The world around us

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

Global economic developments

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

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

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

Brexit

In late June, financial market volatility increased as Britain surprised markets by deciding to leave the European Union ("Brexit"). While the British pound depreciated to record lows against the US dollar and the Bank of England loosened monetary policy as a precaution, the immediate economic impact appears relatively limited. Still, there is long-term uncertainty, as the actual Brexit probably won't take place until 2019 at the earliest. It is still unclear what the relationship between the UK and the EU will be after Brexit.

Eurozone developments

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

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

Low interest rate environment

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

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

Read more in the "Risk and capital management" chapter.

Progress on relevant regulatory initiatives

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

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

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

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

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

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

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

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

Regulatory costs and uncertainty

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

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

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

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

Other uncertainties concern loss-absorption requirements, which haven't yet been finalised in the EU. The Financial Stability Board's total loss-absorbing capacity term sheet still has to be transposed into EU law before it is clear how to calculate the minimum requirement for own funds and eligible liabilities (MREL).

Read more in the "Risk and capital management" chapter.

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

Competitive landscape

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

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

Read more in the "Our strategy and how we create value" chapter.

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

Our perceived strengths, weaknesses, opportunities and threats [1]

Strengths

- Well-known, strong brand with positive recognition from customers in many countries
- Leader in digital banking
- Sustainability leader
- Strong capital and liquidity position; solid financial and operating performance
- Global network provides competitive advantage
- Presence in growth markets with moderate to strong economic growth
- Omnichannel distribution strategy

Weaknesses

- High interest-income dependency
- Some legacy IT/operational systems
- Need for more agility
- Efficiency could be improved
- Diversity challenges

Opportunities

- Maintain trust by demonstrating care, especially towards customers, and being more transparent about our strategic choices
- Further improve the customer experience by accelerating innovation and improving efficiency
- Cultural change. Tap more into employees' talents
- Grow faster than the market by offering a differentiating customer experience
- Further use competitive advantage of Wholesale Banking global network

Threats

- Low interest rate environment
- Basel 3.5 capital requirements remain unresolved and could negatively impact our role as facilitator of the economy
- Regulatory environment increasingly complex, with heightening execution risk
- Lack of an international level playing field
- Potential competition from new entrants to the market
- Financial sector has an unfavourable public image in many countries
- Cybercrime

1 This information constitutes forward-looking statements as referenced in the "Disclaimer" and is not intended to be a complete list of such matters. For more information on what can impact ING Group's results of operations and financial position, please see "Additional Information, Risk factors" on page 345 of the Annual Accounts.

Overview material topics and how we manage these

Customer centricity

- A Innovative business developments
- B Customer privacy and data security
- C Enhancing customer financial capabilities
- D Stability of IT systems and platforms
- E Usability and accessibility of our products and services
- F Fair communication about our products and services
- G Responsible lending and debt prevention

Economic contribution

- H Financial performance
- I Pricing of products and services
- J Managing risks

Fair operating practices

- K Regulatory developments
- L Anti-competitive behaviour prevention
- M Corruption prevention
- N Sustainable finance and investment policies

Stakeholder engagement

- O Transparency and openness
- P Trust

Human capital

- Q Diversity and equal opportunities, preventing discrimination
- R Being a good employer

- Material topics linked to the elements of our Strategy
- Material topics primarily covered by our policies, governance framework and/or laws

What matters most to our stakeholders

From customers to business partners, shareholders, employees, non-governmental organisations (NGOs), regulators, governments and society at large – different stakeholders expect different things from us. We strive to respond to their views and concerns.

To improve as an organisation, we need to continuously identify and understand the most important topics for our stakeholders and how these relate to the actions and decisions we take. This helps us balance competing expectations and address topics in an informed way.

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

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

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

Read more in the "Non-financial appendix" for a detailed process description on the 2016 materiality assessment and the matrix.

We learned, for example, that both stakeholders and ING regard innovative business developments as one of the most important topics, considering factors such as disruptive technologies across industries, the threat from both small fintechs and giants such as Facebook and Google and the opportunities that advanced data analytics provide in serving our customers. Innovation is a strategic priority for ING.

Read more in the "Our strategy and how we create value" chapter about innovation.

Sustainable finance and investment policies gained awareness across all stakeholder groups – from NGOs and governments to investors and customers. All expect ING to have a long-term vision and to set measurable environmental and social targets. We strive to use our position as a global bank to spur environmental and social progress.

We see our purpose – to empower people to stay a step ahead in life and in business – as inherently sustainable. We promote good financial decision-making and empowerment. Next to that, our focus is on what we call sustainable transitions – our own transition, with our environmental programme helping us meet our targets for water, waste and energy reduction; our customers' transitions, by helping them become more sustainable; and society's transition, by funding sustainable projects and clients.

Read more in the "Retail Banking" and "Wholesale Banking" chapters.

Also gaining importance as a topic across stakeholder groups is managing risks, both financial and non-financial, such as environmental and social risk. Stakeholders expect ING to move beyond improving our risk-management capabilities to also engage with clients to help them improve their own environmental and social performance.

Read more in the "Risk and capital management" chapter.

The pricing of products and services assumed greater importance. This is strongly influenced by external factors such as the current low interest rate environment, reduced margins, increasing regulatory costs, and a shift towards a fee-based model.

Read more in the "Our strategy and how we create value" chapter.

A more detailed overview of the opportunities and risks related to the material topics and our approach and performance is summarised in the table on pages 15 to 18. The table serves as a summary to the content within different chapters, covering future outlook, objectives, indicators and results.

Balancing our responsibilities

Different stakeholders may have competing concerns. Sometimes these are even contradictory. Here, we outline some of the dilemmas we face in balancing these different interests.

Stimulating sector change vs anti-competitive behaviour

Banks are scrutinised on whether they have robust policies when dealing with sensitive sectors such as animal husbandry and manufacturing, as well as important topics such as climate change and human rights. ING has policies that uphold our values. Our comprehensive and detailed Environmental and Social Risk (ESR) framework sets out a clear checklist when deciding which companies or activities to finance and under which conditions.

We also believe it is important to discuss these challenges with other banks to learn from each other and reach common ground to really create sustainable change across the sector. We try to do this through working groups with our regulators and other stakeholder organisations.

We recognise that collaborating on a good cause, even with the best of intentions, could trigger questions about anti-competitive behaviour. This might lead to a situation where parties would be inclined to choose the safe side and not work together rather than pursue a joint sustainable approach between banks that might have more impact. We would find such a situation unfortunate, but would still continue to strive for sustainable progress.

Customer centricity vs negative interest rates vs profitability

In traditional banking, banks attract customers' savings and then either invest them or loan that money to others. They do this while managing accompanying risks (like payment default) and earning income on the loans and investments. The idea has always been that customers who save money with a bank earn a certain interest. This is deducted from the bank's investment and loan revenue to get net interest margin. But what happens when negative interest rates come into play? And how does that impact a bank's ability to make a profit?

Like it or not, negative interest rates are a reality. The monetary policy behind them aims to encourage households to spend, rather than save. However it is not yet clear that this works, and ING is working hard to avoid being forced to implement negative rates on retail deposits.

However, if banks don't lower their retail savings rates below zero in a negative interest rate environment, net interest margins would be impacted, worsening profitability. Other solutions would have to be found, such as increasing margins on lending or implementing other fees, which could reduce market transparency. From our point of view, none of these are desirable because they would conflict with customers' expectations about fair pricing.

Innovative financial technology companies: threat or opportunity?

Innovative financial technology companies (fintechs) are growing as competitors in financial services, providing a customer experience that is superior to what banks offer. Banks must adapt and evolve to survive.

ING believes that we should rely on our strengths and perceive these developments as an opportunity rather than a threat. We have the advantages of scale, capital, a large customer base, marketing and distribution know-how and experience. When it comes to fintechs, ING's strategy is to pursue partnerships with those that can really add value for our customers, leveraging each other's strengths.

We are currently partnering with more than 65 fintechs. In Germany, for example, we are cooperating with several young financial tech companies on video identification (Web-ID), photo transfers (Gini Pay) and verifying payments by fingerprint (SmartSecure App by kobil).

Read more in the "Improving the customer experience" chapter.

Innovation vs data protection

Capturing and analysing data helps us understand our customers' needs and preferences, allowing us to offer them more tailored products and improved service.

As a bank we collect and store vast amounts of data, such as customer profiles, payment transactions, complaints and more. Besides giving us meaningful insights to better understand our customers, it improves the accuracy of our internal and external reporting, for example to regulators. On its own, raw data has little value, that is why we are working to standardise global data management. At the same time, we see an increasing focus on data security across all industries. For banks, this especially relates to people's personal financial information.

Customers trust us to store their data with care and safety. This trust is also at the core of our relationship with our customers. We abide by our legal obligations to protect customer data, which can differ country to country. The wishes of our customers and clients are critical whenever data is processed for services and offers. In cases where we rely on consent, the customer can withdraw their consent at any time.

Read more in the "Improving the customer experience" chapter.

Being a responsible employer vs adapting to a changing environment

With over 54,000 employees, we aim to be a responsible employer that provides staff with good working conditions and opportunities for growth. In the digital world, human touch remains important. Therefore we strive to create an entrepreneurial, open, collaborative, innovative and energetic culture that attracts and motivates employees and helps to deliver on our Customer Promise.

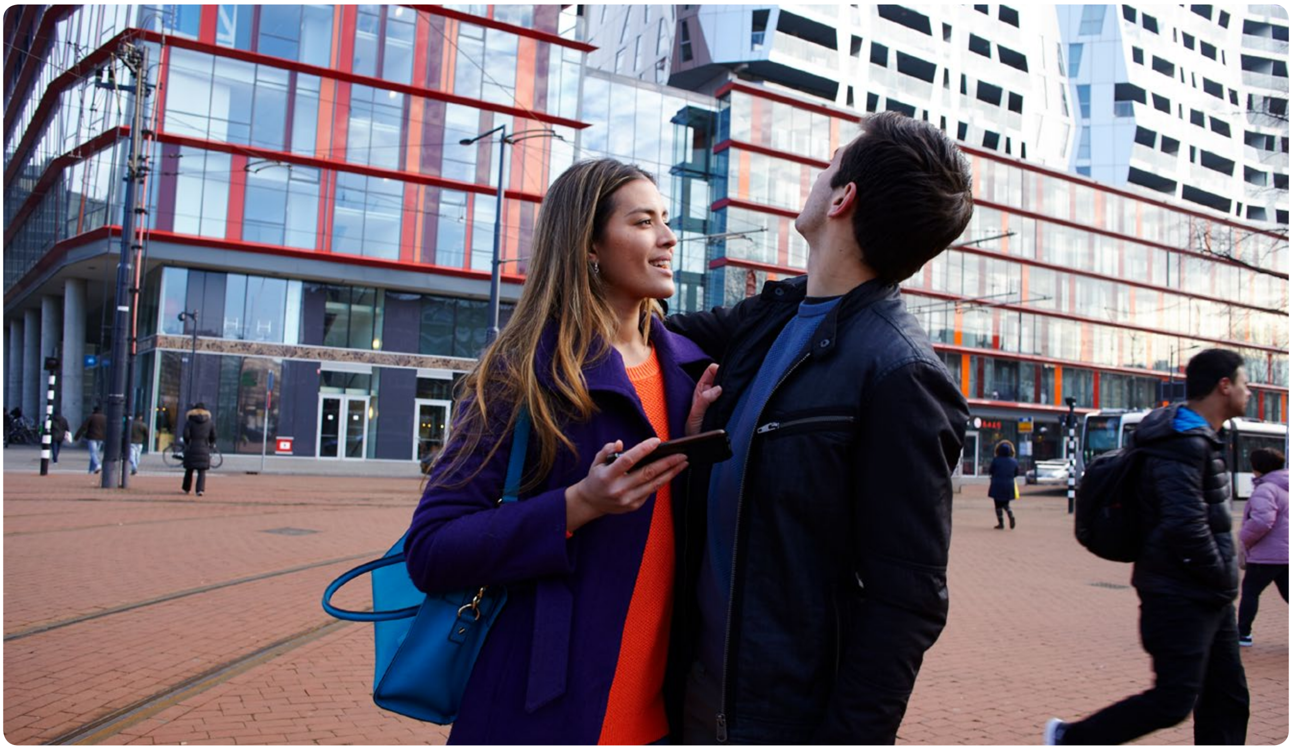
We offer training and opportunities for staff to develop professionally, improving people's general employability, whether with ING or for future positions outside the company. We see this as part of our responsibility as an employer.

However, change is a constant and we – like all companies – must periodically adapt to evolving business requirements. This can lead to job losses. ING is committed to helping employees to find new roles and/ or supporting them in learning new skills to better equip them for their next role.

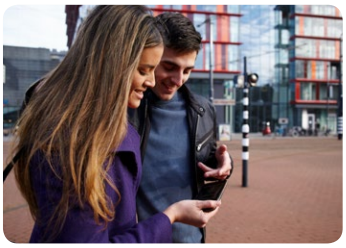
Read more in the "People" chapter.

Read more in the issue table in the "Non-financial appendix".

Better financial decisions: the Think Forward Initiative



Buying a new house is exciting, but emotions can get in the way of smart financial decisions. In the Think Forward Initiative, ING teams up with businesses and experts in a public platform to research how consumers make decisions about money. The aim is to promote awareness and the development of policies and tools to help consumers manage their finances better.



Opportunities & Risks	Material topic	Our approach and performance	More information
Customer centricity			
Opportunities: Driven by changing customer needs, banks have an opportunity to make their products and services available anytime, anywhere. Advanced data analytics will help banks to understand customers' needs and preferences, and allow banks to offer more personalised products and services. Banks are strictly regulated and are therefore less flexible when it comes to developing new ways to improve the customer experience. However, partnerships with external financial technology companies – usually start-ups – who can move faster will strengthen the bank's transition towards digitalisation. **Risks:** Customer expectations are changing, enabled by technology, forcing banks to go digital. Inherent in that are risks related to privacy and data security. Banks must adhere to legal obligations and ensure customer data is handled with the utmost care in a world where cyber-attacks are on the rise, both in frequency and intensity. Fintechs are very focused in their product and services offerings and cater to specific customer needs, targeting segments underserved by traditional banks.	A **Innovative business developments** Fintechs are developing rapidly and our customers' expectations are evolving every day. It is up to us to adapt and innovate to remain relevant. At the same time, the transition to a circular economy will change the business models of our clients and, related to that, their financial needs.	ING believes that innovative businesses are built on a culture of innovation. The third edition of our annual Innovation Bootcamp attracted 1,194 ideas. The Innovation Fund is currently supporting four initiatives. And by the end of 2016, ING had more than 65 fintech partners, of which we invested in 11. In 2016, more than 2,000 employees were trained in the PACE methodology, a structured process to accelerate innovation at ING.	*Creating a culture of innovation section in the "Improving the customer experience" chapter.* *Providing a differentiating customer experience section in the "Retail Banking" chapter.*
	B **Customer privacy and data security** It is our duty to handle our customers' data with the utmost care. We strive to be transparent about what we do with the personal data of customers, suppliers and business partners, and only to process personal data for specific business purposes.	All business units have adopted Global Data Protection Policies (GDPPs) that qualify as Binding Corporate Rules. In each business unit and at bank level, a data protection executive is responsible for maintaining GDPP compliance. The GDPP is currently being revised to comply with new EU General Data Protection Regulation 2016/679 which must be adhered to by May 2018.	*Data privacy and security section in the "Improving the customer experience" chapter.* *Balancing our responsibilities: Innovation vs data protection in "The world around us" chapter.*
	C **Enhancing customer financial capabilities** Helping people make smarter financial decisions through transparent tools, tailored offers and expert advice.	In 2016, more than 23.9 million people felt financially empowered by ING, a 16.6% increase compared to 2015. We introduced products and services such as "Kijk Vooruit" and My Money Coach to help people make better financial decisions.	*Financial empowerment section in the "Retail Banking" chapter.*
	D **Stability of IT systems and platforms** Securing the stability of ING's IT systems and platforms, such as payment services, internet banking and apps.	The Focused Reliability Initiative was launched in 2015 to find permanent solutions for system reliability issues in the Netherlands and Belgium. Continuing the programme in 2016, ING's channel availability improved to 99.75% on average in the Netherlands, Belgium and Wholesale Banking.	*Relaibility and stability section in the "Improving the customer experience" chapter.*
	E **Usability and accessibility of our products and services** We want to stand out by making banking available to our customers anytime, anywhere through our digital-first approach, complemented by advice when needed, with omnichannel contact and distribution possibilities.	ING's customers are already digital and increasingly mobile. Digital channels now account for 98% of contact with retail customers and mobile interactions increased by more than 50% during 2016. ING's promise to deliver services anytime, anywhere implies a commitment to make these products and services accessible and inclusive to all sections of society. ING in Poland, for instance, makes use of technology to help deaf customers who have previously had to bring an interpreter with them to do their banking. And in 2016, there was a strategic shift from traditional microfinance portfolios in India and Turkey to a more diversified portfolio, both in location and the mix of financial services offered.	*Introduction section in the "Improving the customer experience" chapter.* *Providing a differentiating customer experience section in the "Retail Banking" chapter.* *Financial empowerment and Financial inclusion sections in the "Retail Banking" chapter.*

Opportunities & Risks	Material topic	Our approach and performance	More information
Customer centricity (continued)			
	F Fair communications about products and services We communicate clearly and easily to customers on products and services.	We believe banking should be about clear products, plain language, fair prices and simple processes. To ensure fair pricing and communication on our products and services, we have a Product Approval and Review Process (PARP). Customers are able to provide feedback on products and services through ratings and online communities via ING websites. In Wholesale Banking, we continued with our transformation programme, Wholesale Target Operating Model (Wholesale TOM), further driving simplification, business growth and innovation across the network	*Providing a differentiating customer experience section in the "Retail Banking" chapter.* *Delivering a differentiating customer experience section in the "Wholesale Banking" chapter.*
	G Responsible lending and debt prevention We have responsible lending activities and prevent customers from going into financial distress.	ING believes financially empowered people contribute to a healthy economy and this helps drive social progress. We offer all kinds of activities to prevent customers from going into financial distress and to ensure responsible lending.	*Financial empowerment section in the "Retail Banking" chapter.* *Environmental and Social Risk management section in the "Risk and capital management" chapter.*
Economic contribution			
Opportunities: Simplifying business and operating models will help banks enhance the customer experience while reducing costs and risk. Customers prefer a trusted institution acting as a store of value, as a source of finance and as a facilitator of transactions, providing traditional (well-established) banks with an advantage over the new entrants and fintechs. As distribution and communication channels become more direct and available 24/7, customers expect instant and continuous access to their funds and our services. The organisation must evolve accordingly. Banks should embrace regulatory intent to create sound, secure, unbiased businesses, where regulatory compliance is embedded in the processes and values of day-to-day operations. **Risks:** Low interest rates, including negative rates in some countries, are putting banks' net interest income and net interest margin under pressure. Increased regulatory requirements have an impact on the way banks do business. For instance, enhanced regulation on capital and liquidity will continue to increase regulatory costs. And uncertainty around European regulation on bank taxes, risk-weight calculation and loss-absorption requirement is hampering the new ways of doing business. New EU regulations, such as PSD2, are opening up financial services to competitors outside the sector thereby reducing the barriers for entry.	**H Financial performance*** Being a financially healthy and stable company is important to us and our stakeholders.	ING Group recorded a robust commercial and financial growth in 2016, with a full-year 2016 net profit of EUR 4,651 million, an increase of 16% year-on-year. We have already met several of our Ambition 2020 targets, including those for capital, leverage ratio and dividend.	*"Facts and key figures", "Our strategy and how we create value" and "The world around us" chapters.*
	I Pricing of products and services A fair price for our products and services increases accessibility for our customers and is important for our competitiveness in the marketplace.	With deposits at the ECB already earning negative interest rates, we have to continuously balance customer expectations with the prices we offer to remain profitable. To address this trade-off, we actively manage our interest rate risk exposure and successfully maintained the net interest margin on our core lending in 2016. To manage this challenge moving forward we are proactively containing costs, developing new offerings at fair pricing that help empower our customers and generate fee-based income. By end-2016 our total number of customers stood at 35.8 million, an increase of around 3 million compared to 2014 when we launched the Think Forward strategy.	*"Our strategy and how we create value" chapter.*
	J Managing risks (financial risks* and non-financial risks) Managing risks is at the heart of what we do and can have a material impact on our business and society. Safe banking requires strong risk management, both financial and non-financial.	We experienced healthy lending growth and declining risk costs resulting from active management of non-performing loans. ING Bank's nonperforming loans (NPLs) expressed as a percentage of lending credit outstandings further improved. The NPL ratio decreased at the end of 2016 to 2.1% from 2.5% at the end of 2015. ING Bank's loan-to-deposit ratio rose to 1.05 compared to 1.04 at the end of 2015, mostly due to growth of the loan book.	*More information on both our financial and non-financial risks (including ESR) in the "Risk and capital management" chapter.*

* The material topics with asterix (*) are not part of the KPMG assurance engagement in relation to the non-financial information. Financial risks are an integral part of the audited consolidated annual accounts.

The world around us – continued

Opportunities & Risks	Material topic	Our approach and performance	More information
Fair operating practices			
Opportunities: With regulatory initiatives such as Single Supervisory Mechanism (SSM) - the new system of banking supervision for Europe - banks could benefit from harmonised supervision that can enhance the creation of one digital platform across borders. Financing and investing in the transition to a fair and green economy will help create corporate and societal value in mid- to long term. **Risks:** Increased involvement of (local) governments in financial systems through policy making and the lack of coordination among regulators may hinder the emergence of a level playing field among the traditional banks and newcomers. Besides government involvement, stakeholders are pushing banks to include environmental and social issues such as climate-change risk and human rights in financing and investing decisions. Anti-competitive behaviour and corruption can damage our reputation and have a direct impact on our license to operate.	K **Regulatory developments** Monitoring regulatory developments and aiming to act in accordance with the expectations of society.	ING monitors external developements to ensure we can assess the impact of and respond to relevant initiatives. In order to identify, discuss and align our response to important regulatory developments, ING has set up two internal steering committees, one dealing with Supervision and Prudential Regulation and the other dealing with Business Conduct Regulation.	*Progress on regulatory initiatives that are most relevant to us in "The world around us" chapter.*
	L **Anti-competitive behaviour prevention*** ING's role and activities in preventing anti-competitive behaviour, anti-trust and monopoly practices.	Anti-competitive behaviour undermines ING's values and vision to see customers empowered as it limits choices and restricts the market. It is ING's policy to fully comply with all competition laws applicable to its entire range of activities. Further, for non-financial risks topics, global education and awareness in the form of e-learning modules, awareness sessions and material is provided.	*"Corporate governance" chapter.*
	M **Corruption prevention*** ING's role and activities in preventing corruption practices.	Bribery and corruption are criminal offences and are clear violations of the ING Values. ING has a zero tolerance policy on bribery and corruption. We expect all our employees to always do business in accordance with the highest standards of ethical behaviour and honesty. Further, for non-financial risks topics, global education and awareness in the form of e-learning modules, awareness sessions and material is provided.	*Statement on anti-bribery principles in the "Risk and capital management" chapter and "Non-financial appendix".* *Key developments section in the "Risk and capital management" chapter.*
	N **Sustainable finance and investment policies** Having clear policies guiding our finance and investment decisions; supporting clients in improving their environmental and social practices; identifying customers and projects that provide sustainable solutions and outperform their sector on environmental or social performance.	We promote activities that have a positive impact on society through financing sustainable transitions and increasing sustainable assets under management (SAuM). In 2016, our sustainable transitions financed (STF) was 34.3 billion and our SAuM was 3.3 billion. Furthermore, our strengthened Environmental and Social Risk (ESR) framework guides our decisions for client engagement and assessing finance proposals.	*Accelerating the financing of sustainable transitions section in the "Wholesale Banking" chapter.* *Socially Responsible Investment section in the "Retail Banking" chapter.* *Environmental and Social Risk management section in the "Risk and capital management" chapter.*

* The material topics with asterix (*) are not part of the KPMG assurance engagement in relation to the non-financial information. Financial risks are an integral part of the audited consolidated annual accounts.

Opportunities & Risks	Material topic	Our approach and performance	More information
Stakeholder engagement			
Opportunities: Customers tend to trust banks over new entrants and fintechs. Being transparent about what's in our portfolio, shows the diversity of investments and loans covering all sectors. Furthermore it shows banks have nothing to hide and are open to discussions. **Risks:** A lack of openness and transparency between banks and their stakeholders may lead to a mismatch between expectations and banks' services. Trust is another important element for both customer and society. A lack of all these elements could lead to an unfavourable public image from both customers and society, possibly leading to a decrease in customers and increased regulation.	O **Transparency and openness** Being transparent and open about our investments, products and services, and other topics to help the business move forward and earn the trust of our stakeholders.	Being transparent and open about our investments, products and services, and other topics is helping the business move forward and earning the trust of our stakeholders. We aim to find the right balance between providing the transparency and openness that society and NGOs ask of us, while respecting our customers' privacy.	*Balancing our responsibilities section in "The world around us" chapter.* *Simplified balance sheet in the "Non-financial Appendix" chapter.*
	P **Trust** Maintaining the confidence of our stakeholders by acting with professionalism and integrity and placing the customer at the heart of everything we do via our Customer Promise.	The ING Orange Code - a set of values and behaviours that sets out our way of working - provides a framework for a shared culture uniting all our employees around the world. We put "integrity above all". In a survey in 2016, 79% of employees said they were aware of the code. In 2016, the number of retail primary relationships grew by more than 8% to 9.7 million, indicating customers' trust in us.	*"People" chapter (Orange Code).* *"Our strategy and how we create value" chapter.*
Human capital			
Opportunities: More diverse companies are more successful in attracting and retaining talent, relate to customers better, have higher employee engagement and are better at decision-making. Also, motivated, enabled and energised employees, being the primary resource and ambassadors of a bank, enhance the business performance of banks. **Risks:** Employees are the primary resource and ambassadors of the company. Losing our employees, or not having a diverse group of employees, could lead to sub-optimal performance/results (financial risks) as well as a reputational risk.	Q **Diversity and equal opportunities, preventing discrimination** Ensuring ING's employees are diverse and have equal career opportunities. Also, striving to create an inclusive corporate culture that welcomes, acknowledges, respects and benefits from each other's differences.	We introduced a diversity manifesto, "Success through difference", in January 2016 that applies to all employees worldwide. This policy sets out what diversity means at ING, why it is important, and what employees can do. Discrimination is against the law, which is reflected in ING's policies. The Bloomberg Financial Services Gender-Equality Index was published for the first time in May 2016. ING was ranked as one of the most transparent financial sector companies for diversity and social equality.	*Who we are section in the "People" chapter.*
	R **Being a good employer** Creating an entrepreneurial, open, collaborative, innovative and energetic culture within an organisation to ensure we attract and motivate our employees and deliver on our Customer Promise.	ING's Winning Performance Culture (WPC) survey looks at how engaged, enabled and energised employees are. A WPC survey was conducted in September 2016. Around 70% of employees responded. ING achieved an overall engagement score of 77%, exceeding the 70% target it had set.	*Employee engagement section in the "People" chapter.*