of loan loss provisions[1]	-47
Investment portfolio[2]	-398
Mortgages held in HTC&S portfolio[3]	13
Other[4]	-1
Total impact	-433

(1) The increase in the loan loss provision recognized in the statement of financial position by around EUR 69 million leads to a reduction in equity by around EUR 47 million (after tax).

(2) Following the division of the investment portfolio into an HtC and an HtC&S business model and the associated effects, we expect the carrying amount to decline by EUR 584 million and equity to decline by EUR 398 million (after tax).

(3) The allocation of the IBINI portfolio (loans) to the HtC&S category leads to an increase in the carrying amount recognized in the statement of financial position by around EUR 19 million and an increase in equity by around EUR 13 million (after tax).

(4) The switch in the measurement of some ABS loans that do not meet the cash flow criterion to fair value measurement is expected to result in a decrease in the carrying amounts of these items and in equity (after tax) by around EUR 1 million.

IFRS 15 – Revenue from Contracts with Customers

IFRS 15 "Revenue from Contracts with Customers" was adopted into EU law in September 2016 and according to the IASB is applicable to reporting periods beginning on or after January 1, 2018. IFRS 15 sets out a comprehensive framework for determining whether, in what amount, and at what time revenue is recognized. It replaces existing guidance on revenue recognition, in particular IAS 18 "Revenue." In accordance with the Group-wide approach of ING Groep N.V., for the transition to IFRS 15 the Bank uses the retrospective application method under IFRS 15.C3(b), with the cumulative adjustment resulting from initially applying the standard recognized at the date of initial application. The impact of the transition to IFRS 15 is described below.

IFRS 15 introduces a five-step approach for recognizing revenue, with revenue being recognized in relation to the agreed performance obligation being satisfied. Agreed performance obligations are individual promises to the customer that provide benefits to the customer. Revenue is recognized either at a point in time or over time, depending on how the performance obligation is satisfied. Fees that are part of the effective interest rate of a loan do not fall within the scope of IFRS 15. Net commission income falls within the scope of IFRS 15.

As part of a Group-wide investigation, the Bank analyzed the relevant commission income and expenses. As a result, no differences were identified that would lead to different accounting treatment of the sources of income under IFRS 15 as compared with IAS 18. Consequently, the Bank does not expect any significant impact as compared with the existing practice under IAS 18.

In accordance with the Group-wide approach adopted by ING Group, the Bank will make use of transition relief in applying IFRS 15. The costs of obtaining contracts are recognized immediately in profit or loss, if the asset that would arise from recognizing these costs as an asset would have been amortized within one year.

IFRS 16 – Leases

IFRS 16 "Leases" was adopted into EU law in October 2017 and according to the IASB is applicable to reporting periods beginning on or after January 1, 2019. It will replace the existing guidance on leases, including IAS 17 "Leases", IFRIC 4 "Determining whether an Arrangement Contains a Lease", SIC-15 "Operating Leases – Incentives", and SIC-27 "Evaluating the Substance of Transactions Involving the Legal Form of a Lease". IFRS 16 introduces a single accounting model to be applied for recognizing leases in the lessee's statement of financial position. The lessee recognizes a right-of-use asset, which represents its right to use the underlying asset, as well as a lease liability, which represents its obligation to make lease payments. There are exemptions for short-term leases and leases of low-value assets. Lessors will account for leases in a similar way to the current standard, therefore still classifying leases as finance or operating leases. IFRS 16 will also lead to a change in the recognition of the expense in comparison to IAS 17. The recognition of expenses under operating leases – generally on a straight-line basis in accordance with IAS 17 – will be replaced by amortization of the right-of-use asset and interest expenses for the lease liability. The new approach is intended to make visible the lessee's assets and liabilities and to improve comparability between companies; together with the expanded disclosure requirements, it is also aimed at creating transparency with regard to the financial leverage of leases and the capital employed.

Under IFRS 16, lessees will be able to choose between a full and a modified retrospective approach; transition relief is available under the modified approach. The decision as to which transition method is to be used has not yet been made. In addition, the standard contains options and relief provisions to help minimize the cost of initial application. The accounting treatment of leases by the lessor will remain largely unchanged from IAS 17.

The ING Group will apply the standard as from its effective date, i.e., for fiscal years beginning on or after January 1, 2019. ING-DiBa has started to assess the possible impact of applying IFRS 16 to the consolidated financial statements, but is unable to quantify the impact at this point in time.

Corrections in accordance with IAS 8

The previous fiscal year's consolidated financial statements contained an error of presentation in the way the maximum default risk of "Other loans and advances" was disclosed under the "Loans and advances to banks" item. This error has been corrected in the consolidated financial statements for the year under review. The relevant disclosures required under IAS 8.49 can be found in section 4 "Additional disclosures under IFRS 7" of the Group management report.

j) Events after the end of the reporting period

As of February 1, 2018, Katharina Herrmann, member of the Management Board of ING-DiBa AG (until January 31, 2018), assumed the position of Head of Platforms and Beyond Banking for ING Group N.V. in Amsterdam.

ING Deutschland GmbH, the parent company of ING-DiBa AG, intends to acquire ECommerce Holding II S.à.r.l. and the companies belonging to it, such as Lendico Deutschland GmbH. The German Federal Cartel Office (*Bundeskartellamt*) has already been notified of the purchase intention to allow for a review of the proposal, but this had not been done at the time of preparing the annual financial statements for fiscal year 2017.

Notes to the consolidated statement of financial position

(1) Cash reserve

	12/31/2017 € m	12/31/2016 € m
Cash balance	104	103
Balances with central banks	2,973	1,384
Total	3,077	1,487

This item comprises balances with central banks in the European Central Bank System and all cash in the ATM network.

(2) Loans and advances to banks

	12/31/2017 € m	12/31/2016 € m
Payable on demand	226	604
Other loans and advances	10,268	8,277
Total	10,494	8,881

All loans and advances to banks are classified as loans and receivables as defined in IAS 39.9.

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

The year-on-year change resulted primarily from the EUR 299 million increase in reverse repo transactions to EUR 813 million, as well as the increase in cash-collateralized loans and advances to the Group parent, ING Bank N.V., to EUR 7,715 million (December 31, 2016: EUR 6,575 million).

Note 26 provides a summary of the collateral provided.

The accrued interest on this item is reported under other assets (note 12).

Receivables from reverse repo transactions

Loans and advances to banks also include receivables from reverse repo transactions. They are in each case related to securities accepted as collateral and amounted to EUR 813

million as of the reporting date (December 31, 2016: EUR 514 million). For more information on repo transactions with banks, refer to notes 5 and 16.

(3) Loans and advances to customers

	12/31/2017 € m	12/31/2016 € m
Mortgages	69,695	68,029
Consumer loans	7,819	6,769
Public sector loans	4,848	3,481
Corporate loans	30,987	25,628
Asset-backed securities (ABS)/ mortgage-backed securities (MBS)	415	2,270
other	122	835
Loans and advances to customers before risk provision	113,886	107,012
Portfolio-based impairment allowances	– 126	– 181
Specific impairment allowances including those calculated on a portfolio basis	– 334	– 372
Loans and advances to customers after risk provision	113,426	106,459

All loans and advances to customers are classified as loans and receivables as defined in IAS 39.9.

Note 26 provides a summary of the collateral provided.

The accrued interest on these items is reported under other assets (note 12).

Receivables from reverse repo transactions

Receivables from reverse repo transactions are presented under loans to corporate customers. They are related to securities accepted as collateral. At the end of fiscal year 2017, receivables from reverse repo transactions amounted to EUR 200 million (December 31, 2016: EUR 0 million).

Allowances for losses on loans and advances to customers

	12/31/2017 € m	12/31/2016 € m
Mortgages	– 208	– 299
Consumer loans	– 206	– 212
Corporate loans	– 46	– 41
Asset-backed securities/ mortgage-backed securities	0	– 1
Total	– 460	– 553
Loans and advances to customers before risk provision	113,886	107,012
Risk provision	– 460	– 553
Loans and advances to customers after risk provision	113,426	106,459

In addition, provisions for off-balance sheet risks from the lending business amounted to EUR 11 million (December 31, 2016: EUR 14 million). For more information on the presentation of non-current provisions, refer to note 21. As of December 31, 2017, the total risk provision in the lending business amounted to EUR 471 million (December 31, 2016: EUR 567 million).

The total amount comprises specific impairment allowances of EUR 69 million (December 31, 2016: EUR 81 million), portfolio-based specific impairment allowances of EUR 273 million (December 31, 2016: EUR 304 million), and portfolio-based impairment allowances of EUR 129 million (December 31, 2016: EUR 182 million). Of these amounts, the retail customer business accounts for specific impairment allowances of EUR 36 million (December 31, 2016: EUR 45 million), portfolio-based specific impairment allowances of EUR 273 million (December 31, 2016: EUR 304 million), and portfolio-based impairment allowances of EUR 108 million (December 31, 2016: EUR 162 million).

Changes in allowances for losses on loans and advances to customers

	2017 Portfolio-based impairment allowances € m	2017 Specific impairment allowances including those calculated on a portfolio basis € m	2017 Total € m
Balance on Jan. 1	– 181	– 372	– 553
Utilization of existing impairment allowances	0	47	47
Additions to/ reversals of risk provision	55	– 9	46
Other changes	0	0	0
Balance on Dec. 31	– 126	– 334	– 460

	2016 Portfolio-based impairment allowances € m	2016 Specific impairment allowances including those calculated on a portfolio basis € m	2016 Total € m
Balance on Jan. 1	– 161	– 383	– 544
Utilization of existing impairment allowances	0	51	51
Additions to/ reversals of risk provision	– 21	– 40	– 61
Other changes	1	0	1
Balance on Dec. 31	– 181	– 372	– 553

In fiscal year 2017, reversals of risk provisions resulted in income of EUR 57 million (2016: expenses of EUR 31 million). This is mainly attributable to an adjustment of the underlying measurement inputs, which led to a reduction in the risk provision on loans and advances to customers of EUR 66 million through profit or loss. See note 39 for more details.

Subordinated loans and advances

As in the previous year, there were no subordinated loans and advances to customers.

(4) Adjustment to portfolio fair value hedges

	12/31/2017 € m	12/31/2016 € m
Adjustment to portfolio fair value hedges	439	879
Total	439	879

This item represents the adjustment to the present value of loans and advances to customers included in portfolio fair value hedge accounting on the basis of the hedged risk.

The hedged items are reported under note 3 "Loans and advances to customers." Further information can be found under note 25 "Hedge accounting," note 6 "Derivatives with positive fair value," note 18 "Derivatives with negative fair value," note 34 "Net interest income," and note 36 "Net gains/losses on measurement of derivatives and hedged items."

(5) Financial investments

This caption is used primarily to report bonds and other fixed-income securities.

Financial investments

	12/31/2017 € m	12/31/2016 € m
Available for sale		
Bonds and other fixed-income securities	32,882	37,491
Equity investments	5	19
Total AfS	32,887	37,510
Held to maturity		
Bonds and other fixed-income securities	687	1,228
Total HtM	687	1,228
Total	33,574	38,738

In the fiscal years under review, financial investments included equity investments that are of minor importance to the Group's economic position. To the extent these equity investments are not listed and it is not possible to reliably measure their fair value, they are recognized at cost.

There were no allocations to the trading book.

The accrued interest on financial investments is reported under "other assets" (note 12).

Changes in financial investments

	2017 AfS securities € m	2017 AfS equity investments € m	2017 HtM securities € m	2017 Total € m
Balance on Jan. 1	37,491	19	1,228	38,738
Additions	1,892	10	0	1,902
Amortization	– 85	0	– 22	– 107
Reclassifications	0	0	0	0
Other changes in fair value	624	4	0	628
Impairments and reversals	0	0	0	0
Disposals	– 2,364	– 28	0	– 2,392
Maturities	– 4,676	0	– 519	– 5,195
Balance on Dec. 31	32,882	5	687	33,574

	2016 AfS securities € m	2016 AfS equity investments € m	2016 HtM securities € m	2016 Total € m
Balance on Jan. 1	36,364	51	1,255	37,670
Additions	4,478	8	0	4,486
Amortization	– 129	0	– 27	– 156
Reclassifications	0	0	0	0
Other changes in fair value	159	2	0	161
Impairments and reversals	0	0	0	0
Disposals	– 109	– 42	0	– 151
Maturities	– 3,272	0	0	– 3,272
Balance on Dec. 31	37,491	19	1,228	38,738

The disposals in the year under review relate primarily to the sale of AfS securities of ING Bank N.V. in the amount of EUR 1,500 million.
Information on the net gains or losses on available-for-sale securities is disclosed separately in the consolidated statement of comprehensive income and the consolidated statement of changes in equity.

ING-DiBa continues to report the securities transferred as part of repo transactions in its statement of financial position. Since dated return and repurchase agreements are in place for the transferred assets, ING-DiBa continues to bear the associated risks and re-

wards. The risks are described in the Group management report. Note 26 contains information relating to financial instruments transferred and pledged as collateral and the corresponding liabilities.

Collateral held

	2017 € m	2016 € m
Reverse repo transactions	1,025	514

Securities accepted as collateral as part of reverse repo transactions are not recognized in the statement of financial position under IFRSs. The liquidation options are similar to those of standard international repo transactions. As in the previous year, there were no securities lending transactions as of December 31, 2017. In the year under review collateral held and pledged amount to EUR 0 million (2016: EUR 0 million

The fair value of collateral held is disclosed in accordance with IFRS 7.15.

(6) Derivatives with positive fair value

	12/31/2017 € m	12/31/2016 € m
Derivatives		
Micro fair value hedges	4	0
Portfolio fair value hedges	0	0
Used in cash flow hedges	106	0
Other derivatives	414	345
Total	524	345

This item includes derivative financial instruments designated as hedges and instruments not designated as hedges with a positive fair value of EUR 524 million (December 31, 2016: EUR 345 million).

ING-DiBa generally only uses simply structured interest rate swaps. In accordance with IAS 39.9, they are allocated to the "at fair value through profit or loss" category. In addition, foreign currency derivatives have also been entered into, particularly to procure foreign currencies.

Furthermore, other derivatives also include derivatives outside hedge accounting, which serve to hedge interest rate and other market price risks and for duration management. Derivatives in ineffective hedge relationships are also reported under this item.

The carrying amount represents only foreign currency derivatives and other un-netted derivatives due to a large number of netting arrangements with a central counterparty. Please refer to note 27 for further information on the volume of derivatives and offsetting.

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

Further information on derivatives and hedge accounting can be found in note 18 "Derivatives with negative fair value," note 25 "Hedge accounting," note 34 "Net interest income," and note 36 "Net gains/losses on measurement of derivatives and hedged items."

The accrued interest on derivatives is reported under "other assets" (note 12) and under "other liabilities" (note 22).

(7) Investment property

The Group holds a small portfolio of properties that it does not use itself. If they generate rental income, this is recognized under other net gains/losses on financial investments and investment property (note 37).

Comments on the valuation techniques can be found in section d) of the chapter on "Significant accounting policies" and note 33 in this report.

Changes in investment properties

All investment property is measured at fair value.

	12/31/2017 € m	12/31/2016 € m
Balance on Jan. 1	12	12
Additions	0	0
Changes in fair value	0	0
Disposal	0	0
Balance on Dec. 31	12	12

Status of external property valuation reports

Investment property was last appraised externally in 2016.

(8) Property and equipment and Group-occupied properties

	12/31/2017 € m	12/31/2016 € m
IT facilities	26	30
Owner-occupied properties	16	16
Other property and equipment	18	18
Total	60	64

Changes in property and equipment and Group-occupied properties

	2017 IT facilities € m	2017 Group-occupied properties € m	2017 Other property and equipment € m	2017 Total € m
Carrying amount on Jan.1	30	16	18	64
Additions	11	0	6	17
Disposals	0	0	0	0
Depreciation	– 15	0	– 5	– 20
Changes in fair value due to remeasurement	0	0	0	0
Reclassifications and other changes	0	0	– 1	– 1
Carrying amount on Dec. 31	26	16	18	60
Gross carrying amount on Dec. 31	95	17	49	161
Accumulated depreciation as of Dec. 31	– 69	– 4	– 31	– 104
Cumulative changes in fair value as of Dec. 31	0	3	0	3
Carrying amount on Dec. 31	26	16	18	60

	2016 IT facilities € m	2016 Group-occupied properties € m	2016 Other property and equipment € m	2016 Total € m
Carrying amount on Jan.1	21	16	17	54
Additions	21	0	5	26
Disposals	0	0	0	0
Depreciation	– 12	0	– 4	– 16
Changes in fair value due to remeasurement	0	0	0	0
Reclassifications and other changes	0	0	0	0
Carrying amount on Dec. 31	30	16	18	64
Gross carrying amount on Dec. 31	90	17	48	155
Accumulated depreciation as of Dec. 31	– 60	– 4	– 30	– 94
Cumulative changes in fair value as of Dec. 31	0	3	0	3
Carrying amount on Dec. 31	30	16	18	64

IT facilities and other property and equipment are measured using the cost method under IAS 16.30. The assets are depreciated pro rata temporis on a straight-line basis. The depreciation periods applied correspond to the expected useful lives. Depreciation expenses are recognized under "other administrative expenses" (note 41) in the income statement.

The revaluation method is used to measure Group-occupied properties. Further information can be found in section d) of the chapter on "Significant accounting policies" and note 33.

The following depreciation periods have been applied:

Overview of depreciation periods

	Depreciation periods in years
IT facilities	2-7
Group-occupied properties	50
Other property and equipment	2-23

Their fair values are determined in the same way as those of investment properties, using the income approach. No need for remeasurement was identified in fiscal year 2017.

	12/31/2017 € m	12/31/2016 € m
Fair value after remeasurement	16	16
Notional carrying amount under cost method	11	11

(9) Intangible assets

	12/31/2017 € m	12/31/2016 € m
Software	34	23
Total	34	23

No impairment losses on software were recognized in the periods under review.

Software is subject to finite useful lives; it is measured according to the cost method and reduced pro rata temporis by straight-line amortization. The useful life is normally three years. ERP software and strategic in-house developments are amortized over 5 years.

Amortization expenses are recognized under "other administrative expenses" (note 41) in the income statement.

Changes in intangible assets

	2017 Purchased software € m	2017 Internally generated software € m	2017 Total € m
Carrying amount on Jan. 1	14	9	23
Additions	7	13	20
Amortization	– 7	– 2	– 9
Carrying amount on Dec. 31	14	20	34
Gross carrying amount on Dec. 31	71	39	110
Accumulated amortization as of Dec. 31	– 57	– 19	– 76
Carrying amount on Dec. 31	14	20	34

	2016 Purchased software € m	2016 Internally generated software € m	2016 Total € m
Carrying amount on Jan. 1	11	0	11
Additions	9	9	18
Amortization	– 6	0	– 6
Carrying amount on Dec. 31	14	9	23
Gross carrying amount on Dec. 31	66	25	91
Accumulated amortization as of Dec. 31	– 52	– 16	– 68
Carrying amount on Dec. 31	14	9	23

(10) Income tax assets

	12/31/2017 € m	12/31/2016 € m
Income tax assets	30	21

(11) Deferred tax assets

	12/31/2017 € m	12/31/2016 € m
Deferred tax assets	3	7

Deferred taxes are explained further in notes 20 and 42.

(12) Other assets

	12/31/2017 € m	12/31/2016 € m
Accrued interest on loans and advances to banks	3	4
Accrued interest on loans and advances to customers	86	77
Accrued interest on AfS financial investments	331	414
Accrued interest on HtM financial investments	10	15
Accrued interest on hedging derivatives	– 3	0
Accrued interest on other derivatives	– 3	1
Prepaid expenses	41	36
Miscellaneous assets	118	90
Total	583	637

The other assets include an immaterial investment in an associate of EUR 1 million (December 31, 2016: EUR 2 million) (note 31).

Information on offsetting may be found in note 27.

(13) Equity

	12/31/2017 € m	12/31/2016 € m
Subscribed capital	100	100
Reserves	7,854	7,590
Accumulated other comprehensive income	527	729
Other reserves	7,327	6,861
Total	7,954	7,690

ING-DiBa's subscribed capital was unchanged at EUR 100 million as of the end of the reporting period. It is fully paid up and divided into 100,000,000 no-par value shares, all of which are held by ING Deutschland GmbH, Frankfurt am Main. No profit participation certificates have been issued.

This item includes non-controlling interests of EUR 25 thousand (December 31, 2016: EUR 25 thousand). These are related to the consolidated structured entity described in greater detail under note 31.

In accordance with IFRSs, gains or losses from the fair value measurement of AfS securities are recognized directly in changes in accumulated other comprehensive income, net of deferred taxes. The gains or losses are only recognized in profit or loss when the asset has been sold or derecognized. In addition, the reserve for cash flow hedges is part of the changes in accumulated other comprehensive income.

"Other reserves" contains the legal reserve, retained earnings, capital contributions from the parent, and the share-based payments granted by ING Groep N.V. with settlement using equity instruments. In addition, the remeasurement of defined benefit pension plans is a component of other reserves. Note 21 contains disclosures on pension provisions.

The profit after tax for 2017, determined in accordance with HGB, of EUR 357 million (2016: EUR 740 million) will be transferred to the sole shareholder, ING Deutschland GmbH, Frankfurt am Main, on the basis of a profit and loss transfer agreement.

Development of changes in accumulated other comprehensive income

	2017 Revaluation reserve Real Estate € m	2017 Available for sale financial investments € m	2017 Cash flow hedge reserve € m	2017 Total € m
Value as of Jan. 1	2	707	20	729
Remeasurement of property and equipment and Group-occupied properties	0	0	0	0
Remeasurement of available for sale financial investments	0	– 157	0	– 157
Realized gains/ losses transferred to profit or loss	0	– 33	0	– 33
Changes in cash flow hedge reserve	0	0	– 12	– 12
Value on Dec. 31	2	517	8	527

	2016 Revaluation reserve Real Estate € m	2016 Available for sale financial investments € m	2016 Cash flow hedge reserve € m	2016 Total € m
Value as of Jan. 1	2	713	16	731
Remeasurement of property and equipment and Group-occupied properties	0	0	0	0
Remeasurement of available for sale financial investments	0	8	0	8
Realized gains/ losses transferred to profit or loss	0	– 14	0	– 14
Changes in cash flow hedge reserve	0	0	4	4
Value on Dec. 31	2	707	20	729

Available-for-sale financial investments are explained under note 5 and the fair value measurement method is described under note 33.

Disclosures relating to cash flow hedges can be found in note 25.

The changes in accumulated other comprehensive income include EUR 13 million (December 31, 2016: EUR 21 million) resulting from AfS securities that were reclassified to HtM in 2015. This amount is amortized through profit or loss over the remaining term of the HtM securities.

(14) Subordinated liabilities

	12/31/2017 € m	12/31/2016 € m
Subordinated liabilites	1,400	0

ING-DiBa AG raised subordinated debt with a principal amount of EUR 1,400 million in 2017. The lender is ING Deutschland GmbH, Frankfurt am Main. The subordinated loan is divided into three tranches and bears interest at variable rates.

In the case of insolvency proceedings or liquidation of the Bank, the liabilities will only have to be repaid once all non-subordinated creditors have been satisfied. Conversion to equity or another form of debt has not been agreed. There is no premature repayment obligation.

Each tranche is subject to a half-yearly contractual repayment right commencing 5 years before maturity.

(15) Securitized liabilities

Since 2011, ING-DiBa AG has been issuing mortgage bonds (*Hypothekenpfandbriefe*), which are placed on the capital market. Each issue has been given a minimum denomination of EUR 100,000.

As of December 31, 2017, the mortgage bonds were securitized solely through land charges on German residential properties (note 26).

These properties have been entered into the funding register (*Refinanzierungsregister*).

Changes in securitized liabilities

	12/31/2017 € m	12/31/2016 € m
Balance as of Jan. 1	1,272	1,283
Additions	0	493
Amortization	1	1
Fair value hedge adjustment	– 5	– 5
Final maturity	– 50	– 500
Balance as of Dec. 31	1,218	1,272

The fair value hedge adjustment resulted from a hedge for a *Pfandbrief* issued in the 2016 fiscal year. Further disclosures on hedge accounting can be found under note 25 "Hedge accounting".

Securitized liabilities by remaining contractual maturity

	12/31/2017 less than 1 year € m	12/31/2017 1 to 2 years € m	12/31/2017 2 to 3 years € m
Variable-interest securitized liabilities	0	0	0
Fixed-interest securitized liabilities	20	509	10
Total	20	509	10

	12/31/2017 3 to 4 years € m	12/31/2017 4 to 5 years € m	12/31/2017 more than 5 years € m	12/31/2017 Total € m
Variable-interest securitized liabilities	0	50	50	100
Fixed-interest securitized liabilities	10	30	539	1,118
Total	10	80	589	1,218

	12/31/2016 less than 1 year € m	12/31/2016 1 to 2 years € m	12/31/2016 2 to 3 years € m
Variable-interest securitized liabilities	50	0	0
Fixed-interest securitized liabilities	0	20	509
Total	50	20	509

	12/31/2016 3 to 4 years € m	12/31/2016 4 to 5 years € m	12/31/2016 more than 5 years € m	12/31/2016 Total € m
Variable-interest securitized liabilities	0	0	100	150
Fixed-interest securitized liabilities	10	10	573	1,122
Total	10	10	673	1,272

(16) Deposits from banks

	12/31/2017 € m	12/31/2016 € m
Payable on demand	1,117	1,325
With an agreed maturity or period of notice	15,638	15,270
Total	16,755	16,595

As in the previous year, there were no open market transactions with the European Central Bank System as of December 31, 2017.

Further information regarding financial instruments transferred and pledged as collateral is contained in note 26.

As of December 31, 2017, the deposits from banks do not include cash collateral accepted for reverse repo transactions of EUR 0 million (December 31, 2016: EUR 1 million). Cash collaterals for derivatives (note 6) amount to EUR 432 million (December 31, 2016: EUR 59 million). The contractual bases are the German master agreement and the International Swaps and Derivatives Association (ISDA) agreement.

In addition, cash collateral for receivables from the Group parent amounted to EUR 8,931 million (December 31, 2016: EUR 7,715 million).

The accrued interest on deposits from banks is reported under "other liabilities" (note 22).

(17) Due to customers

	12/31/2017 € m	12/31/2016 € m
Savings deposits	2,421	2,825
Call money and fixed deposits	120,243	118,044
Current account balances	8,949	6,888
Other deposits	2,176	2,394
Total	133,789	130,151

Note 26 provides information on financial instruments transferred and pledged as collateral. The contractual bases for derivatives are the German master agreement and the International Swaps and Derivatives Association (ISDA) agreement.

The amounts due to customers include cash collateral accepted in connection with guarantee loans assumed of EUR 4 million (December 31, 2016: EUR 5 million).

The accrued interest on amounts due to customers is reported under "other liabilities" (note 22).

(18) Derivatives with negative fair value

	12/31/2017 € m	12/31/2016 € m
Derivatives		
Micro fair value hedges	0	0
Portfolio fair value hedges	0	0
Used in cash flow hedges	0	4
Other derivatives	78	332
Total	78	336

This item includes derivative financial instruments designated as hedges and instruments not designated as hedges with a negative fair value (after offsetting) of EUR 78 million (December 31, 2016: EUR 336 million).

ING-DiBa generally only uses simply structured interest rate swaps. In accordance with IAS 39.9, they are allocated to the "at fair value through profit or loss" category. In addition, foreign currency derivatives have also been entered into, particularly to procure foreign currencies.

Other derivatives include derivatives outside hedge accounting which are used to hedge interest rate and other market price risks and for duration management. Derivatives in ineffective hedge relationships are also reported under this item.

The carrying amount virtually represents only foreign currency derivatives due to a large number of netting arrangements with a central counterparty. Please refer to note 26 for further details on derivatives and offsetting.

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

Further information on derivatives and hedge accounting can be found in note 6 "Derivatives with positive fair value," note 25 "Hedge accounting," note 34 "Net interest income," and note 36 "Net gains/losses on measurement of derivatives and hedged items."

The accrued interest on derivatives is reported under "other assets" (note 12) and under "other liabilities" (note 22).

(19) Income tax liabilities

As in the previous year, there were no income tax payment obligations to the tax authorities as of December 31, 2017.

The tax reconciliation can be found under note 42.

(20) Deferred tax liabilities

	12/31/2017 € m	12/31/2016 € m
Deferred tax liabilities	110	164

The tax reconciliation and explanations of income tax expense can be found in note 42.

Changes in deferred tax assets and liabilities

	01/01/2017 Net deferred taxes € m	Changes recognized in equity € m	Changes recognized in profit or loss € m	12/31/2017 Net deferred taxes € m
Financial investments	– 564	87	70	– 407
Derivatives with positive and negative fair value	595	0	– 231	364
Loans and advances to banks and customers	– 241	0	136	– 105
Cash flow hedges	– 9	5	– 1	– 5
Pension and personnel provisions	39	2	0	41
Tax loss carryforwards	6	0	– 4	2
Other items	17	0	– 14	3
Subtotal	– 157	94	– 44	– 107
Net deferred taxes	– 157	94	– 44	– 107
Deferred tax assets	7	0	– 4	3
Deferred tax liabilities	– 164	94	– 40	– 110
Total	– 157	94	– 44	– 107

	01/01/2016 Net deferred taxes € m	Changes recognized in equity € m	Changes recognized in profit or loss € m	12/31/2016 Net deferred taxes € m
Financial investments	– 486	3	– 81	– 564
Derivatives with positive and negative fair value	677	0	– 82	595
Loans and advances to banks and customers	– 386	0	145	– 241
Cash flow hedges	– 7	– 2	0	– 9
Pension and personnel provisions	33	6	0	39
Tax loss carryforwards	0	0	6	6
Other items	9	0	8	17
Subtotal	– 160	7	– 4	– 157
Net deferred taxes	– 160	7	– 4	– 157
Deferred tax assets	1	0	6	7
Deferred tax liabilities	– 161	7	– 10	– 164
Total	– 160	7	– 4	– 157

Because of amounts taken directly to equity, the change in the difference between deferred tax assets and deferred tax liabilities does not correspond to net deferred taxes.

Deferred taxes on the measurement of AfS securities of EUR 87 million (December 31, 2016: EUR 3 million) were taken directly to equity, and relate to the total result recognized in changes in accumulated other comprehensive income of EUR – 277 million (December 31, 2016: EUR – 8 million).

This led to a net result of EUR – 190 million (December 31, 2016: EUR – 5 million).

Deferred taxes due to unused tax loss carryforwards

	12/31/2017 € m	12/31/2016 € m
Total unused tax loss carryforwards	34	49
of which not resulting in deferred tax assets	23	23
of which resulting in deferred tax assets	11	26

The average tax rate on which the calculation of the unused tax loss carryforwards was based was 25 percent in fiscal year 2017 (December 31, 2016: 25 percent). As of December 31, 2017, this resulted in deferred tax assets amounting to EUR 3 million (December 31, 2016: EUR 6 million).

As of December 31, 2017, and the prior-year date, there were no temporary differences in connection with investments in subsidiaries and foreign branches, for which no deferred taxes had as yet been recognized.

(21) Non-current provisions

	12/31/2017 € m	12/31/2016 € m
Pension provisions	155	148
Other personnel provisions	15	12
Provision for restructuring measures	5	0
Other provisions	46	39
Total	221	199

Other personnel provisions include provisions for transitional benefits, early retirement benefits, anniversary bonuses, and similar items.
Other provisions of EUR 13 million (December 31, 2016: EUR 22 million) were recognized in respect of litigation risks and EUR 11 million (December 31, 2016: EUR 14 million) for risk provisions for obligations from the lending business not recognized in the statement of financial position.
There is uncertainty with regard to the amount and timing of utilization. The likelihood of a utilization and thus an outflow of economic resources is continually reviewed (see section d) in "Significant accounting policies").

Changes in non-current provisions

	2017 Pension provisions € m	2017 Other personnel provisions € m	2017 Provision for restructuring measures and other provisions € m	2017 Total € m
Carrying amount as of Jan. 1	148	12	39	199
Additions	4	3	24	31
Reversals	0	0	– 17	– 17
Actuarial gains/losses	5	0	0	5
Utilizations	– 2	0	– 6	– 8
Other	0	0	11	11
Carrying amount as of Dec. 31	155	15	51	221

	2016 Pension provisions € m	2016 Other personnel provisions € m	2016 Provision for restructuring measures and other provisions € m	2016 Total € m
Carrying amount as of Jan. 1	126	10	37	173
Additions	4	2	21	27
Reversals	0	0	– 15	– 15
Actuarial gains/losses	20	0	0	20
Utilizations	– 2	0	– 4	– 6
Other	0	0	0	0
Carrying amount as of Dec. 31	148	12	39	199

Pension provisions

Pension plans

ING-DiBa grants its employees post-employment benefits on the basis of bank agreements and individual contractual commitments. In addition to the payment of retirement pensions, they also include disability benefits and bereaved benefits.
Occupational pensions are governed by defined benefit plans and defined contribution plans. Expenses for defined contribution plans, including employer contributions to the statutory pension insurance scheme, amounted to EUR 33 million (December 31, 2016: EUR 26 million).
For the German operations, the regulatory framework for the defined benefit pension plans comprises in particular the German Company Pension Plans Act (*Gesetz zur betrieblichen Altersversorgung* (BetrAVG)) and pension agreements entered into as individual pension promises on the basis of works agreements.
The benefits paid on the basis of defined benefit plans depend on individual arrangements, are calculated on the basis of final salary and the average salary for the last three service years or are based on a system of pension points by salary class.
Pension plans are protected against insolvency through the German Pension Guarantee Association (Pensionssicherungsverein), a contractual trust agreement (CTA), and a pension fund. The CTA is a guarantee and trust agreement, under which funds can only be used to finance the promised post-employment benefits and which is separate from the employer's other assets.
The plan assets in the CTA and pension fund consist exclusively of units in a special fund, which invests in cash, fixed income securities and various equity strategies. ING-DiBa has an obligation to make additional payments to this fund in defined circumstances of insufficient cover. In fiscal year 2017, additional funding of EUR 1 million (2016: EUR 1 million) was contributed to plan assets.

A contribution of EUR 2 million to the pension plan is expected for the next reporting period (2018).

The Bank carries the risk of maintaining, and generating returns on, the plan assets. ING-DiBa is represented on the investment committee of the special fund. The fund is managed in accordance with the German Pension Fund Capital Investment Regulation (*Pensionsfondskapitalanlageverordnung* (PFKapAV)), with target performance and composition being specified; the primary objective is preservation of capital.

Other risks from defined benefit pension plans arise from unforeseeable changes in actuarial assumptions.
There were no changes to existing plans in fiscal year 2017. There were no curtailments or plan settlements in the periods under review.
Note 32 contains disclosures on pension provisions for former members of executive bodies and their bereaved.

Reconciliation to pension provisions/other assets

	12/31/2017 € m	12/31/2016 € m
Defined benefit obligation (unfunded plans)	96	92
Defined benefit obligation (funded plans)	142	145
Less fair value of plan assets	83	89
Funding status	155	148
Pension provision	155	148
Other assets	0	0

Change in defined benefit obligation (DBO) – total

	2017 € m	2016 € m
DBO as of Jan. 1	237	223
Current service cost	3	2
Interest cost	3	4
Changes in fair value: actuarial gains and losses from financial assumptions	3	19
Changes in fair value: actuarial gains and losses from experience-based adjustments	2	– 1
Benefits paid	– 10	– 10
DBO as of Dec. 31	238	237

Change in defined benefit obligation (DBO) – unfunded plans

	2017 € m	2016 € m
DBO as of Jan. 1	92	78
Current service cost	3	2
Interest cost	1	1
Changes in fair value: actuarial gains and losses from financial assumptions	1	9
Changes in fair value: actuarial gains and losses from experience-based adjustments	– 1	4
Benefits paid	– 2	– 2
Transfer / other changes	2	0
DBO as of Dec. 31	96	92

Change in defined benefit obligation (DBO) – funded plans

	2017 € m	2016 € m
DBO as of Jan. 1	145	145
Interest cost	2	3
Changes in fair value: actuarial gains and losses from financial assumptions	2	10
Changes in fair value: actuarial gains and losses from experience-based adjustments	3	– 5
Benefits paid	– 8	– 8
Transfer / other changes	– 2	0
DBO as of Dec. 31	142	145

Change in plan assets

	2017 € m	2016 € m
Fair value of plan assets as of Jan. 1	89	97
Interest income from plan assets	1	2
Changes in fair value: actual return on plan assets excluding interest income	0	– 2
Contributions	1	0
Benefits paid	– 8	– 8
Fair value of plan assets as of Dec. 31	83	89

There were no plan surpluses in the periods under review.

Composition of plan assets

The composition of the investment fund assets was as follows:

	12/31/2017 Fair-Value		12/31/2016 Fair-Value	
	Quoted on an active market € m	Not quoted on an active market € m	Quoted on an active market € m	Not quoted on an active market € m
Bonds and debentures	61	0	64	0
of which: in euros	61	0	64	0
of which: not in euros	0	0	0	0
Investment funds	19	0	23	0
Other securities, options, other assets	1	0	0	0
Bank balances/ fixed-term deposits	0	2	0	2
Total	81	2	87	2

Actuarial assumptions

	12/31/2017 Percent	12/31/2016 Percent
Interest rate	1.3	1.4
Salary growth	2.75	2.75
Social security contribution ceiling increase rate	2.00	2.00
Pension increase rate	1.75	1.75
Inflation	1.75	1.75

The interest rate is based on prime-rated government bonds with matching currencies and maturities. The basic biometric probabilities are based on the mortality tables normally used in the respective country (Germany: Heubeck 2005G). Salary growth, turnover, and retirement patterns were estimated specifically for each company.

Sensitivity analysis

The impact of material changes in actuarial assumptions on the defined benefit obligation (DBO) was as follows:

	12/31/2017 Financial impact in case of increase € m	12/31/2017 Financial impact in case of decrease € m	12/31/2016 Financial impact in case of increase € m	12/31/2016 Financial impact in case of decrease € m
Interest rate +/- 1 percent	–29	37	–30	37
Mortality rate +/- 10 percent	–8	10	–8	10
Salary growth +/- 0.25 percent	1	–1	1	–1
Inflation +/- 0.25 percent	7	–7	7	–7

The sensitivity analysis is performed using notional assumptions only. There is no minimum funding obligation for funded pension plans.

Average duration of the defined benefit obligation

	Defined benefit obligation Years
Total average duration	14

Pension benefits to be paid in the future

	Pension benefits € m
Within the next year	12
Year 2	12
Year 3	11
Year 4	11
Year 5	11
Next 5 years	56

Other non-current personnel provisions

	12/31/2017 € m	12/31/2016 € m
Anniversaries	5	4
Partial retirement (liability), transitional payment, death grants	10	8
Total	15	12

Partial retirement provisions are accounted for in accordance with the first-in, first-out method (for more information, please refer to section d) contained in the section entitled "Significant accounting policies").

(22) Other liabilities

	12/31/2017 € m	12/31/2016 € m
Accrued interest on deposits from banks	15	15
Accrued interest on amounts due to customers	22	28
Accrued interest on subordinated liabilities	1	0
Accrued interest on securitized liabilities	9	10
Accrued interest on hedging derivatives	1	0
Accrued interest on other derivatives	10	9
Miscellaneous liabilities	673	1,084
Total	731	1,146

"Other liabilities" relates to the net profit for the year in accordance with HGB amounting to EUR 357 million (December 31, 2016: EUR 740 million) to be transferred to the parent, ING Deutschland GmbH.

Information on offsetting may be found in note 27.

Other disclosures relating to the consolidated statement of financial position

(23) Contractual maturities

Assets by remaining contractual maturity on the basis of undiscounted cash flows

	12/31/2017 on demand € m	12/31/2017 less than 1 month € m	12/31/2017 1 to 3 months € m	12/31/2017 3 to 12 months € m
Cash reserve	3,077	0	0	0
Loans and advances to banks	226	20	816	1,556
Loans and advances to customers[1]	3,255	3,140	3,234	9,001
Financial investments				
- Available for sale	5	390	858	2,571
- Held to maturity	0	1	1	139
Derivatives with positive fair value	0	7	10	0
Other assets	0	281	126	204
Total	6,563	3,839	5,045	13,471

	12/31/2017 1 to 5 years € m	12/31/2017 more than 5 years € m	12/31/2017 indefinite € m	12/31/2017 Total € m
Cash reserve	0	0	0	3,077
Loans and advances to banks	6,115	1,823	0	10,556
Loans and advances to customers[1]	54,183	51,638	0	124,451
Financial investments				
- Available for sale	12,112	17,585	0	33,521
- Held to maturity	556	0	0	697
Derivatives with positive fair value	258	306	0	581
Other assets	3	0	14	628
Total	73,227	71,352	14	173,511

	12/31/2016 on demand € m	12/31/2016 less than 1 month € m	12/31/2016 1 to 3 months € m	12/31/2016 3 to 12 months € m
Cash reserve	1,487	0	0	0
Loans and advances to banks	604	118	905	1,369
Loans and advances to customers[1]	1,842	2,299	4,074	11,116
Financial investments				
- Available for sale	19	618	2,215	3,466
- Held to maturity	0	1	123	422
Derivatives with positive fair value	0	48	5	– 19
Other assets	0	193	203	230
Total	3,952	3,277	7,525	16,584

	12/31/2016 1 to 5 years € m	12/31/2016 more than 5 years € m	12/31/2016 indefinite € m	12/31/2016 Total € m
Cash reserve	0	0	0	1,487
Loans and advances to banks	4,178	1,798	0	8,972
Loans and advances to customers[1]	49,043	48,503	0	116,877
Financial investments				
- Available for sale	14,754	17,017	0	38,089
- Held to maturity	655	44	0	1,245
Derivatives with positive fair value	84	248	0	366
Other assets	12	25	14	677
Total	68,726	67,635	14	167,713

(1) Due to technical restrictions, some Wholesale Banking transactions were allocated to categories with shorter remaining maturities in the previous year. In the current year the allocation to remaining maturities is presented correctly.

Liabilities and items not recognized in the statement of financial position by remaining contractual maturity on the basis of undiscounted cash flows

	12/31/2017 on demand € m	12/31/2017 less than 1 month € m	12/31/2017 1 to 3 months € m
Subordinated liabilities	0	0	0
Securitized liabilities	0	20	11
Deposits from banks	1,117	440	302
Due to customers	123,019	1,483	2,306
Derivatives with negative fair value	0	34	35
Other liabilities	10	435	58
Subtotal	124,146	2,412	2,712
Financial guarantees	973	7	41
Irrevocable loan commitments	0	4,450	462
Total	125,119	6,869	3,215

	12/31/2017 3 to 12 months € m	12/31/2017 1 to 5 years € m	12/31/2017 more than 5 years € m	12/31/2017 Total € m
Subordinated liabilities	11	43	1,480	1,534
Securitized liabilities	2	1,156	87	1,276
Deposits from banks	1,694	9,508	4,301	17,362
Due to customers	4,192	2,904	71	133,975
Derivatives with negative fair value	5	8	1	83
Other liabilities	261	15	283	1,062
Subtotal	6,165	13,634	6,223	155,292
Financial guarantees	181	118	44	1,364
Irrevocable loan commitments	2,143	7,657	363	15,075
Total	8,489	21,409	6,630	171,731

	12/31/2016 on demand € m	12/31/2016 less than 1 month € m	12/31/2016 1 to 3 months € m
Subordinated liabilities	0	0	0
Securitized liabilities	0	0	36
Deposits from banks	1,325	104	579
Due to customers	117,555	1,440	2,374
Derivatives with negative fair value	0	78	36
Other liabilities	14	825	62
Subtotal	118,894	2,447	3,087
Financial guarantees	191	2	28
Irrevocable loan commitments	0	4,303	374
Total	119,085	6,752	3,489

	12/31/2016 3 to 12 months € m	12/31/2016 1 to 5 years € m	12/31/2016 more than 5 years € m	12/31/2016 Total € m
Subordinated liabilities	0	0	0	0
Securitized liabilities	27	583	694	1,340
Deposits from banks	2,439	8,138	5,091	17,676
Due to customers	5,148	4,094	78	130,689
Derivatives with negative fair value	271	43	3	431
Other liabilities	275	4	331	1,511
Subtotal	8,160	12,862	6,197	151,647
Financial guarantees	106	104	27	458
Irrevocable loan commitments	2,425	7,002	375	14,479
Total	10,691	19,968	6,599	166,584

(24) Expected periods of realization

The table below shows for each asset and liability position those amounts that, based on their contractual maturities, are expected to be realized or settled within twelve months of the reporting date (current) and later than twelve months after the reporting date (non-current). Asset and liability items without contractual maturities are classified as current items. This includes the "cash reserve" and "income tax assets/liabilities" line items in the statement of financial position. The following line items in the statement of financial position are classified as non-current: investment property, property and equipment, intangible assets, and deferred tax assets and liabilities. "Other assets" and "other liabilities" are classified on the basis of estimates for the significant items contained therein.

	12/31/2017 Current € m	12/31/2017 Non-current € m	12/31/2017 Total € m
Assets			
Cash reserve	3,077	0	3,077
Loans and advances to banks	2,603	7,891	10,494
Loans and advances to customers[1]	17,073	96,353	113,426
Adjustment to portfolio fair value hedges	31	408	439
Financial investments	3,458	30,116	33,574
Derivatives with positive fair value	108	416	524
Investment property	0	12	12
Property and equipment	0	60	60
Intangible assets	0	34	34
Income tax assets	30	0	30
Deferred tax assets	0	3	3
Other assets	582	1	583
Total assets	26,962	135,294	162,256
Liabilities			
Subordinated liabilities	0	1,400	1,400
Securitized liabilities	20	1,198	1,218
Deposits from banks	3,422	13,333	16,755
Due to customers	130,867	2,922	133,789
Derivatives with negative fair value	77	1	78
Income tax liabilities	0	0	0
Deferred tax liabilities	0	110	110
Non-current provisions	43	178	221
Other liabilities	721	10	731
Total liabilities	135,150	19,152	154,302

	12/31/2016 Current € m	12/31/2016 Non-current € m	12/31/2016 Total € m
Assets			
Cash reserve	1,487	0	1,487
Loans and advances to banks	2,990	5,891	8,881
Loans and advances to customers[1]	18,052	88,407	106,459
Adjustment to portfolio fair value hedges	52	827	879
Financial investments	6,215	32,523	38,738
Derivatives with positive fair value	66	279	345
Investment property	0	12	12
Property and equipment	0	64	64
Intangible assets	0	23	23
Income tax assets	21	0	21
Deferred tax assets	0	7	7
Other assets	605	32	637
Total assets	29,488	128,065	157,553
Liabilities			
Subordinated liabilities	0	0	0
Securitized liabilities	50	1,222	1,272
Deposits from banks	4,267	12,328	16,595
Due to customers	126,065	4,086	130,151
Derivatives with negative fair value	332	4	336
Income tax liabilities	0	0	0
Deferred tax liabilities	0	164	164
Non-current provisions	41	158	199
Other liabilities	1,134	12	1,146
Total liabilities	131,889	17,974	149,863

(1) Due to technical restrictions, some Wholesale Banking transactions were allocated to current periods of realization in the previous year. In the current year the allocation to realization periods is presented correctly.

IAS 1.60 *et seq.* in conjunction with IFRS 7.39 results in a worst-case analysis for the "amounts due to customers" item. Customer deposits payable on demand are classified as payable at short notice due to their contractual maturity. The contractual maturity of demand deposits does not adequately reflect the liquidity risk exposure. In order to determine the expected repayment date, modeling assumptions must therefore be made. These assumptions form an integral part of the liquidity risk management concept. Further information on liquidity risk can be found in the Group management report (risk report).

Information on offsetting may be found in note 27.

(25) Hedge accounting

Hedge accounting is discussed in section d) of the section entitled "Significant accounting policies."

The accrued interest on hedging derivatives is reported under "other assets" (note 12) or under "other liabilities" (note 22).

Information on the allocation of the hedging derivatives to micro and portfolio hedges is provided in note 6 "Derivatives with positive fair value" and note 18 "Derivatives with negative fair value."

Fair value hedges

The following table shows the fair values of derivatives held as part of fair value hedges.

	12/31/2017 Assets € m	12/31/2017 Equity and liabilities € m	12/31/2016 Assets € m	12/31/2016 Equity and liabilities € m
Derivatives used as fair value hedges	4	0	0	0

Net gains/losses on the measurement of derivatives and hedged items are described in note 36.

The full fair value of derivatives, including accrued interest, amounted to EUR 3 million as of December 31, 2017, on the assets side (December 31, 2016: EUR 0 million) and to EUR 1 million as of December 31, 2017, on the liabilities side (December 31, 2016: EUR 0 million).

In 2017 all derivatives designated as fair value hedges, including collateral provided, were offset due to the clearing of the derivatives via a CCP. Please refer to note 27 "Offsetting, master netting and similar agreements" for further information.

The changes in fair value of hedged items in portfolio hedge accounting which are attributable to the hedged risk are presented in a separate item in the statement of financial position. These are explained under "adjustment to portfolio fair value hedges" (note 4).

Cash flow hedges

The following table shows the fair values of derivatives held as part of cash flow hedges.

	12/31/2017 Assets € m	12/31/2017 Equity and liabilities € m	12/31/2016 Assets € m	12/31/2016 Equity and liabilities € m
Derivatives used as cash flow hedges	106	0	0	4

The full fair value of derivatives, including accrued interest, amounted to EUR 104 million as of December 31, 2017, on the assets side (December 31, 2016: EUR 0 million) and to EUR 0 million on the liabilities side (December 31, 2016: EUR 4 million).

Hedged cash flows

The following table shows the periods in which hedged cash flows are expected to occur and when these are expected to affect profit or loss.

	2017 less than 1 month € m	2017 1 to 3 months € m	2017 3 to 12 months € m	2017 1 to 2 years € m
Inflow	4	2	0	2
Outflow	0	0	– 7	0
Net cash flow	4	2	– 7	2

	2017 2 to 3 years € m	2017 3 to 4 years € m	2017 4 to 5 years € m	2017 more than 5 years € m
Inflow	6	7	2	5
Outflow	0	0	0	0
Net cash flow	6	7	2	5

	2016 less than 1 month € m	2016 1 to 3 months € m	2016 3 to 12 months € m	2016 1 to 2 years € m
Inflow	4	3	0	5
Outflow	0	0	– 1	0
Net cash flow	4	3	– 1	5

	2016 2 to 3 years € m	2016 3 to 4 years € m	2016 4 to 5 years € m	2016 more than 5 years € m
Inflow	5	6	6	3
Outflow	0	0	0	0
Net cash flow	5	6	6	3

Cash flow hedge reserve

The following table shows the cash flow hedge reserve under equity. Note 13 provides information on the development of changes in accumulated other comprehensive income.

	12/31/2017 € m	12/31/2016 € m
Cash flow hedge reserve in equity	8	20

In fiscal year 2017 no securities were disposed of that had an impact on the cash flow hedge reserve and led to the early termination of hedges.

Cash flow hedge ineffectiveness

Cash flow hedge ineffectiveness impacted profit or loss as follows:

	12/31/2017 € m	12/31/2016 € m
Cash flow hedge ineffectiveness	1	0

(26) Financial instruments transferred and pledged as collateral

Financial instruments transferred yet not derecognized

ING-DiBa continues to hold the securities transferred as part of repo and securities lending transactions in its statement of financial position. Since dated return and repurchase agreements are in place for the transferred assets, ING-DiBa continues to bear the associated risks and rewards. The risks are described in the Group management report.

	12/31/2017 Fair value € m	12/31/2017 Carrying amount € m
Repo transactions		
- Assets transferred (available for sale)	4	4
- Assets transferred (other assets – AfS financial investments)[1]	0	0
- Corresponding deposits from banks	4	4
- Corresponding amounts due to customers	0	0
Available for sale[2]	0	0
- Assets transferred (held to maturity)	0	0
- Assets transferred (other assets – HtM financial investments)[1]	0	0
- Corresponding deposits from banks	0	0
- Corresponding amounts due to customers	0	0
Held to maturity[2]	0	0
Total assets transferred	4	4
Total corresponding liabilities	4	4

(1) Relates to accrued interest reported separately under other assets.
(2) The totals are shown on a net basis.

	12/31/2016 Fair Value € m	12/31/2016 Carrying amount € m
Repo transactions		
- Assets transferred (available for sale)	120	120
- Assets transferred (other assets – AfS financial investments)[1]	2	2
- Corresponding deposits from banks	122	122
- Corresponding amounts due to customers	0	0
Available for sale[2]	0	0
- Assets transferred (held to maturity)	3	3
- Assets transferred (other assets – HtM financial investments)[1]	0	0
- Corresponding deposits from banks	3	3
- Corresponding amounts due to customers	0	0
Held to maturity[2]	0	0
Total assets transferred	125	125
Total corresponding liabilities	125	125

(1) Relates to accrued interest reported separately under other assets.
(2) The totals are shown on a net basis.

The AfS and HtM instruments reported here are recognized under "financial investments" in the statement of financial position (note 5).

As in the previous year, there were no securities lending transactions as of December 31, 2017.

The transactions with the European Central Bank System do not deviate from the procedure commonly used in the market.

Further information on repo transactions can be found in note 16 "Deposits from banks" and note 17 "Due to customers".

Financial instruments pledged as collateral

	12/31/2017 Carrying amount € m	12/31/2016 Carrying amount € m
Total AfS financial investments	32,887	37,510
of which pledged as collateral	1,351	1,288
Other assets – AfS financial investments total	331	414
of which pledged as collateral	29	20
Total HtM financial investments	687	1,228
of which pledged as collateral	22	81
Other assets – HtM financial investments total	10	15
of which pledged as collateral	0	1
Loans and advances to banks	10,494	8,881
of which pledged as collateral	59	441
Loans and advances to customers	113,426	106,459
of which pledged as collateral	12,944	16,496
Total transferred	14,405	18,327

All financial instruments pledged as collateral by ING-DiBa can be sold or pledged by the recipient of the collateral regardless of whether or not ING-DiBa defaults.

"Loans and advances to banks" (note 2) includes cash collateral for derivatives in the amount of EUR 31 million (December 31, 2016: EUR 425 million). Cash collateral of EUR 1 million (December 31, 2016: EUR 0 million) was pledged for repo transactions. EUR 26 million in cash collateral was provided in the context of transactions settled via central counterparties (December 31, 2016: EUR 16 million).

"Loans and advances to customers" (note 3) included a volume of EUR 6,857 million (December 31, 2016: EUR 7,301 million) pledged as collateral as part of transactions with the

KfW development bank (Kreditanstalt für Wiederaufbau). Residential mortgage-backed securities (RMBS) in the amount of EUR 1,299 million (December 31, 2016: EUR 4,638 million) are pledged as collateral with the European Central Bank System. Note 31 contains further information on these RMBSs.

Private mortgage loans serve as collateral cover for the mortgage bonds (*Hypothekenpfandbriefe*) issued. The carrying amount of the private mortgage loans entered into the funding register was EUR 4,784 million as of December 31, 2017 (December 31, 2016: EUR 4,554 million).

The loans of the cover pool comprise part of the "loans and advances to customers" item (note 3). In addition, EUR 80 million in AfS and HtM financial instruments (December 31, 2016: EUR 81 million) was provided as collateral.

In relation to the collateral listed, there are no clauses or conditions that are of material importance when considered separately.

(27) Offsetting, master netting, and similar agreements

Since fiscal year 2013, derivatives have increasingly been settled via a central counterparty. This has resulted in an offsetting requirement in the statement of financial position.

Agreements relating to derivatives transactions which were not conducted through the central counterparty as well as repo and reverse repo transactions are master netting agreements (MNA) and similar agreements, which result in the positions concerned being offset off-balance under certain conditions. The off-balance settlement of these transactions relates solely to technical settlement and not to accounting presentation in accordance with IFRSs. MNAs are deemed to be legally enforceable if this is confirmed by applicable legal opinions.

For more information, please refer to note 6 "Derivatives with positive fair value," and note 18 "Derivatives with negative fair value."

		12/31/2017	12/31/2017	12/31/2017	12/31/2017 Amounts subject to a legally enforceable MNA or similar agreement		12/31/2017
		Gross amounts of financial assets before offsetting	Amounts offset in the statement of financial position	Net amounts of financial assets after offsetting	Financial instruments	Financial instruments pledged as collateral including cash	Net amount
		m €	m €	m €	m €	m €	m €
Statement of financial position item	**Financial assets**						
Loans and advances to banks	Reverse repo and similar contracts	813	0	813	1	811	1
Loans and advances to banks	Cash collateral[1]	1,759	1,747	12	0	0	12
Loans and advances to customers	Reverse repo and similar contracts	200	0	200	0	0	200
Derivatives with positive fair value	Derivatives	935	411	524	23	427	74
Other assets	Accrued interest on loans and advances to banks	0	0	0	0	0	0
Other assets	Accrued interest on derivatives	67	73	– 6	7	0	1
Total		3,774	2,231	1,543	17	1,238	288

(1) The cash collateral reported here relates in full to the transactions settled via a central counterparty (CCP).

		12/31/2016	12/31/2016	12/31/2016	12/31/2016 Amounts subject to a legally enforceable MNA or similar agreement		12/31/2016
		Gross amounts of financial assets before offsetting	Amounts offset in the statement of financial position	Net amounts of financial assets after offsetting	Financial instruments	Financial instruments pledged as collateral including cash	Net amount
		m €	m €	m €	m €	m €	m €
Statement of financial position item	**Financial assets**						
Loans and advances to banks	Reverse repo and similar contracts	514	0	514	14	500	0
Loans and advances to banks	Cash collateral[1]	2,505	2,483	22	0	0	22
Loans and advances to customers	Reverse repo and similar contracts	0	0	0	0	0	0
Derivatives with positive fair value	Derivatives	793	448	345	63	38	244
Other assets	Accrued interest on loans and advances to banks	0	0	0	0	0	0
Other assets	Accrued interest on derivatives	65	64	1	0	0	1
Total		3,877	2,995	882	77	538	267

(1) The cash collateral reported here relates in full to the transactions settled via a central counterparty (CCP).

		12/31/2017	12/31/2017	12/31/2017	12/31/2017 Amounts subject to a legally enforceable MNA or similar agreement		12/31/2017
		Gross amounts of financial liabilities before offsetting m €	Amounts offset in the statement of financial position m €	Net amounts of financial liabilities after offsetting m €	Financial instruments m €	Financial instruments pledged as collateral including cash m €	Net amount m €
Statement of financial position item	**Financial liabilities**						
Deposits from banks	Repo transactions	4	0	4	1	3	0
Due to customers	Repo transactions	0	0	0	0	0	0
Derivatives with negative fair value	Derivatives	1,958	1,880	78	23	0	55
Other liabilities	Accrued interest on derivatives	363	352	11	11	0	0
Total		2,325	2,232	93	35	3	55

		12/31/2016	12/31/2016	12/31/2016	12/31/2016 Amounts subject to a legally enforceable MNA or similar agreement		12/31/2016
		Gross amounts of financial liabilities before offsetting m €	Amounts offset in the statement of financial position m €	Net amounts of financial liabilities after offsetting m €	Financial instruments m €	Financial instruments pledged as collateral including cash m €	Net amount m €
Statement of financial position item	**Financial liabilities**						
Deposits from banks	Repo transactions	124	0	124	13	111	0
Due to customers	Repo transactions	0	0	0	0	0	0
Derivatives with negative fair value	Derivatives	2,951	2,615	336	63	35	238
Other liabilities	Accrued interest on derivatives	392	382	10	0	0	10
Total		3,467	2,997	470	76	146	248

(28) Contingent liabilities

Contingent liabilities are items not recognized in the statement of financial position, as specified in IAS 37 (see section e) of "Significant accounting policies").

These include irrevocable loan commitments, guarantees, and letters of credit.

Contingent liabilities relate primarily to irrevocable loan commitments to customers in the mortgage area (forward loans) and in Wholesale Banking.

The expected disbursements for irrevocable loan commitments and letters of credit are presented below. These correspond to the contractually stipulated maximum amounts. For guarantees, the maximum amount that can be drawn down is shown.

As part of the spin-off (August 31, 2011) of the former Frankfurt branch of ING Bank N.V. from ING Bank N.V., Amsterdam, to Conifer B.V., and the subsequent merger with ING-DiBa, ING-DiBa assumed Conifer B.V.'s secondary liability obligations existing by operation of the law for the protection of ING Bank N.V.'s creditors. This secondary liability obligation is

anchored in article 2:334t of the Dutch Civil Code and applies to certain obligations on the part of ING Bank N.V. existing as of the effective date of the spin-off.

With regard to the scope of liability, a distinction must be drawn between joint and several obligations. Joint obligations of ING Bank N.V. are subject to the joint liability of ING DiBa and ING Bank N.V. The secondary liability in respect of the several obligations is limited to the value of the net assets of the Frankfurt branch of ING Bank N.V. as of the date of the spin-off to Conifer B.V.

The term of this liability is unlimited and expires only upon the extinguishment of the relevant obligation. In this context, it is not practical to make the disclosures required in accordance with IAS 37.86.

Pursuant to Article 70 (3) of Regulation (EU) No 806/2014 in conjunction with Article 13 (3) of Delegated Regulation (EU) 2015/63 and Article 8 (3) sentence 1 of Implementing Regulation (EU) 2015/81, an amount to be determined by the FMSA of between 15% and maximum 30% of the contributions ("European bank levy") may be provided in the form of irrevocable payment commitments backed by collateral; the level for fiscal years 2016 and 2017 was set at 15%. For the contributions pursuant to sections 19 (2) to (4) and 26 (1) sentence 3 of the German Deposit Guarantee Act (Einlagensicherungsgesetz, "EinSiG") in conjunction with section 5 (1) and (2), and sections 6 through 10 of the German Compensation Scheme Funding Regulation (Entschädigungseinrichtungs-Finanzierungsverordnung, "EntschFinV"), up to 30% of the annual levy can be provided by means of assuming an irrevocable payment commitment backed by collateral. ING-DiBa exercises this option and has furnished cash collateral or pledged securities as collateral for the payment commitments.

Contingent liabilities

	12/31/2017 on demand € m	12/31/2017 less than 1 month € m	12/31/2017 1 to 3 months € m
Irrevocable loan commitments	0	4,450	462
Guarantees and letters of credit	562	111	77
Total	562	4,561	539

	12/31/2017 3 to 12 months € m	12/31/2017 1 to 5 years € m	12/31/2017 more than 5 years € m	12/31/2017 Total € m
Irrevocable loan commitments	2,143	7,657	363	15,075
Guarantees and letters of credit	261	227	80	1,318
Total	2,404	7,884	443	16,393

	12/31/2016 on demand € m	12/31/2016 less than 1 month € m	12/31/2016 1 to 3 months € m
Irrevocable loan commitments	0	4,303	374
Guarantees and letters of credit	417	171	94
Total	417	4,474	468

	12/31/2016 3 to 12 months € m	12/31/2016 1 to 5 years € m	12/31/2016 more than 5 years € m	12/31/2016 Total € m
Irrevocable loan commitments	2,425	7,002	375	14,479
Guarantees and letters of credit	231	144	79	1,136
Total	2,656	7,146	454	15,615

(29) Pending litigation

The outcomes of pending litigation are not expected to have any material adverse effect on the net assets, financial position, and results of operations in excess of the amounts already recognized for litigation risks under non-current provisions (see "Significant accounting policies," sections d) and e)).

(30) Future lease obligations

	Future minimum lease payments € m
2018	22
2019	19
2020	18
2021	17
2022	16
in years following 2022	44

Total lease expenses amounted to EUR 26 million in fiscal year 2017 (2016: EUR 25 million). Of that amount, EUR 22 million (2016: EUR 22 million) was attributable to minimum lease payments and EUR 4 million (2016: EUR 3 million) was attributable to contingent lease payments.

As of the end of the reporting period, leasing obligations of EUR 0 million are reported due (2016: EUR 0 million).

Operationally, lease agreements for business premises or office buildings are considered material. Most of the agreements in question specify fixed terms or minimum lease terms for which fixed lease amounts have to be paid. Some of the rentals for buildings used for business operations are linked to consumer price indices.

Some of the leases for office buildings are for fixed terms, often granting renewal options, also for a fixed term. Other leases are for indefinite terms. They do not normally include a sale option.

The building leases do not impose restrictions that could impact the capital structure, profit or loss, or other lease agreements of the Company.

(31) Disclosures relating to equity investments

All subsidiaries and the structured entity included in the consolidated financial statements were consolidated.

As before, there were no equity investments that involved joint control in the fiscal year just ended.

Restrictions on the ability to obtain access to assets or to use them may arise from statutory or regulatory requirements. There are no recognizable significant restrictions on the ability to satisfy liabilities of consolidated companies.

The basis of consolidation in the reporting and comparison period was as follows:

	12/31/2017 Equity interest held directly Percent	12/31/2017 Equity interest held indirectly Percent	12/31/2016 Equity interest held directly Percent	12/31/2016 Equity interest held indirectly Percent
GGV Gesellschaft für Grundstücks- und Vermögensverwaltung mbH, Frankfurt am Main	100	0	100	0
ING-DiBa Service GmbH, Frankfurt am Main	100	0	100	0
Pure German Lion RMBS 2008 GmbH, Frankfurt am Main	0	0	0	0
Ingredit Verwaltungs GmbH, Frankfurt am Main	100	0	100	0
Rahmhof Grundbesitz GmbH i.L., Frankfurt am Main	100	0	100	0

Control on the basis of voting rights

ING-DiBa AG holds all of the shares in GGV Gesellschaft für Grundstücks- und Vermögensverwaltung mbH, ING-DiBa Service GmbH, Ingredit Verwaltungs-GmbH and Rahmhof Grundbesitz GmbH i.L. The operating activities of the subsidiaries are primarily related to property and asset management.

Control without voting rights

On December 1, 2008, ING-DiBa AG transferred a portfolio of mortgage loans with a nominal volume of EUR 4.7 billion to a structured entity, Pure German Lion RMBS 2008 GmbH to let this entity securitize them in the form of residential mortgage-backed securities (RMBSs).

The structured entity is fully consolidated based on IFRS 10. ING-DiBa does not hold any equity interest in the entity. Nevertheless, the entity is controlled by the Bank, in particular through its limited purpose and the special economic relationships against the backdrop of corresponding contractual provisions.

All securities under this securitization transaction are held by ING-DiBa and fully eliminated in consolidation.

The consolidation results in the presentation of non-controlling interests in ING-DiBa's equity in the amount of EUR 25 thousand. The non-controlling interest does not represent any influence on the Group's activities or cash flows.

ING-DiBa granted a liquidity facility to Pure German Lion RMBS 2008 GmbH; however this does not represent either a guarantee or an additional payment obligation.

Associates

To the extent there is significant influence only insofar as there is the power to participate in financial and operating policy decision-making processes, but without the ability to control these decision-making processes alone, the long-term equity investments in ques-

tion are reported by the Group as associates using the equity method. In fiscal year 2017, this applied to paydirekt Beteiligungsgesellschaft privater Banken mbH, Berlin, in which the Bank holds 19.94% of voting rights. The purpose of the company's business is to hold and manage interests in a joint venture of institutions of the German Banking Industry Committee. The joint venture was set up for the purpose of establishing, operating and enhancing an innovative electronic payment system. The interest in the sole associate is insignificant in relation to the Group's business volume. The investment is presented under other assets (note 12) at a carrying amount of EUR 1 million (December 31, 2016: EUR 2 million). The income and expenses generated in the past and previous years by the company were immaterial.

Other equity investments

Other equity investments that are insignificant to the Group's economic position are presented under financial investments. Equity investments that are not listed and whose fair value cannot be reliably determined are recognized at cost (note 5).

Disclosures on non-consolidated structured entities

In the reporting periods under review, ING-DiBa did not maintain any relations with structured entities that are not included in the consolidated financial statements.

(32) Related parties

Related persons

Total compensation paid to members of executive bodies active during the reporting period (key management personnel)

	12/31/2017 € m	12/31/2016 € m
Current compensation	4	4
Pensions	1	1
Other long-term remuneration	0	0
Severance packages	0	0
Share-based payments	1	1
Total compensation	6	6

Key management personnel as defined by IFRSs comprises the active members of the Management Board and Supervisory Board.

Total compensation paid to the Management Board and Supervisory Board amounted to EUR 5.6 million in fiscal year 2017 (2016: EUR 6.0 million).

EUR 4.5 million of the total compensation paid related to the executive activities of Management Board members (2016: EUR 5.0 million) and EUR 1.1 million related to the executive activities of Supervisory Board members (2016: EUR 0.8 million).

The current compensation includes all fixed and variable components, provided they were paid in the twelve-month period.

Share-based payments to the Management Board and Supervisory Board

In the periods under review, the members of the Management Board and Supervisory Board received share-based payments in the amounts presented below. The weighted average of the fair values was determined as of the date of the legally binding commitment. No subsequent changes in value were recognized, because the exercise terms and conditions had not been changed. A more detailed description can be found under note 40.

Share-based payments to members of executive bodies active during the reporting period

	2017 Amount	2017 Fair value at grant date €	2016 Amount	2016 Fair value at grant date €
Performance shares, deferred shares	46,951	616,545	34,720	340,021

Total compensation paid to former members of executive bodies

Total compensation paid to former members of executive bodies amounted to EUR 1.1 million in fiscal year 2017 (2016: EUR 1.6 million). A provision of EUR 21.4 million (December 31, 2016: EUR 21.0 million) was recognized for current pensions and pension entitlements of former members of the Management Board and their dependents.

Note 21 contains disclosures on pension provisions in accordance with IAS 19.

Other related party disclosures

As at December 31, 2017, the Group had granted loans amounting to EUR 0.1 million to members of the Management Board and Supervisory Board (December 31, 2016: EUR 0.3 million).

These are the Bank's products and were granted at standard market terms and conditions. No contingent liabilities had been entered into in connection with key management personnel, either as of December 31, 2017, or the end of the previous year's reporting period.

Related companies

Business relationships with parent companies

In addition to the companies included in the group, ING-DiBa AG also has business relationships with parent and sister companies of ING Groep N.V.

ING-DiBa's immediate parent is ING Deutschland GmbH, Frankfurt am Main, which holds a 100% interest. The ultimate parent company of the entire ING Group is ING Groep N.V., Amsterdam (Netherlands).

In addition to the companies named, the following companies are parent companies to ING-DiBa:

- ING Bank N.V., Amsterdam (Netherlands)
- ING Holding Deutschland GmbH, Frankfurt am Main

	12/31/2017 € m	12/31/2016 € m
ING Groep N.V.		
ING Bank N.V.		
Loans and advances	20,601	18,998
Deposits and amounts due	9,607	8,379
Loan commitments	0	0
Income	69	353
Expenses	48	193
ING Holding Deutschland GmbH		
Loans and advances	0	0
Deposits and amounts due	55	177
Loan commitments	0	0
Income	0	0
Expenses	0	0
ING Deutschland GmbH		
Loans and advances	0	0
Deposits and amounts due	1,773	767
Loan commitments	0	0
Income	0	0
Expenses	1	0

In fiscal year 2017, EUR 39 million (2016: EUR 142 million) in existing loan transactions were acquired from ING Bank N.V. They relate exclusively to corporate customers.

Some of the loans and advances to ING Bank N.V., Amsterdam (Netherlands) are collateralized. Note 2 contains further information.

In the Wholesale Banking business, guarantees amounting to EUR 239 million (2016: EUR 236 million) were granted to ING Bank N.V. No allowances or provisions for doubtful accounts were necessary.

The amounts due to ING Deutschland GmbH relate primarily to subordinated debt raised (see note 14) and to the profit transfer to be made. The transfer of the profit determined under German commercial law is explained in section d) of "Significant accounting policies."

No allowances or provisions for doubtful accounts were necessary.

Associates

Business relationships with associates were not material.

Business relationships with other group companies not included in the basis of consolidation

In fiscal year 2017, there were business relationships primarily with the following companies included in the consolidated financial statements of ING Groep N.V.:

- ING Capital LLC, New York (United States of America)
- BSO TWO B.V., BSO THREE B.V. and BSO FOUR B.V. (all Netherlands)
- ING Belgium N.V., Brussels (Belgium)
- Stichting Orange Lion RMBS, Amsterdam (Netherlands)
- Interhyp AG, Munich

	12/31/2017 € m	12/31/2016 € m
Loans and advances	3,669	3,553
Deposits and amounts due	73	782
Loan commitments	0	0
Income	21	39
Expenses	8	77

In 2017, ING-DiBa acquired funded risk participations resulting from structured finance amounting to approximately EUR 3,627 million (2016: EUR 3,600 million) from ING Capital LLC, New York. They were acquired at arm's length conditions. Individual transactions amounting to EUR 1,442 million (2016: EUR 604 million) were sold back in the 2017 fiscal year. The resulting EUR 2 million net gain (2016: EUR net loss of EUR –4 million) was fully recognized in interest income.

Transactions entered into with BSO TWO B.V., BSO THREE B.V., and BSO FOUR B.V. in fiscal year 2017 resulted in the recognition of receivables of EUR 2,774 million, accrued interest of EUR 2 million and income of EUR 18 million.

Loans granted by ING Belgium N.V. in the amount of EUR 823 million (2016: EUR 781 million) were recognized as financial investments. Accrued interest amounted to EUR 2 million (2016: EUR 2 million), and net interest income amounting to EUR 8 million was generated (2016: EUR 8 million).

Stichting Orange Lion RMBS (receivables as of December 31, 2016: EUR 1,723 million) was sold to ING Bank N.V. in fiscal year 2017. An amount of EUR –1 million (2016: EUR 19 million) was recognized in net interest income through profit or loss.

EUR 5 million in guarantees (December 31, 2016: EUR 5 million) and EUR 14 million in letters of credit (December 31, 2016: EUR 28 million) were granted in the Wholesale Banking business.
A significant proportion of transactions with Interhyp AG consists of commission expenses for brokering mortgage loans and installment loans.

No allowances or provisions for doubtful accounts were necessary.

Business relationships with related parties not included in the group or the basis of consolidation

ING-DiBa has pension plans protected against insolvency through a contractual trust agreement (CTA) and a pension fund (note 21). In fiscal year 2017, additional funding of

EUR 1 million (2016: EUR 1 million) was contributed to plan assets via the multi-employer trustee.

(33) Fair value reporting

Disclosures in accordance with IFRS 7.8, IFRS 7.25, and IFRS 13

The following table provides an overview of the carrying amounts and fair values of financial instruments included in the individual items of the statement of financial position.

	12/31/2017 Fair value € m	12/31/2017 Carrying amount € m
Financial assets		
Available for sale financial investments	32,887	32,887
of which equity investments	5	5
Other assets – available for sale financial investments[1]	331	331
Available for sale	33,218	33,218
Held to maturity financial investments	693	687
Other assets – held to maturity financial investments[1]	10	10
Held to maturity	703	697
Other derivatives with positive fair value	414	414
Other assets – other derivatives[1]	– 3	– 3
Fair value through profit or loss	411	411
Cash balance	104	104
Hedging derivatives	110	110
Other assets – other hedging derivatives[1]	– 3	– 3
Adjustment to portfolio fair value hedges	439	439
Financial instruments not categorized under IAS 39	650	650
Balances with central banks	2,973	2,973
Loans and advances to banks	10,629	10,494
Other assets – loans and advances to banks[1]	3	3
Loans and advances to customers	118,191	113,426
Other assets – loans and advances to customers[1]	86	86
Loans and receivables	131,882	126,982
Total financial assets	166,864	161,958
Financial liabilities		
Other derivatives with negative fair value	78	78
Other liabilities – other derivatives[1]	10	10
Fair value through profit or loss	88	88
Hedging derivatives	0	0
Other liabilities – hedging derivatives[1]	1	1
Financial instruments not categorized under IAS 39	1	1
subordinated liabilities	1,400	1,400
Other subordinated liabilities[1]	1	1
Securitized liabilities	1,235	1,218
Other liabilities – securitized liabilities[1]	9	9
Deposits from banks	17,088	16,755
Other liabilities – deposits from banks[1]	15	15
Due to customers	133,874	133,789
Other liabilities – due to customers[1]	22	22
Financial liabilities	153,644	153,209
Total financial liabilities	153,733	153,298

(1) Relates to accrued interest disclosed separately under other assets or other liabilities.

	12/31/2016 Fair value € m	12/31/2016 Carrying amount € m
Financial assets		
Available for sale financial investments	37,510	37,510
of which equity investments	19	19
Other assets – available for sale financial investments[1]	414	414
Available for sale	37,924	37,924
Held to maturity financial investments	1,236	1,228
Other assets – held to maturity financial investments[1]	15	15
Held to maturity	1,251	1,243
Other derivatives with positive fair value	345	345
Other assets – other derivatives[1]	1	1
Fair value through profit or loss	346	346
Cash balance	103	103
Hedging derivatives	0	0
Other assets – other hedging derivatives[1]	0	0
Adjustment to portfolio fair value hedges	0	879
Financial instruments not categorized under IAS 39	103	982
Balances with central banks	1,384	1,384
Loans and advances to banks	9,015	8,881
Other assets – loans and advances to banks[1]	4	4
Loans and advances to customers	111,578	106,459
Other assets – loans and advances to customers[1]	77	77
Loans and receivables	122,058	116,805
Total financial assets	161,682	157,300
Financial liabilities		
Other derivatives with negative fair value	332	332
Other liabilities – other derivatives[1]	9	9
Fair value through profit or loss	341	341
Hedging derivatives	4	4
Other liabilities – hedging derivatives[1]	0	0
Financial instruments not categorized under IAS 39	4	4
Subordinated liabilities	0	0
Other subordinated liabilities[1]	0	0
Securitized liabilities	1,306	1,272
Other liabilities – securitized liabilities[1]	10	10
Deposits from banks	17,179	16,595
Other liabilities – deposits from banks[1]	15	15
Due to customers	130,544	130,151
Other liabilities – due to customers[1]	28	28
Financial liabilities	149,082	148,071
Total financial liabilities	149,427	148,416

(1) Relates to accrued interest disclosed separately under other assets or other liabilities.

Fair value hierarchy

With regard to their fair values, which have to be reported in the statement of financial position or in the notes, financial and non-financial assets and liabilities are allocated to one of three levels, depending on the valuation techniques used to determine them:

Level 1: (Unadjusted) prices for identical assets or liabilities quoted on active markets to which the Company has access on the measurement date.

Level 2: Market prices, other than those included in Level 1, that can be observed either directly or indirectly for the assets or liabilities. This includes quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in inactive markets, or other significant observable inputs, such as interest rates, volatilities, or risk premiums.

Level 3: Significant inputs that are not observable for assets or liabilities. Here, the determination of fair values is based on prices modeled for the asset or liability that are not based on observable market data.

The table below shows the levels used to measure those financial and non-financial assets and liabilities which are recognized at fair value in the statement of financial position.

	12/31/2017 Level 1 € m	12/31/2017 Level 2 € m	12/31/2017 Level 3 € m	12/31/2017 Total € m
Assets				
Other derivatives with positive fair value	0	414	0	414
Other assets – other derivatives[1]	0	– 3	0	– 3
Hedging derivatives	0	110	0	110
Other assets – hedging derivatives[1]	0	– 3	0	– 3
AfS financial investments	19,745	13,058	84	32,887
of which equity instruments	5	0	0	5
Other assets – AfS financial investments[1]	266	65	0	331
Investment property	0	0	12	12
Group-occupied properties	0	0	16	16
Total	20,011	13,641	112	33,764
Equity and liabilities				
Other derivatives with negative fair value	0	78	0	78
Other liabilities – other derivatives[1]	0	10	0	10
Hedging derivatives	0	0	0	0
Other liabilities – hedging derivatives[1]	0	1	0	1
Total	0	89	0	89

(1) Relates to accrued interest disclosed separately under other assets or other liabilities.

	12/31/2016 Level 1 € m	12/31/2016 Level 2 € m	12/31/2016 Level 3 € m	12/31/2016 Total € m
Assets				
Other derivatives with positive fair value	0	345	0	345
Other assets – other derivatives[1]	0	1	0	1
Hedging derivatives	0	0	0	0
Other assets – hedging derivatives[1]	0	0	0	0
AfS financial investments	23,843	13,581	86	37,510
of which equity instruments	9	0	10	19
Other assets – AfS financial investments[1]	350	64	0	414
Investment property	0	0	12	12
Group-occupied properties	0	0	16	16
Total	24,193	13,991	114	38,298
Equity and liabilities				
Other derivatives with negative fair value	0	332	0	332
Other liabilities – other derivatives[1]	0	9	0	9
Hedging derivatives	0	4	0	4
Other liabilities – hedging derivatives[1]	0	0	0	0
Total	0	345	0	345

(1) Relates to accrued interest disclosed separately under other assets or other liabilities.

Transfers between levels

By default, available-for-sale financial investments, derivatives with positive and negative fair values, investment property, and Group-occupied property are recognized at fair value in the statement of financial position.

If market prices are available and Level 1 allocation is therefore applied, the instruments have to be transferred to Level 2 if the quality of the prices quoted on the respective principal or most advantageous market deteriorates. If the market activity falls below a specified threshold, measurement is made based on observable parameters as defined for Level 2. Accordingly, instruments are transferred from Level 2 to Level 1 if market activity increases. An assignment is made to Level 3 if a significant amount of inputs that are not observable are used in the models for the fair value measurement. Consequently, transfers are made into or out of Level 3 if significant inputs are no longer observable or are again observable.

In fiscal year 2017, changes in market conditions or observable parameters caused the following shifts in the fair value measurement of AfS financial investments:

- There were 8 (2016: 7) reclassifications from Level 2 to Level 1 amounting to EUR 495 million (December 31, 2016: EUR 75 million). Accordingly, accrued interest recognized under other assets amounting to EUR 12 million (December 31, 2016: EUR 0 million) was reclassified from Level 2 to Level 1.

- There were 17 (2016: 10) shifts from Level 1 to Level 2, with a total volume of EUR 129 million (December 31, 2016: EUR 114 million) and related accrued interest in the amount of EUR 1 million (December 31, 2016: EUR 0 million).

The table below shows the levels used to measure those financial and non-financial assets and liabilities which are not recognized at fair value in the statement of financial position but for which the fair value has to be disclosed.

	12/31/2017 Level 1 € m	12/31/2017 Level 2 € m	12/31/2017 Level 3 € m	12/31/2017 Total € m
Assets				
Cash balance	104	0	0	104
Balances with central banks	0	2,973	0	2,973
Loans and advances to banks	0	8,866	1,763	10,629
Other assets – loans and advances to banks[1]	0	– 1	4	3
Loans and advances to customers	0	10,036	108,155	118,191
Other assets – loans and advances to customers[1]	0	27	59	86
HtM financial investments	693	0	0	693
Other assets – HtM financial investments[1]	10	0	0	10
Total	807	21,901	109,981	132,689
Equity and liabilities				
Subordinated liabilities	0	1,400	0	1,400
Other subordinated liabilities[1]	0	1	0	1
Securitized liabilities	990	245	0	1,235
Other liabilities – securitized liabilities[1]	8	1	0	9
Deposits from banks	0	9,948	7,140	17,088
Other liabilities – deposits from banks[1]	0	15	0	15
Due to customers	0	129,347	4,527	133,874
Other liabilities – due to customers[1]	0	4	18	22
Total	998	140,961	11,685	153,644

(1) Relates to accrued interest disclosed separately under other assets or other liabilities.

	12/31/2016 Level 1 € m	12/31/2016 Level 2 € m	12/31/2016 Level 3 € m	12/31/2016 Total € m
Assets				
Cash balance	103	0	0	103
Balances with central banks	0	1,384	0	1,384
Loans and advances to banks	0	7,857	1,158	9,015
Other assets – loans and advances to banks[1]	0	2	2	4
Loans and advances to customers	0	5,895	105,683	111,578
Other assets – loans and advances to customers[1]	0	25	52	77
HtM financial investments	1,236	0	0	1,236
Other assets – HtM financial investments[1]	15	0	0	15
Total	1,354	15,163	106,895	123,412
Equity and liabilities				
Subordinated liabilities	0	0	0	0
Other subordinated liabilities[1]	0	0	0	0
Securitized liabilities	1,008	298	0	1,306
Other liabilities – securitized liabilities[1]	8	2	0	10
Deposits from banks	0	9,535	7,644	17,179
Other liabilities – deposits from banks[1]	0	15	0	15
Due to customers	0	125,317	5,227	130,544
Other liabilities – due to customers[1]	0	10	18	28
Total	1,016	135,177	12,889	149,082

(1) Relates to accrued interest disclosed separately under other assets or other liabilities.

Valuation techniques

Fair values of financial and non-financial assets and liabilities normally measured and recognized at fair value

Some of the financial and non-financial assets and liabilities are measured in the statement of financial position at fair value at the reporting date. The table below shows the valuation techniques and the inputs used.

	Fair value hierarchy level	Valuation techniques and significant inputs	Significant unobservable inputs	12/31/2017 Fair value € m
Financial assets				
Available for sale financial investments				32,887
based on unadjusted observable prices	1	1)		19,745
based on valuation models with observable inputs	2	1)		13,058
based on valuation models with unobservable inputs	3	2)	2)	84
Other assets – AfS financial investments[1]				331
based on unadjusted observable prices	1	1)		266
based on valuation models with observable inputs	2	1)		65
based on valuation models with unobservable inputs	3	2)	2)	0
Available for sale				33,218
Other derivatives with positive fair value	2	3)		414
Other assets – other derivatives[1]	2	3)		– 3
Fair value through profit or loss				411
Hedging derivatives	2	3)		110
Other assets – hedging derivatives[1]	2	3)		– 3
Financial instruments not categorized under IAS 39				107
Investment property	3	4)	4)	12
Group-occupied properties	3	4)	4)	16
Non-financial assets				28
Total assets				33,764
Financial liabilities				
Other derivatives with negative fair value	2	3)		78
Other liabilities – other derivatives[1]	2	3)		10
Fair value through profit or loss				88
Hedging derivatives	2	3)		0
Other liabilities – hedging derivatives[1]	2	3)		1
Financial instruments not categorized under IAS 39				1
Total liabilities				89

(1) Relates to accrued interest disclosed separately under other assets or other liabilities.

	Fair value hierarchy level	Valuation techniques and significant inputs	Significant unobservable inputs	12/31/2016 Fair value € m
Financial assets				
Available for sale financial investments				37,510
based on unadjusted observable prices	1	1)		23,843
based on valuation models with observable inputs	2	1)		13,581
based on valuation models with unobservable inputs	3	2)	2)	86
Other assets – AfS financial investments[1]				414
based on unadjusted observable prices	1	1)		350
based on valuation models with observable inputs	2	1)		64
based on valuation models with unobservable inputs	3	2)	2)	0
Available for sale				37,924
Other derivatives with positive fair value	2	3)		345
Other assets – other derivatives[1]	2	3)		1
Fair value through profit or loss				346
Hedging derivatives	2	3)		0
Other assets – hedging derivatives[1]	2	3)		0
Financial instruments not categorized under IAS 39				0
Investment property	3	4)	4)	12
Group-occupied properties	3	4)	4)	16
Non-financial assets				28
Total assets				38,298
Financial liabilities				
Other derivatives with negative fair value	2	3)		332
Other liabilities – other derivatives[1]	2	3)		9
Fair value through profit or loss				341
Hedging derivatives	2	3)		4
Other liabilities – hedging derivatives[1]	2	3)		0
Financial instruments not categorized under IAS 39				4
Total liabilities				345

(1) Relates to accrued interest disclosed separately under other assets or other liabilities.

The following presents a description of the valuation techniques used to determine the fair values of assets and liabilities:

1) Available-for-sale bonds of local authorities and private issuers and equity instruments are recognized at fair value. For financial instruments listed on active markets, the unadjusted price at the defined principal market or the most advantageous market is used for measurement (Level 1). This includes foreign currency bonds. If market activity is insufficient, either existing prices for similar instruments are used instead or the future cash

flows expected to be derived from the respective financial instruments are discounted to present value using current interest rates, applying the relevant yield or swap curve. Product-specific spreads or credit spreads are taken into account. Only inputs observable on the market are included in the measurement systems (Level 2).

2) Asset-backed securities (ABSs) and mortgage-backed securities (MBSs) allocated to the available-for-sale category are recognized at fair value in the statement of financial position. For these instruments, no prices are quoted on active markets. Either indicative quotes or estimates from market makers are used to determine the fair values (Level 2). In that event ING-DiBa does not generate any quantitative, non-observable inputs. If no plausible fair values can be derived from the estimated values provided by third parties, the securities concerned are modeled as bullet bonds and measured using the discounted cash flow method (Level 3). In this process, the remaining maturity corresponds to a conservatively estimated date of full redemption. The coupon corresponds to the actual interest rate of 0.22 percent, with a spread of 55 basis points modeled on the basis of non-observable inputs.

3) Standardized swaps (OTC derivatives) are measured using standard industry models, which incorporate inputs observed by providers of financial information, such as interest rates in particular (Level 2). Almost all transactions (interest rate, cross currency and FX swaps) are fully collateralized with cash or by settling them via a central counterparty, so that it is not necessary to take credit risk adjustments into account. Individual OTC derivatives are measured on the basis of the multi-curve valuation.

4) Investment property and Group-occupied property (notes 7 and 8) are regularly (once a year, and by an external expert at least every three years) measured at fair value in the statement of financial position. Because of the inputs it uses, the underlying income approach is categorized as a Level 3 method. Unobservable inputs are in particular the estimated rental income of the properties and the annual return on land value, which has to be deducted from annual net income. For the measurement of Group-occupied property, rental income in a range between EUR 4.50 to EUR 10.50 with a weighted average of EUR 10.21 is assumed per square meter per month, while rental income in a range between EUR 6.00 to EUR 16.79 with a weighted average of EUR 9.83 to EUR 12.33 per square meter per month is assumed for investment property. For annual returns on land value, interest rates in a range between 5.0% p.a. and 8.0% p.a. with a weighted interest rate of 5.25% p.a. are estimated for Group-occupied property, and interest rates in a range between 0.8% p.a. and 6.5% p.a. with a weighted interest rate of between 3.7% p.a. and 4.75% p.a. respectively for investment property. If ING-DiBa had based the valuation on inputs at the extreme ends of the ranges shown, the fair values as of December 31, 2017, would have been up to EUR 161 thousand (December 31, 2016: up to EUR 341 thousand) higher or up to EUR 772 thousand (December 31, 2016: up to EUR 658 thousand) lower.

Reconciliation to Level 3

The table below shows a reconciliation of the financial instruments and property normally measured within Level 3:

	2017 Available for sale investments € m	2017 Investment property € m	2017 Group-occupied properties € m	2017 Total € m
Balance on Jan. 1	86	12	16	114
Gains or losses recognized in profit or loss during the period	0	0	0	0
thereof unrealized gains or losses	0	0	0	0
Gains or losses recognized in other comprehensive income during the period	– 2	0	0	– 2
Additions	0	0	0	0
Disposals	0	0	0	0
Maturity/settlement	0	0	0	0
Transfers into level 3	0	0	0	0
Transfers out of level 3	0	0	0	0
Exchange rate differences	0	0	0	0
Balance on Dec. 31	84	12	16	112

	2016 Available for sale investments € m	2016 Investment property € m	2016 Group-occupied properties € m	2016 Total € m
Balance on Jan. 1	117	12	16	145
Gains or losses recognized in profit or loss during the period	0	0	0	0
thereof unrealized gains or losses	0	0	0	0
Gains or losses recognized in other comprehensive income during the period	2	0	0	2
Additions	8	0	0	8
Disposals	– 41	0	0	– 41
Maturity/settlement	0	0	0	0
Transfers into level 3	0	0	0	0
Transfers out of level 3	0	0	0	0
Exchange rate differences	0	0	0	0
Balance on Dec. 31	86	12	16	114

Unrealized gains or losses due to changes in the fair values of investment properties are presented in "other net gains/losses on financial investments and investment properties" (note 37).

Fair values of financial assets and non-financial assets and liabilities not measured at fair value, but for which fair value has to be disclosed

The table below references valuation techniques and the input parameters used for assets and liabilities not measured at fair value but for which fair value has to be disclosed.

	12/31/2017 Fair value hierarchy level	12/31/2017 Valuation techniques and significant inputs	12/31/2017 Fair value € m
Financial assets			
Cash balance	1	9)	104
Balances with central banks	2	9)	2,973
Loans and advances to banks	2, 3	5), 8), 9)	10,629
Other assets – loans and advances to banks[1]	2, 3	5), 8), 9)	3
Loans and advances to customers			118,191
Loans and other receivables	2, 3	5), 7), 9)	117,668
Asset-backed securities (ABS)/mortgage-backed securities (MBS)	2, 3	6)	523
Other assets – loans and advances to customers[1]			86
Loans and other receivables from customers	2, 3	5), 7), 9)	86
Other ABS/MBS	2, 3	6)	0
HtM financial investments	1	10)	693
Other assets – HtM financial investments[1]	1	10)	10
Total			132,689
Financial liabilities			
Subordinated liabilities			1,400
based on valuation models with observable inputs	2	14)	1,400
Other subordinated liabilities[1]			1
based on unadjusted observable prices	2	14)	1
Securitized liabilities			1,235
based on unadjusted observable prices	1	11)	990
based on valuation models	2	11)	245
Other liabilities – securitized liabilities[1]			9
based on unadjusted observable prices	1	11)	8
based on valuation models with observable inputs	2	11)	1
Deposits from banks			17,088
based on valuation models with observable inputs	2	9), 13)	9,948
based on valuation models with unobservable inputs	3	13)	7,140
Other liabilities – deposits from banks[1]			15
based on valuation models with observable inputs	2	9), 13)	15
based on valuation models with unobservable inputs	3	13)	0
Due to customers			133,874
based on valuation models with observable inputs	2	9)	129,347
based on valuation models with unobservable inputs	3	12)	4,527
Other liabilities – due to customers[1]			22
based on valuation models with observable inputs	2	9)	4
based on valuation models with unobservable inputs	3	12)	18
Total			153,644

(1) Relates to accrued interest disclosed separately under other assets or other liabilities.

	12/31/2016 Fair value hierarchy level	12/31/2016 Valuation techniques and significant inputs	12/31/2016 Fair value € m
Financial assets			
Cash balance	1	9)	103
Balances with central banks	2	9)	1,384
Loans and advances to banks	2	5), 8), 9)	9,015
Other assets – loans and advances to banks[1]	2	5), 8), 9)	4
Loans and advances to customers			111,578
Loans and other receivables	2, 3	5), 7), 9)	108,509
Asset-backed securities (ABS)/mortgage-backed securities (MBS)	2, 3	6)	3,069
Other assets – loans and advances to customers[1]			77
Loans and other receivables from customers	2, 3	5), 7), 9)	74
Other ABS/MBS	2, 3	6)	3
HtM financial investments	1	10)	1,236
Other assets – HtM financial investments[1]	1	10)	15
Total			123,412
Financial liabilities			
Subordinated liabilities			0
based on valuation models with observable inputs	1		0
Other subordinated liabilities[1]	2		0
based on unadjusted quotes prices	1		0
Securitized liabilities			1,306
based on unadjusted quotes prices	1	11)	1,008
based on valuation models	2	11)	298
Other liabilities – securitized liabilities[1]			10
based on unadjusted observable prices	1	11)	8
based on valuation models with observable inputs	2	11)	2
Deposits from banks			17,179
based on valuation models with observable inputs	2	9), 13)	9,535
based on valuation models with unobservable inputs	3	13)	7,644
Other liabilities – deposits from banks[1]			15
based on valuation models with observable inputs	2	9), 13)	15
based on valuation models with unobservable inputs	3	13)	0
Due to customers			130,544
based on valuation models with significant observable inputs	2	9)	125,317
based on valuation models with significant unobservable inputs	3	12)	5,227
Other liabilities – due to customers[1]			28
based on valuation models with significant observable inputs	2	9)	10
based on valuation models with significant unobservable inputs	3	12)	18
			149,082

(1) Relates to accrued interest disclosed separately under other assets or other liabilities.

5) The fair value of loans against borrower's notes is generally determined by applying a discounted cash flow method, taking into consideration the issuer-specific sector curves. If the sector curve spread is not suitable, a spread is derived from observable market inputs (Level 2) or modeled on the basis of internal assumptions (Level 3).

6) Asset-backed securities (ABSs) and mortgage-backed securities (MBSs) allocated to the loans-and-receivables category are measured at fair value for disclosure purposes under loans and advances to customers. The valuation technique is the same as the one described in the preceding section on ABSs and MBSs allocated to the available-for-sale category. ABSs and MBSs are allocated to Level 3. In addition to ABSs and MBSs, this item also includes covered bond securities allocated to the loans and receivables category. These securities are not quoted on an active market and were acquired exclusively by companies of ING Bank N.V. Covered bond securities classified as Loans and Receivables are allocated to Level 2. The valuation technique is the same as the one described in the section on fixed-income securities allocated to the available-for-sale category.

7) To determine the fair values of retail and corporate loans, the expected cash flows are discounted using product or customer-specific spreads. The underlying parameter is the six-month euro swap curve. In addition, Company-internal estimates relating to risks and administrative expenses are also incorporated into the measurement systems (Level 3). The fair values of receivables from pass-through development loans are allocated to Level 3 because significant non-observable inputs are used in the measurement.

8) The fair value of loans and advances to banks is determined by applying a discounted cash flow method, taking into consideration the issuer-specific sector curves. If the sector curve spread is not suitable, a spread is derived from observable market inputs (Level 2).

9) The carrying amount of current financial instruments represents an appropriate estimate of fair value. If prices for identical assets or liabilities are quoted on active markets, these are used for valuation purposes (Level 1). Otherwise, the instruments are usually transferred at their repayment amounts if the prices for identical or similar assets and liabilities are quoted on inactive markets; these are therefore classified under Level 2.

10) For financial instruments listed on active markets, the fair values for HtM financial investments were used directly as the unadjusted price at the defined principal market or the most advantageous market (Level 1).

11) Listed securitized liabilities with sufficient market liquidity are measured at fair value on the basis of the observed price (Level 1). For securitized liabilities that do not meet these requirements, measurement models are used whose observable inputs are derived from the market (Level 2).

12) Non-current amounts due to customers are measured at fair value by discounting the expected cash flows in accordance with the respective maturity profile and adjusting them by a product-specific spread (Level 3).

13) The fair value of non-current deposits from banks is determined by discounting expected cash flows in accordance with their respective maturity profile. The model parameters used in doing so are usually observable on the market (Level 2). The fair values of liabilities from pass-through development loans are allocated to Level 3 because significant non-observable inputs are used in the measurement.

14) The carrying amount of the subordinated liabilities represents an appropriate estimate of fair value.

Notes to the consolidated income statement

(34) Net interest income

	2017 € m	2016 € m
Interest income		
Interest income from lending transactions	2,964	2,991
Interest income from available for sale securities	479	581
Interest income from held to maturity securities	14	16
Other interest income	– 573	– 753
Negative Interest on liabilities	50	16
Total interest income	2,934	2,851
Interest expenses		
Interest expenses on deposits from banks	344	289
Interest expenses on amounts due to customers	297	537
Interest expenses on subordinated liabilities	1	0
Interest expenses on securitized liabilities	14	20
Other interest expenses	82	14
Negative Interest on assets	62	19
Total interest expenses	800	879
Net interest income	2,134	1,972

The total interest income in respect of financial assets which are subsequently measured at amortized cost or at fair value through other comprehensive income amounted to EUR 3,507 million (2016: EUR 3,604 million). To the extent total interest expenses related to financial liabilities subsequently measured at amortized cost, this amounted to EUR 800 million (2016: EUR 879 million).

In fiscal year 2017, interest income from loans on which allowances have been recognized amounted to EUR 1 million (2016: below half a million euros).

"Other interest income" includes net interest income from derivatives used in effective hedges. Since the hedging derivatives serve to hedge against interest risks, the interest expense on the hedging derivatives is reported together with interest income on the hedged item within the "interest income" item.

Net interest income also includes amortization of the fair value adjustments related to the hedged risk, which are included in the carrying amount of the hedged items, over the remaining term of the hedged items in fair value hedge relationships. The fair value change arising from the pull-to-par effect of derivatives in effective fair value hedges is also recognized under this item.

(35) Net commission income

	2017 € m	2016 € m
Commission income		
Payment transactions	50	41
Securities business	142	127
Lending business	79	73
Other fees and commissions	2	2
Fee and commission income	273	243
Commission expense		
Payment transactions	61	49
Securities business	21	24
Lending business	59	56
Other fees and commissions	8	10
Fee and commission expense	149	139
Net commission income	124	104

Net commission income in the payment transactions business relates primarily to income and expenses relating to account management and processing of ATMs.

Income and expenses from the securities business result primarily from customer brokerage services.

(36) Net gains/losses on measurement of derivatives and hedged items

	2017 € m	2016 € m
Changes in fair value of		
derivatives in fair value hedges (excl. pull-to-par)	178	– 438
derivatives in cash flow hedges (ineffective portion)	1	0
other derivatives	– 27	4
Changes in fair value, net	152	– 434
Changes in the fair values of the hedged items that relate to the hedged risk	– 227	461
Total	– 75	27

Interest income and expense for derivatives which are not designated as fair value hedges or which are ineffective fair value hedges are presented together with the fair value changes under net gains/losses on measurement of derivatives and hedged items.

The changes in fair value of derivatives and hedged items in hedging relationships were attributable in particular to an increase in the yield curve during the measurement period following historically low interest rates.

Other derivatives that do not qualify for hedge accounting under IFRSs reduced earnings by EUR 27 million in 2017 (2016: contribution to earnings of EUR 4 million), including EUR 0 million from foreign currency derivatives (2016: EUR 9 million).

For more information on hedge accounting, refer to note 25.

(37) Other net gains/losses on financial investments and investment property

	2017 € m	2016 € m
Balance from income and expenses from investment property	0	0
Net gain/loss on disposal of available for sale financial investments	36	48
Total	36	48

The direct operating expenses in relation to investment property are immaterial.

(38) Other income and expenses

	2017 € m	2016 € m
Net income/loss from receivables	0	– 12
Net income/loss from currency translation	– 37	– 24
Other	2	6
Total	– 35	– 30

(39) Risk provision

Risk expenses can be broken down as follows:

	2017 Portfolio impairment allowance € m	2017 Specific impairment allowance including specific impairment allowances calculated on a portfolio basis € m	2017 Total € m
Additions to/reversals of risk provision	– 55	5[1]	– 50
Direct write-downs	0	0	0
Receipts from loans written off	0	– 7	– 7
Total	– 55	– 2	– 57

	2016 Portfolio impairment allowance € m	2016 Specific impairment allowance including specific impairment allowances calculated on a portfolio basis € m	2016 Total € m
Additions to/reversals of risk provision	21	15[1]	36
Direct write-downs	1	0	1
Receipts from loans written off	0	– 6	– 6
Total	22	9	31

(1) Also includes additions to provisions in the lending business

Only immaterial allowances on loans and advances to banks had to be recognized in the fiscal years under review.

Risk provision with respect to the customer lending business

	2017 € m	2016 € m
Mortgage loans	– 69	– 22
Consumer loans	18	58
Corporate loans	– 6	– 5
Public sector loans and other receivables	0	0
Asset-backed securities/mortgage-backed securities	0	0
Total	– 57	31

These expenses are classified analogously to the corresponding report on the risk portfolio (note 3), by products reported under "loans and advances to customers" with similar characteristics. Further information on risk expenses can be found in the risk report, particularly under the section entitled "Monitoring and management of credit risks."

(40) Personnel expenses

	2017 € m	2016 € m
Salaries	252	235
Bonuses	17	15
Expenses for pensions and other post-employment benefits	16	14
Social insurance contributions	42	39
Share-based payments	4	5
Expenses for external employees	15	16
Training and continuing education	7	5
Other personnel costs	25	13
Total	378	342

Average number of employees

	2017			2016		
	Total	Germany	Austria	Total	Germany	Austria
Average number of employees	3,624	3,397	227	3,485	3,285	200

Share-based payments

The programs from the perspective of the Group as a whole

ING Groep N.V. grants senior employees share-based compensation to reward their contribution to increasing shareholder value and to promote long-term corporate success. Among other things, their exercise is linked to continued employment in the Company.

The share-based payments are issued in the form of stock options and free shares. The option programs are primarily designed such that they are settled by granting shares (equity-settled share-based payments); to a lesser extent, they are settled in cash (cash-settled share-based payments).

Since this concerns a direct commitment of ING Groep N.V. to executives of the Group as a whole, all components are posted against equity (equity-settled) in accordance with IFRS 2 at the ING-DiBa Group level.

In the 2017 fiscal year, share-based payments totaled EUR 4 million (2016: EUR 5 million), which is included in the "personnel expenses" account.

ING Groep N.V. decides annually whether and in what form share-based payments will be granted. The stock option programs were discontinued in fiscal year 2011. The previous forms of compensation will gradually expire on schedule. The share-based payments programs were unchanged between 2016 and 2017.

Stock option programs

Under the expiring stock option programs, the beneficiaries receive the option to acquire shares of the ING Groep N.V. within stipulated periods at one price (strike price) and to transfer them to their personal securities account. The strike price is set when the options are granted and corresponds to the official listing price at that time. There is no provision for an exchange of options (reload function).

There is a uniform three-year holding period. After expiration of the holding period, the options may be exercised within the following seven years, either completely or in tranches.

The fair value of the stock options is determined uniformly throughout the entire ING Group using the European Black Scholes method. In the 2017 fiscal year, the following parameters were included: risk-free interest rate in a range of 2.02 to 4.62 percent (2016: from 2.02 to 4.62 percent), expected holding period of the options of 5 to 9 years (2016: from 5 to 9 years), the strike prices, the current market price of the share between

EUR 2.90 and EUR 25.42 (2016: between EUR 2.90 and EUR 25.42), the expected volatility of the shares of ING Groep N.V. of between 25 and 84 percent (2016: between 25 and 84 percent), and the expected dividends at 0.94 to 8.99 percent (2016: 0.94 to 8.99 percent) of the quoted share price. The assumptions regarding volatility came from the ING trading systems and are therefore not based on historical, but rather current market data.

Outstanding options – Change in 2017

	2017 Outstanding options Number	2017 Weighted strike price €
Outstanding options as of Jan. 1	554,022	13.37
Options granted during the reporting period	0	0.00
Net additions and disposals – new and departing Group employees	23,250	16.63
Exercised during the reporting period	25,648	4.55
Forfeited during the reporting period	55,200	8.32
Lapsed after expiration of exercise period	110,853	24.21
Outstanding options as of Dec. 31	385,571	11.83
Exercisable options as of Dec. 31	385,571	11.86

Outstanding options – Change in 2016

	2016 Outstanding options Number	2016 Weighted strike price €
Outstanding options as of Jan. 1	652,704	14.56
Options granted during the reporting period	0	0.00
Net additions and disposals – new and departing Group employees	41,312	13.22
Exercised during the reporting period	29,309	5.91
Forfeited during the reporting period	16,263	6.51
Lapsed after expiration of exercise period	94,422	25.16
Outstanding options as of Dec. 31	554,022	13.35
Exercisable options as of Dec. 31	554,022	13.37

Outstanding options – Range of strike prices 2017

Range of strike prices € per share	12/31/2017 Outstanding options Number	12/31/2017 Weighted avg. remaining term of the agreement Years	12/31/2017 Weighted avg. strike price €	12/31/2017 Options exercisable Number	12/31/2017 Weighted avg. remaining term of the agreement Years	12/31/2017 Weighted avg. strike price €
0,00 - 15,00	167,489	1.91	6.31	167,489	1.91	6.32
15,01 - 20,00	218,082	0.20	16.66	218,082	0.20	16.66
20,01 - 25,00	0	0.00	0.00	0	0.00	0.00
25,01 - 30,00	0	0.00	0.00	0	0.00	0.00
	385,571	0.94	12.17	385,571	0.94	12.18

Outstanding options – Range of strike prices 2016

Range of strike prices € per share	12/31/2016 Outstanding options Number	12/31/2016 Weighted avg. remaining term of the agreement Years	12/31/2016 Weighted avg. strike price €	12/31/2016 Options exercisable Number	12/31/2016 Weighted avg. remaining term of the agreement Years	12/31/2016 Weighted avg. strike price €
0,00 - 15,00	236,220	2.87	6.03	236,220	2.87	6.03
15,01 - 20,00	206,949	1.20	16.66	206,949	1.20	16.66
20,01 - 25,00	110,853	0.23	24.72	110,853	0.23	24.72
25,01 - 30,00	0	0.00	0.00	0	0.00	0.00
	554,022	2.09	13.74	554,022	2.09	13.74

Earnings and performance-based (free) shares

The plan for compensation in shares of ING Groep N.V. in place since 2011 consists of two components: In the first component, a contingent right to the allocation of a number of free shares is granted, which is linked to the employee's continued affiliation with the Company (holding period). One third of the shares are allocated on a specified calendar day in each of the next three years. The number of allocated shares as of the relevant expiry date is based on the degree to which predefined corporate targets have been achieved. The value of the shares on the actual strike date is determined in accordance with the opening share price on NYSE Euronext. The second component is granted in the form a deferred share model. Bonus claims in excess of a stipulated base amount are not paid out fully in cash, but instead a tiered percentage is paid in the form of shares to the extent the holding period has been satisfied. The bonus amount provided for share compensation on this basis is divided by an average price of the BDR (Bearer Depositary Receipts) on NYSE Euronext on the day ING Groep N.V. publishes the results for the fourth

quarter of the fiscal year and rounded up if necessary. Analogously to the first component, one third of the resulting number of shares is allocated in the three subsequent years after expiry of each holding period. The shares are issued at the current opening share price on NYSE Euronext.

Up to the actual allocation, the expense is recorded by distributing an extrapolated fair value over the holding period. Since 2015 ING Groep N.V.'s stock option program has no longer stipulated any capital market-related performance conditions. To calculate the extrapolated fair value of stock grants until fiscal year 2014 on the basis of capital market-related performance conditions, ING Groep N.V. uses a Monte Carlo simulation, which includes the risk-free base interest rate, current stock market prices, expected volatilities, and current dividends of peer companies.

In relation to the group of ING Groep N.V. as a whole, the previously unallocated expenses from free shares were EUR 37 million as of December 31, 2017 (December 31, 2016: EUR 41 million). An allocation period of 1.4 years is forecast for fiscal year 2017 (2016: 1.4 years).

Group-wide (ING Groep N.V.), the volume of free shares as of December 31, 2017, was 7,222,279 shares (December 31, 2016: 8,382,963 shares). The weighted average fair value was EUR 11.46 (2016: EUR 10.44).

The ING-DiBa Group held out a prospective total of 297,419 free shares to its executives during fiscal year 2017 (2016: 466,731).

Please see note 32 regarding the share-based payments obtained by the Management Board.

(41) Other administrative expenses

	2017 € m	2016 € m
IT	109	87
Telecommunications, office and operating expenses	75	71
Marketing and public relations	80	78
Travel expenses and corporate hospitality expenses	9	8
Legal and consulting expenses	55	51
Deposit protection	102	72
Shipping costs	15	13
Depreciation of buildings and office equipment	20	16
Amortization of software	9	6
ATMs	16	15
Bank levy	13	13
VAT	4	5
Other administrative costs	87	79
Total	594	514

Other administrative expenses did not include any write-downs in the fiscal year.

In fiscal year 2017, expenses of EUR 2 million (2016: EUR 3 million) were incurred for software development within the meaning of IAS 38.54 and IAS 38.57.

The payments for the bank restructuring fund (bank levy) were expensed in full.

Auditors' fees

	2017 € m	2016 € m
Audit services	2	3
Audit-related services	1	0
Tax services	0	0
Other services	0	0
Total	3	3

Auditors' fees are a component of the legal and consulting expenses. The "other assurance services" item is used to report fees for:

- Auditing the securities services business in accordance with section 36 of the German Securities Trading Act (*Wertpapierhandelsgesetz*, "WpHG"),
- Issuing a comfort letter,

- Performing a review in accordance with International Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" (ISRE 2410) of the IFRS data included in the regulatory reporting made by ING-DiBa on the basis of the consolidated situation of the financial holding group of ING Holding Deutschland GmbH in accordance with Article 24 (2) CRR,

- Conducting an audit in accordance with section V no. 11 (1) of the General Terms and Conditions of the Deutsche Bundesbank (*Allgemeine Geschäftsbedingungen der Deutschen Bundesbank*) on the use of loan receivables as collateral for central bank loans,

- Conducting the agreed-upon procedures in connection with the levy imposed by the deposit protection fund of the Bundesverband deutscher Banken e.V. (Association of German Banks).

(42) Income tax

Disclosures relating to income tax expenses

	2017 € m	2016 € m
Current income tax-expense/-income (-)	348	371
Income tax expense/income (-) relating to the current year	365	410
Income tax expense/income (-) related to other accounting periods	– 17	– 39
Deferred tax expense	44	4
Deferred tax expense/income (-) related to other accounting periods	3	0
Effect from temporary differences	41	4
Items charged or credited directly to equity	0	0
Total	392	375

A profit and loss transfer agreement in accordance with section 291 (1) of the German Stock Corporation Act (*Aktiengesetz*, "AktG") is in place between ING-DiBa and ING Deutschland GmbH. This agreement forms the basis for a tax group for corporate income tax and trade tax. An allocation agreement has been in place for this tax group since 2017.

In addition, there is a tax group for corporate income tax, trade tax, and VAT purposes with ING-DiBa as the tax group parent and GGV Gesellschaft für Grundstücks- und Vermögensverwaltung mbH, Frankfurt am Main, as the tax group subsidiary.

In accordance with the principle of substance over form, both the current and deferred income taxes are disclosed in the IFRS consolidated financial statements by the entity

responsible, ING-DiBa. In this area, for which IFRSs do not provide any guidance, ING-DiBa thus follows the interpretation of ASC 740 (US GAAP).

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

The current income taxes not covered by the allocation agreement, which are paid by the tax group parent, are presented in the consolidated statement of changes in equity as a capital contribution by the tax group parent under other reserves.

The income tax amounts resulting from the components of other comprehensive income are presented in the consolidated statement of comprehensive income.

Tax reconciliation

	2017 € m	2016 € m
Profit before tax	1,269	1,234
Applicable tax rate in %	31.8	31.6
Expected income tax expense	403	390
Tax-free income	– 4	– 12
Non-tax deductible expenses	7	6
Effects of as yet unrecognized amounts on deferred taxes	3	38
Effects of as yet unrecognized amounts on current income taxes	– 17	– 46
Other tax effects	0	– 1
Effective income tax expenses	392	375
Effective tax rate in %	30.9	30.4

The applicable tax rate is determined based on the applicable overall tax rate for the Germany operation (31.9 percent) and the branch in Austria (25.0 percent), weighted by each operation's share of total profit. There was no significant change compared to the previous year.

Segment report

(43) Segment report

The following segment information is based on the "management approach," the presentation of segment information based on internal reporting. The Chief Operating Decision Maker (CODM), here, the full Management Board of ING-DiBa, regularly decides on the allocation of resources to segments and the assessment of the segments' financial per-

formance based on the segment information. The CODM sets performance goals and approves and monitors the issued budgets.

Segments

Segment reporting follows the Group's organizational structure underlying the internal management information systems. The Bank's management information system differentiates between the segments "Retail Customer Loans," "Retail Customer Assets," and "Wholesale Banking." The Retail Customer Loans segment includes both long-term mortgage loans and medium-term consumer loans. The Retail Customer Assets segment comprises deposits payable on demand in the "Extra-Konto" account as well as mid-term deposits in fixed term deposit accounts, deposits in current accounts, and share assets in securities accounts. The "Wholesale Banking" segment comprises the financing of corporate customers.

The interest income realized and interest expense incurred by the segments are reported as net interest income in the disclosures on the business segments because the segments are managed primarily on the basis of net interest income. Further key performance indicators include the pre-tax management-accounting (MA) result and the business volume of the individual segments. Income and expenses are not offset between the individual segments as the effort involved would be disproportionately high.

Measurement of segment profit or loss

The information as presented in this note corresponds to the segment information as provided to the full Management Board in the internal management information system.

The reconciliation of the profits or losses as per management reporting to the consolidated earnings in accordance with IFRSs relates to the following aspects in particular:

Management reporting follows the method used by ING Groep N.V. In order to render the business units mutually comparable, adjustments are made to capital charges. Net interest income as calculated under IFRSs is reduced by the interbank interest rate in reference to shareholders' equity. This is offset by a credit based on the risk-weighted assets.

"Other income" comprises the following line items from the income statement: "net gains/losses on measurement of derivatives and hedged items", "other net gains/losses on financial investments and investment property", and "other income and expenses". This presentation mirrors that at ING Groep N.V.

The "administrative expenses" presented in the management reporting include general administrative expenses, personnel expenses, and amortization, depreciation and write-downs.

The income tax reported in accordance with the push-down method (see note 42) is not allocated to individual segments.

Segment results

	2017 Retail Customer Loans € m	2017 Retail Customer Assets € m	2017 Commercial Banking € m	2017 MA total € m	2017 Reconciliation € m	2017 IFRS € m
Net interest income	771	946	443	2,160	– 26	2,134
Net commission income	– 73	103	54	84	40	124
Other net income	0	– 42	18	– 24	– 50	– 74
MA income	698	1,007	515	2,220	– 36	2,184
Risk provision	3	6	5	14	43	57
Administrative expenses	– 216	– 683	– 115	– 1,014	42	– 972
Result before tax	485	330	405	1,220	49	1,269

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

Information on geographical areas

ING-DiBa generated total income of EUR 2,184 million during the 2017 fiscal year (2016: EUR 2,121 million). Because ING-DiBa Austria funded itself using internal Group resources and operates the deposit business almost exclusively, the branch's contribution from external customers is negative. Of ING-DiBa's total income, ING-DiBa Austria's share of total income from external customers was EUR –27 million (2016: EUR –24 million). ING-DiBa generated total net interest income of EUR 2,134 million during the 2017 fiscal year (2016: EUR 1,972 million). Of that amount, EUR –6 million from external customers was attributa-

ble to ING-DiBa Austria (2016: EUR –26 million). ING-DiBa Austria's net commission income from external customers was 3 million Euro in fiscal year 2017 (2016: 2 million Euro).

There are no non-current assets at ING-DiBa Austria.

ING-DiBa did not have any major customers within the meaning of IFRS 8 as of December 31, 2017 and December 31, 2016. Under IFRS 8, a customer is considered major if more than 10 percent of total income is earned from this customer.

Business volume

	2017 Retail Customer Loans € billion	2017 Retail Customer Assets € billion	2017 Commercial Banking € billion	2017 MA total € billion	2017 Reconciliation € billion	2017 IFRS € billion
Business volume	77	170	41	288	– 47	241

	2016 Retail Customer Loans € billion	2016 Retail Customer Assets € billion	2016 Commercial Banking € billion	2016 MA total € billion	2016 Reconciliation € billion	2016 IFRS € billion
Business volume	74	160	35	269	– 39	230

Business volume is a key performance indicator used by the Bank. It serves as an alternative benchmark for measuring all assets and liabilities (segment assets within the meaning of IFRS 8.28 in conjunction with IFRS 8.23) for each reportable segment. Reports on this performance indicator are included in the regular internal management reporting.

The Bank computes the business volume of the Retail Customer Loans segment as the reported volume of mortgage loans and consumer loans; business volume for the Retail Customer Assets segment comprises the reported volume of savings, current and securities accounts held by customers. In the "Wholesale Banking" segment, business volume includes the reported volume of loans and deposits as well as contingent liabilities and open commitments. When reconciling the Wholesale Banking business volume to the figures reported under IFRS, the value of customer securities accounts and contingent liabilities and open commitments is eliminated.

Notes to the consolidated cash flow statement

(44) Notes to the consolidated cash flow statement

Significant principles of the cash flow statement

The cash flow statement shows the change in the balances of cash and cash equivalents of the ING-DiBa Group using the indirect method for cash flows from operating activities; the other cash flows are determined directly. The changes in the balances are allocated based on their economic cause to cash flows from operating, investing, and financing activities.

The cash flows from operating activities arise from the normal banking business. The earnings before taxes here are thus adjusted for non-cash changes in the balance. Inflows and outflows in relation to changes in the balances of "financial investments," "property and equipment," and "intangible assets" are reported as net cash flows from investing activities. Net cash flows from financing activities represent ING-DiBa's external financing. They consist primarily of profit transfers as well as cash inflows and outflows in relation to securitized and subordinated liabilities.

A profit and loss transfer agreement in accordance with section 291 (1) of the German Stock Corporation Act (*Aktiengesetz*, "AktG") is in place between ING-DiBa and ING Deutschland GmbH. This agreement forms the basis for a tax group for corporate income tax and trade tax. An allocation agreement has been in place for this tax group since 2017. The current income taxes paid on the basis of the allocation agreement are reported in a separate item in the cash flow statement.

Cash and cash equivalents comprise cash and funds that can readily be converted to cash and are subject to an insignificant risk of changes in value. This includes cash balances and balances with central banks, receivables payable on demand, and deposits from banks.

Reconciliation to the statement of financial position items

	12/31/2017 € m	12/31/2016 € m
Cash reserve	3,077	1,487
Loans and advances to banks included in cash and cash equivalents	226	604
thereof not freely disposable	0	0
Loans and advances to banks not included in cash and cash equivalents	10,268	8,277
Loans and advances to banks	10,494	8,881

	12/31/2017 € m	12/31/2016 € m
Deposits from banks included in cash and cash equivalents	1,117	1,325
Deposits from banks not included in cash and cash equivalents	15,638	15,270
Deposits from banks	16,755	16,595

The changes in financial liabilities included in net cash flows from financing activities presented in accordance with IAS 7.44 are as follows:

	12/31/2017 Subordinated liabilities € m	12/31/2017 Securitized liabilities € m
Balance as of Jan. 1	0	1,272
Changes arising from cash flows		
Additions	1,400	0
Final maturity	0	– 50
Non-cash changes		
Amortization	0	1
Fair Value-Hedge-Adjustment	0	– 5
Balance as of Dec. 31	1,400	1,218

	12/31/2016 Subordinated liabilities € m	12/31/2016 Securitized liabilities € m
Balance as of Jan. 1	0	1,283
Changes arising from cash flows	0	493
Additions	0	493
Final maturity	0	– 500
Non-cash changes	0	– 5
Amortization	0	1
Fair Value-Hedge-Adjustment	0	– 5
Balance as of Dec. 31	0	1,272

Further details can be found in note 14 "Subordinated liabilities" and note 15 "Securitized liabilities."

Capital management

(45) Regulatory capital and risk-weighted assets

ING-DiBa's capital management serves to ensure compliance with the statutory minimum capital requirements and to hold a sufficient capital buffer to ensure the Bank's ability to act at all times.
ING-DiBa's Risk & Capital Committee (RCC) and Management Board are responsible for setting the target capital ratios and for decisions on capital management. The members of the Management Board are kept informed of the status and development of the capital base in regular RCC meetings (as well as at ad-hoc meetings if necessary). The necessary decisions and management measures are prepared by the capital working group consisting of members from various departments.

Regular monitoring of compliance with the capital requirement ensures target attainment and delivers warning signals where appropriate to initiate appropriate management measures. As in the preceding fiscal year, the statutory minimum capital requirements were satisfied at all times during the 2017 fiscal year.
ING-DiBa's return on capital pursuant to section 26a (1) KWG, calculated as the quotient of the net profit and total liabilities and equity, as per German financial reporting requirements, was 0.50 percent as of the reporting date (December 31, 2016: 0.80 percent).

The eligible capital is calculated based on the provisions of Regulation (EU) No. 575/2013 including the technical implementation and regulatory standards issued by the Commission and additional specifications as well as the supplemental requirements of the German Banking Act and the German Solvency Regulation.
The following tables show the quantitative composition of own funds for ING-DiBa as a single institution for regulatory purposes, as well as at the consolidated level for the financial holding group pursuant to section 10 KWG.

Composition of ING-DiBa AG's own funds

	12/31/2017 € m	12/31/2016 € m
Common Equity Tier I Capital after regulatory adjustments	6,432	5,887
Additional Tier I Capital	0	0
Tier I Capital	6,432	5,887
Tier II Capital	1,403	10
Own funds	7,835	5,897

As of the end of the reporting period (December 31, 2017), eligible equity amounted to EUR 7,835 million (December 31, 2016: EUR 5,897 million).

Composition of the financial holding group's own funds

	12/31/2017 € m	12/31/2016 € m
Common Equity Tier I Capital after regulatory adjustments	5,917	6,065
Additional Tier I Capital	0	0
Tier I Capital	5,917	6,065
Tier II Capital	1,403	10
Own funds	7,320	6,075

As of the end of the reporting period (December 31, 2017), eligible equity of the financial holding group amounted to EUR 7,320 million (December 31, 2016: EUR 6,075 million).

The table below presents the Common Equity Tier 1 capital ratio of ING-DiBa and of the financial holding group as compared to the internal target ratio and the statutory minimum ratio.

Common Equity Tier 1 capital ratio of ING-DiBa AG

	12/31/2017 Percent	12/31/2016 Percent
Tier 1 ratio	14.5	13.2
Regulatory minimum requirement - Tier 1 ratio	5.9	5.1
Target for Tier 1 ratio	10.2	11.8

As of the end of the reporting period (December 31, 2017), risk-weighted assets amounted to EUR 44,226 million (December 31, 2016: EUR 44,743 million).

Core Equity Tier 1 capital ratio of the financial holding group

	12/31/2017 Percent	12/31/2016 Percent
Tier 1 ratio	13.4	13.6
Regulatory minimum requirement - Tier 1 ratio	5.8	5.1
Target for Tier 1 ratio	10.2	11.8

As of the end of the reporting period (December 31, 2017), risk-weighted assets of the financial holding group amounted to EUR 44,245 million (December 31, 2016: EUR 44,765 million).

Further information on economic capital management can be found in the risk report in the section entitled "Principles of risk management."

Frankfurt am Main, March 5, 2018

The Management Board

Nick Jue

Bernd Geilen

Željko Kaurin

Remco Nieland

Dr. Joachim von Schorlemer

Independent Auditor's Report

To ING-DiBa AG, Frankfurt am Main

Report on the Audit of the Consolidated Financial Statements and of the Group Management Report

Opinions

We have audited the consolidated financial statements of ING-DiBa AG, Frankfurt am Main, and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2017, the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and the consolidated statement of cash flows for the financial year from 1 January 2017 to 31 December 2017, and IFRS notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the group management report of ING-DiBa AG for the financial year from 1 January to 31 December 2017. In accordance with German legal requirements, we have not audited the content of the corporate governance statement, which is included in the "Report on economic position" section of the group management report.

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to Section 315e (1) HGB [Handelsgesetzbuch: German Commercial Code] and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as at 31 December 2017, and of its financial performance for the financial year from 1 January to 31 December 2017, and

- the accompanying group management report as a whole provides an appropriate view of the Group's position. In all material respects, this group management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our opinion on the group management report does not cover the content of the corporate governance statement mentioned above.

Pursuant to Section 322 (3) sentence 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the group management report.

Basis for the Opinions

We conducted our audit of the consolidated financial statements and of the group management report in accordance with Section 317 HGB and the EU Audit Regulation No. 537/2014 (referred to subsequently as "EU Audit Regulation") and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report" section of our auditor's report. We are independent of the group entities in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2) point (f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinions on the consolidated financial statements and on the group management report.

Key Audit Matters in the Audit of the Consolidated Financial Statements

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements for the financial year from 1 January to 31 December 2017. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, we do not provide a separate opinion on these matters.

Measurement of loan loss provisions in the lending business with retail customers

For an explanation of how the loan loss provisions for the retail lending business are measured, please refer to the section "General information" in the IFRS notes to the consolidated financial statements and the sections "Results of operations" under "2. Report on Economic Position" and "Loan Loss Provisions" and "Development of the Loan Loss Provisions under IFRS" under "3. Risk report" in the group management report.

THE FINANCIAL STATEMENT RISK

As at 31 December 2017 the Group recognised EUR 108 million of general loan loss provisions for inherent credit risks as well as EUR 273 million of portfolio-based specific loan loss provisions and EUR 36 million of specific loan loss provisions for acute credit risks.

To determine general loan loss provisions for inherent credit risks, receivables and irrevocable loan commitments in the mortgage loans and consumer loans businesses without any identifiable acute credit losses are categorised by quantitative and qualitative risk characteristics into risk classes for which average probabilities of default are calculated. In addition, loss given default is calculated based on historical experience.

To determine portfolio based specific loan loss provisions for acute credit losses in the consumer loans and mortgage loans businesses, receivables for which the debt servicing capacity can no longer be sustainably ensured are identified based on payment arrears. In addition, loss given default is calculated based on historical experience.

For terminated mortgage loans prior collateral liquidation, the Bank determines specific loan loss provisions that are calculated case-by-case based on the estimated future cash flows, taking into account expected proceeds from the sale of collateral.

The financial statement risk particularly concerns the potential absence of appropriate estimates or discretionary judgements in the determination of loan loss provisions for retail customer loans and thereby the inherent and acute credit risks not being taken into account in accordance with the IFRSs as adopted by the EU. There is significant discretionary leeway in the loan loss provisions regarding the estimates of probabilities of default and the loss given default and/or the future cash flows including proceeds from the sale of collateral.

OUR AUDIT APPROACH

Based on our risk assessment and evaluation of the risks of material misstatement, we used both control-based and substantive audit procedures for our audit opinion. We therefore performed the following audit procedures, among others:

First, we gained a thorough understanding of the performance of the loan portfolio, the associated credit risks and the internal controls with regard to identifying, controlling, monitoring and evaluating credit risks associated with retail customer lending. To assess the appropriateness of the internal control system with regard to identifying, controlling, monitoring and evaluating credit risks, we conducted inquiries and inspected the relevant documentation. In addition, we audited the implementation and the effectiveness of relevant controls, including application controls, that are intended to ensure derivation of assumptions and parameters to determine the loan loss provisions in accordance with the IFRSs as adopted by the EU. With the involvement of our IT specialists, we audited the effectiveness of the general IT controls for the relevant IT systems.

With regard to the probabilities of default incorporated into the calculation of the general loan loss provisions and the loss given default used in the determination of the portfolio based specific loan loss provisions and the general loan loss provisions, we assessed the

appropriateness of the validation carried out by the Group and reviewed the implementation of the recalibrations derived from the validation. In order to express an opinion on the appropriateness of the historical database for the loan portfolio as at 31 December 2017, we assessed the analyses conducted by the Group that examine current qualitative factors and environmental effects which could lead to credit losses deviating from the historical database.

Furthermore, we conducted audit procedures in relation to the quality of the data used for determining the specific loan loss provisions and portfolio-based loan loss provisions.

In addition, we verified the mathematical accuracy of the calculation methods used for deriving parameters to determine the portfolio-based specific loan loss provisions and general loan loss provisions.

Using sample sales proceeds in the mortgage loan business, we also audited the historical database used to determine loss given default.

Regarding the specific loan loss provisions in the mortgage loans business, we used a random sample to verify that the loan loss provisions according to the IFRSs as adopted by the EU was calculated based on appropriate estimates, particularly in relation to the value of collateral. We used expert valuation opinions in this process, among other things. In this regard, we evaluated the competence, professional skills and impartiality of the experts, gained an understanding of their work and assessed its suitability as audit evidence.

OUR OBSERVATIONS
Estimates made by management that underlie the calculation of the loan loss provisions for retail customer loans have been determined properly as a whole and in accordance with the applicable accounting policies of the IFRSs as adopted by the EU. The probabilities of default and loss given default used have been properly derived from historical data.

Identity Access Management in the Financial Reporting Process

Please refer to the section "Organisation of the ICS Ac" under "5. Internal control system for consolidated financial reporting" of the group management report for further information on Identity Access Management at ING-DiBa.

THE FINANCIAL STATEMENT RISK
Due to the size and complexity of the Group, the financial reporting process is highly dependent on information technology and the completeness and accuracy of data. Inappropriate granting of access rights for IT systems therefore constitutes a risk for the accuracy of financial reporting. This applies in particular to systems in which the access rights are not granted according to the minimum principle (granting authorisation based on the requirements of the role and not granting any further authorisation) or the segregation of duties principle (e.g. between IT and the specialist department or between development and application operations).

The Group's IT infrastructure is partially outsourced to companies in the superior group of ING Groep N.V., Amsterdam, as well as to external companies.

As unauthorised system access, inappropriately extensive authorisation and insufficient separation of functions entails the risk of intentional or accidental manipulation, which could materially affect the accuracy of financial reporting, the establishing of and adherence to appropriate precautions is of particular importance for our audit.

OUR AUDIT APPROACH
We gained an understanding of the IT-related control environment of the Group and the service organisations. To this end, we performed a risk assessment and identified IT applications, databases and operating systems that were significant for our audit.

For relevant IT application controls within the financial reporting process, we identified general IT supporting controls, in particular regarding access protection, and verified their structure and functionality. Our audit procedures concerned:

- Verifying that the initial access to IT systems for joiners or movers is subject to appropriate screening and is approved by an authorised person in line with the authorization design concept.

- Verifying that employee access rights are removed within an appropriate period following change of organisational unit or departure from the company.

- Verifying that a review is performed of the appropriateness of the system access granted for personalised and non-personalised privileged access rights and if they are subject to a particularly restrictive authorisation-granting procedure that is regularly monitored.

Moreover, we conducted further audit procedures concerning password protection, additional security settings regarding changes for applications and databases, the separation of functions between specialist department and IT users and the separation of functions between employees responsible for program development and those responsible for system operations. We also checked if program developers have release rights in the change process and if they can carry out changes directly in the productive versions of applications, operating systems and databases, as these roles must be separated functionally.

Based on the results of our audit of the internal control system, we performed the following further audit procedures:

- In cases of inappropriate granting of authorisation, we familiarised ourselves with the individual authorisations granted specifically and then reviewed the usage protocol of the user concerned to check for unauthorised activities.

- Furthermore, in cases of ineffective IT controls, we identified and reviewed further controls with a compensating effect.

- We performed segregation of duties analyses on critical portfolio management systems in order to determine adherence to the functional separation between incompatible activities.

OUR OBSERVATIONS
Based on the results of the audit of significant controls and substantive audit procedures, we conclude that the Identity Access Management generally satisfies requirements for completeness and accuracy of data. Where we found deficiencies in the controls, we performed further audit procedures and in particular identified compensating controls that addressed the risk for these consolidated financial statements as at 31 December 2017.

Other Information

Management is responsible for the other information. The other information comprises:

- the corporate governance statement, and

- the remaining parts of the annual report made available to us after the date of the auditor's report, with the exception of the audited consolidated financial statements and group management report and our auditor's report.

Our opinions on the consolidated financial statements and on the group management report do not cover the other information, and consequently we do not express an opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

- is materially inconsistent with the consolidated financial statements, with the group management report or our knowledge obtained in the audit, or

- otherwise appears to be materially misstated.

Responsibilities of Management and the Supervisory Board for the Consolidated Financial Statements and the Group Management Report

Management is responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315e (1) HGB and that the

consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position, and financial performance of the Group. In addition, management is responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, management is responsible for the preparation of the group management report that, as a whole, provides an appropriate view of the Group's position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, management is responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a group management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the group management report.

The supervisory board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements and of the group management report.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the group management report as a whole provides an appropriate view of the Group's position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our opinions on the consolidated financial statements and on the group management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Section 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this group management report.

We exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements and of the group management report, 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 opinions. 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 control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the group management report 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 these systems.

- Evaluate the appropriateness of accounting policies used by management and the reasonableness of estimates made by management and related disclosures.

- Conclude on the appropriateness of management's 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 the auditor's report to the related disclosures in the consolidated financial statements and in the group management report or, if such disclosures are inadequate, to modify our respective opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315e (1) HGB.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express opinions on the consolidated financial statements and on the group management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our opinions.

- Evaluate the consistency of the group management report with the consolidated financial statements, its conformity with [German] law, and the view of the Group's position it provides.

- Perform audit procedures on the prospective information presented by management in the group management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by management as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance 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 those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements 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.

Other Legal and Regulatory Requirements

Further Information pursuant to Article 10 of the EU Audit Regulation

We were elected as auditor of ING-DiBa AG by the annual general meeting on 31 March 2017. In accordance with Section 318 (2) of the German Commercial Code [HGB], we are also deemed to be appointed as auditors of the consolidated financial statements. We were engaged by the chairperson of the supervisory board of ING-DiBa AG on 14 July 2017. We have been the group auditor of ING-DiBa AG without interruption since the financial year 2016.

We declare that the opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Article 11 of the EU Audit Regulation (long-form audit report).

German Public Auditor Responsible for the Engagement

The German Public Auditor responsible for the engagement is Hartmut Bernhard.

Frankfurt am Main, 20 March 2018

KPMG AG
Wirtschaftsprüfungsgesellschaft

Bernhard
Wirtschaftsprüfer
[German Public Auditor]

Winner
Wirtschaftsprüfer
[German Public Auditor]

SUPERVISORY BOARD REPORT

In fiscal year 2017, the Supervisory Board comprehensively and with the utmost due care completed all tasks prescribed by the law, the Articles of Association, and the rules of procedure and regularly advised the Management Board in managing the Company and monitored its actions. The Supervisory Board was informed about the bank's business performance in four Supervisory Board meetings and in regular discussions with Management Board. Significant business transactions were discussed in detail at these meetings. The Supervisory Board was always included in the discussions about fundamental issues on corporate planning and the bank's strategic orientation. Furthermore, the Supervisory Board received regular detailed written and oral reports about the operating business, net assets, liquidity, and results of operations of the Company as well as the risk situation, risk management, internal control system, and compliance. The Supervisory Board's audit of the submitted reports revealed that there were no objections to the actions of the Company's management for the 2017 fiscal year.

Focus of the meetings

The further development of the banking business with the aim of safeguarding market success in the future was discussed in depth and supported, particularly in the context of the "Strategy 2022" program. A particular focus during the discussions and resolutions of the full Supervisory Board was on the discussion of new strategic partnerships, such as with the online asset manager Scalable Capital and the online insurance manager Clark. In general, the platform concept was regularly addressed in the strategic discussions.

Moreover, in-depth discussions surrounding the decision to appoint a successor to the former Chairman of the Management Board, Roland Boekhout, were also held. As in the previous years, the Supervisory Board also addressed statutory and regulatory issues. Another area covered was the ECB's Supervisory Review and Evaluation Process (SREP) and its effects on the bank's capital requirements. As in previous years, the further development of the growth strategy in the retail customer business also remained a focus throughout the fiscal year. The issues discussed included maintaining the first bank relationship with customers via salary current accounts and the bank's position in the fiercely competitive mortgage lending business. The Supervisory Board also discussed the bank's growth strategy for its wholesale banking business.

In addition, the Supervisory Board attended an internal training session (Knowledge Day), which focused on the capital & funding plan, blockchain, an update on strategic projects and wholesale banking. The Supervisory Board also received reports on economic developments from the chief economist.

As part of its annual efficiency review, the Supervisory Board took a critical look at itself and discussed the findings of the review in detail at its meeting.

Regular contact was maintained between the Chairman of the Management Board and the Chairman of the Supervisory Board.

Committees

At the beginning of 2017, the Supervisory Board had three committees; a fourth committee was constituted at the meeting on June 27, 2017. The Audit Committee and the Risk and Credit Committee remained unchanged. The former Nomination, Mediation and Compensation Monitoring Committee was split into two separate committees at the meeting on June 27, 2017: the Nomination Committee and the Mediation and Compensation Monitoring Committee. The committees are tasked with preparing upcoming issues and resolutions for the full Supervisory Board. They are also sometimes authorized to make decisions on matters referred to them by the full Supervisory Board. The chairpersons of the committees regularly informed the Supervisory Board about their work.

The Audit Committee convened three times. It concentrated on the annual financial statements and discussed these with the Management Board and the auditor. It also prepared the audit engagement for the auditor, including defining a key audit matter. It focused in particular on the risk management system and the internal control system. In addition, the Audit Committee addressed anti-money laundering and compliance issues, the audit findings of the Internal Audit department and its audit planning as well as the findings of other external audits. It regularly received written reports about the bank's risk situation and the implementation status of audit findings.

The Nomination, Mediation and Compensation Monitoring Committee, which existed until June 27, 2017, convened once. It primarily addressed the appointment of a new Chairman of the Management Board, the execution of new executive employment agreements, the remuneration system and the implementation of the Remuneration Ordinance for Institutions (Institutsvergütungsverordnung, "InstitutsVergV") and the new statutory requirements.

The Nomination Committee, which was newly formed on June 27, 2017, met once in 2017 to discuss a nomination for a new Supervisory Board member, to review the expertise, abilities and experience of individual members of the Management Board and Supervisory Board, and to review the principles applied by the Management Board to select and appoint persons to the senior management level.

The Mediation and Compensation Monitoring Committee, which was newly formed on June 27, 2017, met twice in 2017. In particular, it discussed issues pertaining to the new Remuneration Ordinance for Institutions and Remuneration Guidelines, Management

Board and employee bonuses, step-up performance management and the terms of Management Board service agreements and appointments. In addition, the Committee received reports from the Remuneration Officer.

The Risk and Credit Committee met twice, and adopted most of its resolutions, which primarily related to loan approvals for executives and corporate customers, by way of circulation. Further issues discussed included the bank's current risk situation and risk-bearing capacity, including its capital planning. The Risk and Credit Committee was also responsible for monitoring conditions in the customer business and approving the updated Wholesale Banking system of lending authorities.

2017 annual financial statements

As the auditor, KPMG AG Wirtschaftsprüfungsgesellschaft, Frankfurt am Main, audited the HGB annual financial statements and management report for fiscal year 2017, and the IFRS consolidated financial statements and Group management report for fiscal year 2017, as prepared by the Management Board, including the accounting system; it did not raise any objections, and issued an unqualified auditor's report. Following their own review and after discussing the audit findings in detail with the auditor, the Supervisory Board and the Audit Committee concurred with these.

- In accordance with its conclusive review findings, the Supervisory Board did not raise any objections and approved the HGB annual financial statements and

- management report, and the IFRS consolidated financial statements and

Group management report, as prepared by the Management Board for fiscal year 2017, which are thereby adopted.

Personnel changes on the Supervisory Board and Management Board

The following changes were made to the Supervisory Board in 2017: at the meeting of the Supervisory Board on June 27, 2017, Dr. Claus Dieter Hoffmann was elected as the new Chairman of the Supervisory Board. The duties of the Chairman had been exercised until Dr. Hoffmann's election by the Deputy Chairman, Mr. Rüdiger Köppel, after Ben Tillings resigned with effect from the end of July 5, 2016.

The Supervisory Board thanks Rüdiger Köppel for his committed and constructive work during the time he filled the vacant position of Chairman of the Supervisory Board and for his service to the benefit of the bank.

At the extraordinary General Meeting on November 22, 2017, Prof. Gesche Joost was elected to serve as a shareholder representative on the Supervisory Board with effect from December 1, 2017.

The following changes were made to the Management Board in 2017: Mr. Roland Boekhout resigned his office as member of the Management Board and Chairman of the Management Board of ING-DiBa AG with effect from the end of May 8, 2017.

Mr. Nick Jue was appointed to a five-year term as member of the Management Board and Chairman of the Management Board of ING-DiBa AG commencing on June 1, 2017.

Mr. Bernd Geilen was appointed Deputy Chairman of the Management Board at the meeting of the Supervisory Board on June 27, 2017.

The Supervisory Board would like to thank the Management Board and all employees for their commitment in the past fiscal year. Their hard work and expertise contributed decisively to ING-DiBa AG successfully mastering the various challenges faced in 2017.

Frankfurt am Main, March 29, 2018

For the Supervisory Board

Dr. Claus Dieter Hoffmann
Chairman of the Supervisory Board

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