



ING Belgium SA/NV

(Incorporated with limited liability in Belgium)

EUR 10,000,000,000

Residential Mortgage Pandbrieven Programme

Arranger

ING Bank N.V., Belgian Branch

Dealer

ING Bank N.V., Belgian Branch

The date of this Base Prospectus is 17 July 2018.

This document constitutes a base prospectus for the purposes of Article 29 of the Belgian Law dated 16 June 2006 concerning the public offer of investment securities and the admission of investment securities to trading on a regulated market (the **Belgian Prospectus Law**) and Article 5.4 of the Prospectus Directive (as defined herein) and has been approved by the Financial Services and Markets Authority (*Autoriteit voor Financiële Diensten en Markten/Autorité des services et marchés financiers*) (the **FSMA**) in its capacity as competent authority under article 23 of the Belgian Prospectus Law as a base prospectus (the **Base Prospectus**). This approval is not and should not be considered to be a judgement as to the appropriateness or the merits of any issue under the Programme, nor of the situation of the Issuer.

Application has been made to Euronext Brussels for the Mortgage Pandbrieven issued under the Programme to be listed on Euronext Brussels. References in this Base Prospectus to the Mortgage Pandbrieven being listed (and all related references) shall mean that the Mortgage Pandbrieven have been listed on Euronext Brussels and admitted to trading on Euronext Brussels' regulated market. Euronext Brussels' regulated market is a regulated market for the purposes of Directive 2014/65/EC of the European Parliament and of the Council on markets in financial instruments (as amended, supplemented or replaced from time to time, **MiFID II**).


Tanate Phutrakul
Managing Director


Erik Van Den Eynden
CEO ING Belgium

ING BELGIUM SA/NV

(Incorporated with limited liability in Belgium)

EUR 10,000,000,000 Residential Mortgage Pandbrieven Programme

Under this EUR 10,000,000,000 Residential Mortgage Pandbrieven Programme (the **Programme**), ING Belgium SA/NV (the **Issuer** or **ING**) may from time to time issue *Belgische pandbrieven/lettres de gage Belges* (**Mortgage Pandbrieven**) in Euro or in another currency as set out in the relevant Final Terms agreed between the Issuer and the relevant Dealers (as defined below). Any Mortgage Pandbrieven issued under the Programme on or after the date of this Base Prospectus are issued subject to the provisions herein.

The minimum specified denomination of any Mortgage Pandbrieven issued under this Base Prospectus shall be EUR 100,000.

The maximum aggregate nominal amount of all Mortgage Pandbrieven from time to time outstanding will not exceed the amount of EUR 10,000,000,000, subject to increase as described herein.

The Mortgage Pandbrieven may be issued on a continuing basis to one or more of the Dealers specified under “*General Description of the Programme*” and any additional Dealer appointed under the Programme from time to time, which appointment may be for a specific issue or on an ongoing basis (each a **Dealer** and together the **Dealers**). References in this Base Prospectus to the **relevant Dealer** shall, in the case of an issue of Mortgage Pandbrieven being (or intended to be) subscribed by more than one Dealer, be to all Dealers agreeing to subscribe such Mortgage Pandbrieven.

An investment in Mortgage Pandbrieven issued under the Programme involves certain risks. For a discussion of these risks see “Risk Factors”. Investors should review and consider these risk factors carefully before purchasing any Mortgage Pandbrieven.

This document constitutes a base prospectus for the purposes of Article 29 of the Belgian Prospectus Law and Article 5.4 of the Prospectus Directive (as defined herein) and has been approved by the Financial Services and Markets Authority (*Autoriteit voor Financiële Diensten en Markten/Autorité des Services et Marchés Financiers*) (the **FSMA**) in its capacity as competent authority under article 23 of the Belgian Law dated 16 June 2006 concerning the public offer of investment securities and the admission of investment securities to trading on a regulated market (the **Belgian Prospectus Law**) as a base prospectus (the **Base Prospectus**). This approval is not and should not be considered to be a judgement as to the appropriateness or the merits of any issue under the Programme, nor of the situation of the Issuer.

Application has also been made to Euronext Brussels for the Mortgage Pandbrieven to be listed on Euronext Brussels. References in this Base Prospectus to the Mortgage Pandbrieven being listed (and all related references) shall mean that the Mortgage Pandbrieven have been listed on Euronext Brussels and admitted to trading on Euronext Brussels’ regulated market. Euronext Brussels’ regulated market is a regulated market for the purposes of MiFID II.

On 5 November 2013, the National Bank of Belgium (the **NBB**), as Supervisor, has admitted the Issuer to the list of credit institutions that are authorised to issue Belgian covered bonds and has admitted the Programme to the list of authorised programmes for issuance of Belgian covered bonds. Issuances made under the Programme shall be included in the list of the Belgian covered bonds (*Belgische covered bonds/covered bonds belges*) on the website of the Supervisor, which is at the date of this Base Prospectus at www.nbb.be (Prudential Supervision - Areas of Responsibility - Credit Institutions - Lists – Covered bond issuances carried out by the credit institutions).

The Base Prospectus is a prospectus for the purposes of Article 5.4 of Directive 2003/71/EC (the **Prospectus Directive**) and the Belgian Prospectus Law. It intends to give the information with regard to the Issuer and the Mortgage Pandbrieven, which according to the particular nature of the Issuer and the Mortgage Pandbrieven, is necessary to enable investors to make an informed assessment of the rights attaching to the Mortgage Pandbrieven and of the assets and liabilities, financial position, profit and losses and prospects of the Issuer.

Mortgage Pandbrieven may be issued in dematerialised form (the **Dematerialised Mortgage Pandbrieven**), in registered form (the **Registered Mortgage Pandbrieven**) or in such form as may be specified in the applicable Final Terms. Dematerialised Mortgage Pandbrieven will be issued in dematerialised form under the Belgian Company Code (*Wetboek van Vennootschappen/Code des Sociétés*) (the **Belgian Company Code**) and cannot be physically delivered. The Dematerialised Mortgage Pandbrieven will be represented exclusively by book entries in the records of the X/N securities and cash clearing system operated by the NBB or any successor thereto (the **Securities Settlement System**). Access to the Securities Settlement System is available through those of its Securities Settlement System participants whose membership extends to securities such as the Mortgage Pandbrieven. Securities Settlement System participants include certain banks, stockbrokers (*beursvennootschappen/sociétés de bourse*), Euroclear Bank SA/NV (**Euroclear**), Clearstream Banking, société anonyme, Luxembourg (**Clearstream, Luxembourg**), SIX SIS (Switzerland) or Monte Titoli (Italy). Accordingly, the Dematerialised Mortgage Pandbrieven will be eligible to clear through, and therefore accepted by Euroclear, Clearstream, Luxembourg, SIX SIS (Switzerland) or Monte Titoli (Italy) and investors can hold their Dematerialised Mortgage Pandbrieven within securities accounts in Euroclear, Clearstream, Luxembourg, SIX SIS (Switzerland) or Monte Titoli (Italy). Registered Mortgage Pandbrieven will be registered in a register maintained by the Issuer or a registrar on behalf of the Issuer (the **Registrar**) in accordance with Article 462 et seq. of the Belgian Company Code.

Unless otherwise stated, capitalised terms used in this Base Prospectus have the meanings set forth in this Base Prospectus. Where reference is made to the Conditions of the Mortgage Pandbrieven or to the Conditions, reference is made to the Terms and Conditions of the Mortgage Pandbrieven.

Notice of the aggregate nominal amount of Mortgage Pandbrieven, interest (if any) payable in respect of Mortgage Pandbrieven,

the issue price of Mortgage Pandbrieven and certain other information which is applicable to each Tranche (as defined under “*Terms and Conditions of the Mortgage Pandbriever*”) of Mortgage Pandbrieven will be set out in a final terms document (the **Final Terms**) which, with respect to Mortgage Pandbrieven to be listed on Euronext Brussels, will be filed with the FSMA. Copies of Final Terms in relation to Mortgage Pandbrieven to be listed on Euronext Brussels will also be published on the website of the Issuer (www.ing.be/investor-relations).

The Programme provides that Mortgage Pandbrieven may be listed or admitted to trading, as the case may be, on such other or further stock exchanges or markets as may be agreed between the Issuer and the relevant Dealer(s). In the case of Mortgage Pandbrieven which are to be admitted to trading on a regulated market (as defined in the Prospectus Directive) of a European Economic Area Member State other than the regulated market of Euronext Brussels (a **Host Member State**) the Issuer will request that the FSMA delivers to the competent authority of the Host Member State a certificate of approval pursuant to Article 18 of the Prospectus Directive attesting that the Base Prospectus has been drawn up in accordance with the Prospectus Directive. The Issuer may also issue unlisted Mortgage Pandbrieven and/or Mortgage Pandbrieven not admitted to trading on any market.

The rating of certain Series of Mortgage Pandbrieven to be issued under the Programme may be specified in the applicable Final Terms. Whether or not each credit rating applied for in relation to relevant Series of Mortgage Pandbrieven will be issued by a credit rating agency established in the European Union and registered under Regulation (EC) No. 1060/2009, as amended, (the **CRA Regulation**) will be disclosed in the applicable Final Terms.

The Mortgage Pandbrieven issued under the Programme are expected on issue to be assigned a rating by Fitch France S.A.S. or its successors (**Fitch**) and Moody’s Investors Services Ltd or its successors (**Moody’s**), each of which is established in the European Union and is registered under CRA. As such each of Fitch and Moody’s are included in the list of credit rating agencies published by the European Securities and Markets Authority on its website in accordance with the CRA Regulation. Where a Series or a Tranche is rated, such rating will not necessarily be the same as the ratings assigned to other Series or Tranches. The Issuer may also issue Mortgage Pandbrieven which are unrated. Details of the ratings of the Mortgage Pandbrieven will be specified in the applicable Final Terms. A credit rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, change or withdrawal at any time by the assigning rating organisation.

The issue price and amount of the relevant Mortgage Pandbrieven will be determined at the time of offering of each Tranche or Series based on, inter alia, the then prevailing market conditions and will be set out in the applicable Final Terms.

Mortgage Pandbrieven issued under the Programme will not be placed with “consumers” within the meaning of the Belgian Code of Economic Law dated 28 February 2013 as amended, supplemented and/or replaced from time to time, (the Belgian Code of Economic Law).

The Mortgage Pandbrieven are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area (EEA). For these purposes, a retail investor means a person who is one (or more) of (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, MiFID II); (ii) a customer within the meaning of Directive 2002/92/EC (as amended, IMD), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II or (iii) not a qualified investor as defined in the Prospectus Directive. Consequently no key information document required by Regulation (EU) No 1286/2014 (as amended, PRIIPs Regulation) for offering or selling the Mortgage Pandbrieven or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Mortgage Pandbrieven or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

Arranger

ING Bank N.V., Belgian Branch

Dealer

ING Bank N.V., Belgian Branch

The date of this Base Prospectus is 17 July 2018. The Base Prospectus shall be valid for a period of one year from its date of approval. This Base Prospectus has been prepared on the basis of annexes XI and XIII of Commission Regulation 806/2004.

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GENERAL DESCRIPTION OF THE PROGRAMME

The following general description (the **General Description**) does not purport to be complete and is taken from, and is qualified in its entirety by, the remainder of this Base Prospectus and, in relation to the terms and conditions of any particular Series or Tranche of Mortgage Pandbrieven, the applicable Final Terms. The Issuer may also from time to time issue Mortgage Pandbrieven under the Programme which are subject to terms and conditions and/or final terms not contemplated by this Base Prospectus or under a different prospectus or without prospectus. The relevant (form of) terms and conditions will, in such circumstances, be set out in a schedule to the Agency Agreement.

This General Description constitutes a general description of the Programme for purposes of Article 22.5(3) of Commission Regulation (EC) No 809/2004 implementing the Prospectus Directive.

Words and expressions defined in the “*Terms and Conditions of the Mortgage Pandbrieven*” below or elsewhere in this Base Prospectus have the same meanings in this General Description.

PRINCIPAL PARTIES

Issuer	ING Belgium SA/NV (ING or the Issuer), a credit institution existing under the laws of the Kingdom of Belgium, with its registered office at 1000 Brussels, Avenue Marnix 24, Belgium, registered with the Crossroad Bank for enterprises under number RPM 0403.200.393, Commercial Court of Brussels.
NBB licence to issue Belgian Covered Bonds	The NBB has, as Supervisor, admitted the Issuer to the list of credit institutions that are authorised to issue Belgian covered bonds on 5 November 2013.
Supervisor	The supervisor as defined in article 3, 4° Credit Institutions Supervision Law in accordance with the SSM-Regulation (being, in respect of the Issuer, the NBB or as from the date of the actual transfer of powers to the ECB in view of the establishment of the Single Supervision Mechanism (SSM), the ECB).
SSM-Regulation	Council Regulation (EU) 1024/2013 of 15 October 2013 conferring specific tasks on the European Central Bank concerning policies relating to the prudential supervision of credit institutions.
Arranger	ING Bank N.V., Belgian Branch (the Arranger).
Dealers	ING Bank N.V., Belgian Branch and any other dealers appointed from time to time in accordance with the Programme Agreement (each, a Dealer and together, the Dealers).
Cover Pool Monitor	A reputable firm of independent auditors and accountants, not being the statutory auditor of the Issuer for the time being, appointed pursuant to the Cover Pool Monitor Agreement as an independent cover pool monitor (<i>portefeuillesurveillant/surveillant de portefeuille</i>) (i) to issue periodic reports to the Supervisor on compliance by the Issuer with the Belgian Covered Bond Regulations (as defined herein), (ii) test compliance with the Issuer’s undertaking not to include commercial mortgage loans, residential mortgage backed securities, commercial mortgage backed securities or other asset backed securities in the Special Estate, and (iii) to perform the Statutory Tests both as provided for in the Belgian Covered Bond Regulations and in accordance with the requirements of the NBB, as Supervisor. The initial Cover Pool Monitor appointed under the Programme is Deloitte Bedrijfsrevisoren BCVBA represented by Frank Verhaegen with offices at Luchthaven Nationaal 1J, 1930 Zaventem (the Cover Pool Monitor).

For further information see "*Summary of the Belgian Covered Bond Regulations*" and "*Description of Principal Documents*" below.

Cover Pool Administrator

In accordance with Article 8, §1 Annex III to the Credit Institutions Supervision Law the Supervisor may designate a cover pool administrator (*portefeuillebeheerder/gestionnaire de portefeuille*) in certain circumstances including (i) upon the adoption of the reorganisation measure under Article 236 of the Credit Institutions Supervision Law against the Issuer if such measure, in the opinion of the Supervisor, may negatively affect the Pandbrievens Holders, (ii) upon the initiation of winding-up proceedings against the Issuer, (iii) upon the removal of the Issuer from the list of Belgian covered bonds issuers or (iv) in circumstances where the situation of the Issuer is such that it may seriously affect the interest of the Pandbrievens Holders (the **Cover Pool Administrator**).

For further information see "*Summary of the Belgian Covered Bond Regulations*" and "*Description of Principal Documents*" below.

Mortgage Pandbrievens Holders' Representative

Stichting ING Belgium Mortgage Pandbrievens Holders' Representative has been appointed as representative (*vertegenwoordiger/représentant*) of the Pandbrievens Holders in accordance with Article 14, §2 Annex III to the Credit Institutions Supervision Law (the **Mortgage Pandbrievens Holders' Representative**).

For further information see "*Summary of the Belgian Covered Bond Regulations*" and "*Description of Principal Documents*" below.

Hedging Counterparties

The Issuer may, from time to time during the Programme, enter into Hedging Agreements with various swap providers to hedge certain risks (including, but not limited to, interest rate, liquidity and credit) related to the Cover Assets and/or the Mortgage Pandbrievens (each a **Hedging Counterparty**).

Liquidity Facility Provider

The Issuer may, from time to time during the Programme, enter into Liquidity Facility Agreements with one or more liquidity facility providers (each a **Liquidity Facility Provider**) in order to improve the liquidity of the Special Estate.

Fiscal Agent

ING (the **Fiscal Agent**).

Calculation Agent

ING or any other calculation agent appointed by the Issuer pursuant to a Calculation Agency Agreement, as specified in the applicable Final Terms (the **Calculation Agent**).

Paying Agent

ING or as may be specified in the relevant Final Terms (the **Paying Agent**).

Listing Agent

ING (the **Listing Agent**).

Clearing System Operator

NBB (the **Clearing System Operator**).

Auditors

KPMG Bedrijfsrevisoren BV CVBA represented by Olivier Macq with offices at Bourgetlaan 40 1130 Haren (Brussel- Stad) (the **Auditors**) was appointed by the annual general meeting of shareholders of the Issuer held on 27 April 2016.

Other Cover Pool Creditors Means the Mortgage Pandbrieven Holders' Representative, any Cover Pool Administrator, the Cover Pool Monitor, the Agents, the Hedging Counterparties (if any), any Liquidity Facility Providers (if any) and any Operational Creditors.

Operational Creditors Means any servicer appointed to service the Cover Assets, any account bank appointed to hold accounts of the Issuer in relation to the Special Estate, any stock exchange on which the Mortgage Pandbrieven are listed and/or admitted to trading, any auditor, legal counsel and tax advisor of the Issuer in relation to the Special Estate or the Programme, any custodian of Cover Assets or assets in the Special Estate, any rating agency appointed by the Issuer to rate the Programme or the Mortgage Pandbrieven, any agent or party appointed in accordance with the Programme Documents, any other creditor of amounts due in connection with the management and administration of the Special Estate and any other creditor of the Issuer pursuant to any services provided or any transaction entered into in connection with the Special Estate or the Programme and notified to the Mortgage Pandbrieven Holders' Representative or as may from time to time be specified in the Terms and Conditions of any Mortgage Pandbrieven issued under the Programme.

Registrar (for Registered Mortgage Pandbrieven) A party to be specified in the applicable Final Terms.

Rating Agencies Means such internationally recognised rating agencies (together, the **Rating Agencies** and each a **Rating Agency**) as may from time to time be appointed to rate the Mortgage Pandbrieven issued under the Programme. The Issuer may, from time to time, request for the withdrawal of a previously assigned rating of a Series of Mortgage Pandbrieven by a Rating Agency and/or the appointment of a different Rating Agency to assign a rating to a Series of Mortgage Pandbrieven in issue or about to be issued. The Issuer may also terminate the appointment of any Rating Agency to rate the Mortgage Pandbrieven under the Programme at any time.

Fitch and Moody's have initially been appointed to provide ratings for those Series of Mortgage Pandbrieven which are to be rated.

The parties listed above are appointed to act in respect of the Programme pursuant to the Programme Documents as further described under the section of this Base Prospectus entitled "Description of Principal Documents" below. The relevant Programme Documents provide that other parties may be appointed from time to time and contain certain provisions in relation to the replacement of the above-mentioned parties.

PROGRAMME DESCRIPTION

Description ING Belgium SA/NV EUR 10,000,000,000 Residential Mortgage Pandbrieven Programme (the **Programme**) is a programme for the continuous issue of Belgian *pandbrieven/lettres de gage belges* (the **Mortgage Pandbrieven**) in accordance with the Belgian Covered Bond Regulations.

The NBB, as Supervisor, has admitted the Programme to the list of authorised programmes for the issue of Belgian covered bonds on 5 November 2013. The Supervisor will regularly update such list, upon notification by the Issuer, with the Mortgage Pandbrieven issued under the Programme and will indicate that the Mortgage Pandbrieven constitute Belgian *pandbrieven/lettres de gage belges* under the Belgian Covered Bond Regulations.

Belgian Covered Bond Regulations

The Mortgage Pandbrieven will be issued pursuant to the Belgian Covered Bond Regulations. The **Belgian Covered Bond Regulations** are the following laws and implementing regulations:

- (i) the Credit Institutions Supervision Law;
- (ii) the Mobilisation Law;
- (iii) the Covered Bonds Royal Decree;
- (iv) the Cover Pool Administrator Royal Decree;
- (v) the NBB Covered Bonds Regulation; and
- (vi) the NBB Cover Pool Monitor Regulations.

For further information on the Belgian Covered Bond Regulations, see “*Summary of the Belgian Covered Bond Regulations*” below.

Programme Amount

EUR 10,000,000,000 outstanding at any time as described herein. The Issuer may increase the amount of the Programme in accordance with the terms of the Programme Agreement.

Status of the Mortgage Pandbrieven

The Mortgage Pandbrieven will be issued as Belgian *pandbrieven (Belgische pandbrieven/lettres de gage belges)* in accordance with the Belgian Covered Bond Regulations and will constitute direct, unconditional and unsubordinated obligations of the Issuer. The Mortgage Pandbrieven will rank (i) *pari passu* and rateably without any preference or priority among themselves, irrespective of their Series and (ii) at least *pari passu* with all other present and future outstanding unsecured obligations of the Issuer, save for such obligations as may be preferred by law that are both mandatory and of general assumption. In addition, the Mortgage Pandbrieven will be covered in accordance with the Belgian Covered Bond Regulations by the Special Estate and the Pandbrieven Holders and the Other Cover Pool Creditors will have an exclusive recourse right to the Special Estate. Creditors of the Issuer (other than Pandbrieven Holders and the Other Cover Pool Creditors) may not exercise any rights against or attach the Special Estate.

See also “*Summary of the Belgian Covered Bond Regulations*” below.

Special Estate

Upon the first issue of Mortgage Pandbrieven by the Issuer, the estate of the Issuer will be legally composed of a General Estate and of the Special Estate. All Mortgage Pandbrieven to be issued under the Programme will be covered by the same Special Estate.

Special Estate means the special estate (*bijzonder vermogen/patrimoine spéciale*) of the Issuer constituted pursuant to Article 3 Annex III to the Credit Institutions Supervision Law in relation to the Programme.

General Estate means at any given time the assets of the Issuer that are at such time not comprised in a special estate as envisaged in Article 3 Annex III to the Credit Institutions Supervision Law, including, in particular, the Special Estate.

See also “*Summary of the Belgian Covered Bond Regulations – 3. Special Estate*” below.

Main Asset Class

The main asset class of the Special Estate will consist of Residential Mortgage Loans, their Related Security interests and all monies derived therefrom from time to time in accordance with the Belgian Covered Bond Regulations.

Related Security means all security interests and sureties, guarantees (*voorrechten/privileges*) of any form that secure Cover Assets as well as rights under insurance policies and other contracts in relation to the Cover Assets or the management of the Special Estate.

Residential Mortgage Loans means loans granted to borrowers (**Borrowers**) that are secured by a first ranking mortgage on residential real estate as defined in article 2, 6° of the Covered Bonds Royal Decree.

For further information on the composition of the Special Estate, see also “*Summary of the Belgian Covered Bond Regulations – 4.A Categories of Cover Assets*” and “*4.B Further qualitative requirements for Cover Assets relating to Belgian Pandbrieven*” below.

Priority Rules in respect of security interest securing Cover Assets and assets in the General Estate

If a security interest (including any mortgage and mortgage mandate) secures both Cover Assets and obligations which are assets of the General Estate, all sums received out of the enforcement of the security interest will be applied in priority to satisfy the obligations in relation to the Cover Assets. Any proceeds of enforcement of such security interest can only be applied in satisfaction of the obligations which are assets of the General Estate once all sums owed to the Special Estate in respect of the relevant Cover Assets are irrevocably repaid in full (see Article 6 Annex III to the Credit Institutions Supervision Law).

Issuer Undertakings

The Issuer will undertake in favour of the Pandbrieven Holders and the Mortgage Pandbrieven Holders’ Representative:

- (i) to comply with all obligations imposed on it under the Belgian Covered Bond Regulations,
- (ii) that the Special Estate will not include any commercial mortgage loans, residential mortgage backed securities, commercial mortgage backed securities or any other asset backed securities,

- (iii) that the Special Estate will at all times include a number of liquid bonds (a) which have an aggregate market value which, after applying the ECB haircut in accordance with the Guideline (EU) 2015/510 of the ECB of 19 December 2014 on the implementation of the Eurosystem monetary policy (as amended, supplemented, replaced and/or restated from time to time), is higher than the amount of interest due and payable on the outstanding Mortgage Pandbrievien within a period of three months meeting the criteria set out in paragraph 7 of the NBB Covered Bonds Regulation and (b) which (1) are eligible as collateral for Eurosystem monetary policy purposes and intra-day credit operations by the Eurosystem, (2) have a credit quality step 1 as defined in the CRR, (3) are subject to a daily mark-to-market, (4) have a remaining maturity of more than three months and, (5) are not debt issued by the Issuer, and (6) are not residential mortgage backed securities (RMBS), commercial mortgage backed securities (CMBS) or any other asset backed securities (ABS) (the **Undertaking of the Issuer with regard to Liquidity of the Special Estate** (as to which, see Condition 2.6(c))); and
- (iv) to provide an investor report (the **Investor Report**), containing information regarding, amongst others, the Mortgage Pandbrievien and the composition of the Special Estate on a monthly basis, on the 15th Business Day of each calendar month (each an **Investor Report Date**), which will be made available on the website of the Issuer at www.ing.be/investor-relations.

Criteria for the transfer of assets by the General Estate to the Special Estate

The Issuer has also agreed, in the Special Estate Administration Agreement and in the Conditions, the criteria to be used for the selection of assets to satisfy the Issuer's revindication obligations (as to which, see Condition 12.1 (*Criteria for the transfer of assets by the General Estate to the Special Estate*) for the full list).

Cover Register

The Issuer maintains a Cover Register in which both the issued Mortgage Pandbrievien and the Cover Assets are registered.

Cover Assets means Residential Mortgage Loans that are or will be registered in the Cover Register and all other assets that are or will be included in the Special Estate pursuant to Article 3 Annex III to the Credit Institutions Supervision Law.

Cover Register means the cover register established by the Issuer for the Mortgage Pandbrievien issued under the Programme in accordance with Article 15, §2 Annex III to the Credit Institutions Supervision Law.

Excess Swap Collateral means an amount equal to the value of any collateral transferred to the Issuer by a Hedging Counterparty under a Hedging Agreement: (A) in respect of which the terms of such Hedging Agreement do not, at the relevant time, provide for such collateral to be applied in satisfaction of the Hedging Counterparty's obligations to the Issuer; or (B) that is in excess of the Hedging Counterparty's liability to the Issuer thereunder (i) as at the termination date of the transaction entered into under such Hedging Agreement or (ii) as at any other date of valuation in accordance with the terms of the Hedging Agreement.

See also “*Summary of the Belgian Covered Bond Regulations – 5. Special obligations of the Issuer in respect of administration of the Belgian Covered Bonds*” below.

Cover Tests

In accordance with Article 2, §2 Annex III to the Credit Institutions Supervision Law, the Cover Assets comprising the Special Estate must, for the duration of the Mortgage Pandbrieven, provide sufficient cover (i) for the payment of principal and interest on the Mortgage Pandbrieven, (ii) for the obligations towards the Other Cover Pool Creditors and (iii) for the management of the Special Estate.

Article 5 of the Covered Bonds Royal Decree which further implements this rule, (a) includes a general requirement that, with respect to the Special Estate, the sum of interest, principal and all other revenues generated by the Cover Assets must be sufficient to cover the sum of all interest, principal and charges linked to the Mortgage Pandbrieven (the **Cover Asset Adequacy Test**), and (b) provides, more in particular, for the following two specific tests in relation to the minimum cover to be provided by the Cover Assets.

At the time of the issuance and as long as any Mortgage Pandbrieven remain outstanding:

- (i) the value of the Residential Mortgage Loans registered as Cover Assets in the Special Estate determined in accordance with the valuation rules set out in the Covered Bonds Royal Decree must represent at least 85% of the aggregate Principal Amount Outstanding of the Mortgage Pandbrieven then in issue (the **85% Asset Coverage Test**); and
- (ii) the value of the Cover Assets, determined in accordance with the valuation rules set out in the Covered Bonds Royal Decree, must represent at least 105% of the aggregate Principal Amount Outstanding of Mortgage Pandbrieven then in issue (the **Over-Collateralisation Test**).

The Cover Asset Adequacy Test, the 85% Asset Coverage Test and the Over-Collateralisation Test are hereinafter jointly referred to as the **Cover Tests**.

See also “*Summary of the Belgian Covered Bond Regulations – 4. Cover Assets and Tests – C. Statutory Tests – Cover Tests*” below.

Liquidity Test

With respect to the Special Estate, the Cover Assets must, at any time, be able to generate sufficient liquidity or include enough liquid assets to enable the Issuer to make all unconditional payments on the Mortgage Pandbrieven (including principal, interest and other costs) falling due during the following 6 months (the **Liquidity Test**). If an Extended Maturity Date is specified in the applicable Final Terms for a Series of Mortgage Pandbrieven, payments of amounts due on the Maturity Date will not be considered as unconditional for the purpose of the Liquidity Test.

The Cover Tests and the Liquidity Test are hereinafter jointly referred to as the **Statutory Tests**.

See also “*Summary of the Belgian Covered Bond Regulations – 4. Cover Assets and Tests – D. Statutory Tests – Liquidity Test*” below.

Management of the Special Estate	<p>Until the appointment of a Cover Pool Administrator by the Supervisor, the Issuer will manage the Special Estate.</p> <p>Upon designation, the Cover Pool Administrator will manage the Special Estate to the exclusion of the Issuer.</p> <p>See also “<i>Summary of the Belgian Covered Bond Regulations – 3.C Management of the Special Estate</i>” and “<i>Summary of the Belgian Covered Bond Regulations – 5 Cover Pool Administrator</i>” below.</p>
Changes to the Special Estate	<p>Until the appointment of a Cover Pool Administrator by the Supervisor:</p> <ul style="list-style-type: none"> (i) the Issuer may allocate additional assets to the Special Estate, among other things, for the purposes of issuing further Series of Mortgage Pandbrieven and/or for the purpose of complying with the Statutory Tests and/or maintaining the initial rating(s) assigned to the Mortgage Pandbrieven; and (ii) the Issuer may remove or substitute existing Cover Assets from the Special Estate, provided that no breach of the Statutory Tests would occur as a result of such removal or substitution.
Maturity Date	<p>The maturity date for each Series (the Maturity Date) will be specified in the applicable Final Terms as agreed between the Issuer and the relevant Dealer(s). An Extended Maturity Date shall be specified in the applicable Final Terms as applying to each Series of Mortgage Pandbrieven, unless specified otherwise.</p>
Extended Maturity Date	<p>The applicable Final Terms may provide that the Issuer’s obligations under the relevant Mortgage Pandbrieven to pay the Principal Amount Outstanding on the relevant Maturity Date may be deferred past the Maturity Date until the extended maturity date (as specified in the applicable Final Terms) (such date the Extended Maturity Date).</p> <p>In such case, such deferral will occur automatically if the Issuer fails to pay in full within fourteen Business Days after the Maturity Date any amount representing the amount due on the Maturity Date as set out in the Final Terms (the Final Redemption Amount) in respect of the relevant Series of Mortgage Pandbrieven, provided that any amount representing the Final Redemption Amount due and remaining unpaid on the Maturity Date may be paid (in whole or in part) by the Issuer on any Interest Payment Date thereafter up to (and including) the relevant Extended Maturity Date. Interest will continue to accrue and be payable on any unpaid amounts on each Interest Payment Date up to the Extended Maturity Date in accordance with Condition 4 (<i>Interest</i>) and the Issuer will make payments on each relevant Interest Payment Date and Extended Maturity Date.</p>
Events of Default	<p>If any of the following events occurs and is continuing (each an Event of Default):</p>

- (i) on the Maturity Date (in respect only of any Series to which an Extended Maturity Date is not applicable) or Extended Maturity Date, as applicable, in respect of any Series or on any Interest Payment Date on which principal is due and payable thereon, there is a failure to pay any amount of principal due on the Mortgage Pandbrieven on such date and such default is not remedied within a period of fourteen Business Days from the due date thereof; or
- (ii) on any Interest Payment Date, a default in the payment of the amount of interest due on any Series occurs and such default is not remedied within a period of fourteen Business Days from the due date thereof;

then the Mortgage Pandbrieven Holders' Representative may and, upon direction of Pandbrieven Holders holding the requisite percentage of the aggregate Series Principal Amount Outstanding of all Series of Mortgage Pandbrieven then outstanding, other than Mortgage Pandbrieven held by the Issuer (subject to being indemnified and/or secured and/or prefunded to its satisfaction), shall serve a notice (a **Notice of Default**) on the Issuer (copied to the Cover Pool Monitor, the Supervisor and, if appointed, the Cover Pool Administrator).

See also *Condition 8.1 Events of Default*.

Cross-acceleration

Following the service of a Notice of Default (i) no further Mortgage Pandbrieven will be issued and (ii) the Mortgage Pandbrieven of each Series shall become immediately due and payable, together with any accrued interest.

Liquidation of the Special Estate

Upon the initiation of winding-up proceedings against the General Estate of Issuer, the Cover Pool Administrator pursuant to Articles 11, 6° or 7° Annex III to the Credit Institutions Supervision Law:

- (i) may, in consultation with the Mortgage Pandbrieven Holders' Representative and subject to approval by the Supervisor, proceed with the liquidation of the Special Estate and with the early redemption of the Mortgage Pandbrieven where the Cover Assets are not, or risk not being, sufficient to satisfy the obligations under the Mortgage Pandbrieven; and
- (ii) will, in consultation with the Mortgage Pandbrieven Holders' Representative and the Supervisor, proceed with the liquidation of the Special Estate and with the early redemption of the Mortgage Pandbrieven when a majority decision has been taken to this effect at a meeting of Pandbrieven Holders at which at least two thirds of the Principal Amount Outstanding of the Mortgage Pandbrieven of all Series are represented.

See also *"Summary of the Belgian Covered Bond Regulations – 3.Special Estate – D. Impact of liquidation and reorganisation procedures"* below.

Payments on the Mortgage Pandbrieven

Payments on the Mortgage Pandbrieven will be direct and unconditional obligations of the Issuer.

Following delivery of a Notice of Default all funds deriving from the Cover Assets (other than amounts or financial instruments representing Excess Swap Collateral (if any), which amounts shall be applied in accordance with the terms of the relevant Hedging Agreement) shall be applied on any Business Day in accordance with the Post Event of Default Priority of Payments.

Following a decision to liquidate the Special Estate and early redeem the Mortgage Pandbrieven of all Series pursuant to Articles 11, 6° or 7° Annex III to the Credit Institutions Supervision Law all funds deriving from the Cover Assets (other than amounts or financial instruments representing Excess Swap Collateral (if any), which amounts shall be applied in accordance with the terms of the relevant Hedging Agreement) shall be applied on any Business Day in accordance with the Early Redemption Priority of Payments

**Post Event of Default
Priority of Payments**

- (i) first, *pari passu* and *pro rata* according to the respective amounts thereof, (a) payment of all amounts then due and payable to the Mortgage Pandbrieven Holders' Representative (including remuneration or amounts by way of indemnity payable to it) under the provisions of the Mortgage Pandbrieven Holder Representative Agreement or any other Programme Document (as defined herein) together with interest and applicable VAT (or other similar taxes) thereon to the extent provided therein; (b) to pay all amounts then due and payable to the Agents and/or the Registrar (if any) under the provisions of the Agency Agreement, any Calculation Agency Agreement or any other Programme Document together with interest and applicable VAT (or other similar taxes) thereon to the extent provided therein; (c) to pay all amounts then due and payable to the Cover Pool Monitor under the provisions of the Cover Pool Monitor Agreement or any other Programme Document together with interest and applicable VAT (or other similar taxes) thereon to the extent provided therein and (d) upon its appointment in accordance with the Belgian Covered Bond Regulations, to pay all amounts then due to any Cover Pool Administrator (including any of its representatives or delegates) pursuant to the conditions of its appointment together with interest and applicable VAT or other similar taxes and any costs and expenses incurred by or on behalf of the Special Estate;
- (ii) second, *pari passu* and *pro rata* according to the respective amounts thereof, in and towards, payment of any amounts, fees, costs, charges, liabilities, expenses and taxes due and payable by the Issuer or the Special Estate to the Operational Creditors;
- (iii) third, *pari passu* and *pro rata* according to the respective amounts thereof, in and towards, (a) payment of all amounts of interest and principal then due and payable on any Mortgage Pandbrieven, (b) payment of any amounts due and payable under any Hedging Agreement other than the Subordinated Termination Payments to any Hedging Counterparties under any such Hedging Agreements, and (c) payment of all amounts due and payable under any Liquidity Facility Agreement to any Liquidity Facility Provider;

- (iv) fourth, *pari passu* and *pro rata*, according to the respective amounts thereof, in and towards, payment of any amount due and payable to any Hedging Counterparties arising out of any Subordinated Termination Payment; and
- (v) fifth, once all Mortgage Pandbrieven have been redeemed and following the payment in full of all items under (i) to (iv) above, in and towards payment of excess to the General Estate of the Issuer.

See Condition 9.1 (*Post Event of Default Priority of Payments*).

Early Redemption Priority of Payments

- (i) first, *pari passu* and *pro rata* according to the respective amounts thereof, (a) payment of all amounts then due and payable to the Mortgage Pandbrieven Holders' Representative (including remuneration or amounts by way of indemnity payable to it) under the provisions of the Mortgage Pandbrieven Holder Representative Agreement or any other Programme Document together with interest and applicable VAT (or other similar taxes) thereon to the extent provided therein; (b) to pay all amounts then due and payable to the Agents and/or the Registrar (if any) under the provisions of the Agency Agreement, any Calculation Agency Agreement or any other Programme Document together with interest and applicable VAT (or other similar taxes) thereon to the extent provided therein; (c) to pay all amounts then due and payable to the Cover Pool Monitor under the provisions of the Cover Pool Monitor Agreement or any other Programme Document together with interest and applicable VAT (or other similar taxes) thereon to the extent provided therein; (d) upon its appointment in accordance with the Belgian Covered Bond Regulation, payment of all amounts then due to any Cover Pool Administrator (including any of its representatives or delegates) pursuant to the conditions of its appointment together with interest and applicable VAT or other similar taxes and any costs and expenses incurred by or on behalf of the Special Estate and (e) payment of any amounts, fees, costs, charges, liabilities, expenses and taxes due and payable by the Issuer or the Special Estate to the Operational Creditors;
- (ii) second, *pari passu* and *pro rata* according to the respective amounts thereof, in and towards, (a) payment of all amounts of interest and principal then due and payable on any Mortgage Pandbrieven, (b) payment of any amounts due and payable under any Hedging Agreement other than the Subordinated Termination Payments to any Hedging Counterparties under any such Hedging Agreements, and (c) payment of all amounts due and payable under any Liquidity Facility Agreement to any Liquidity Facility Provider;
- (iii) third, *pari passu* and *pro rata*, according to the respective amounts thereof, in and towards, payment of any amount due and payable to any Hedging Counterparties arising out of any Subordinated Termination Payment; and

- (iv) fourth, once all Mortgage Pandbrieven have been redeemed and following the payment in full of all items under (i) to (iii) above, in and towards, payment of any excess to the General Estate of the Issuer.

See Condition 9.2 (*Early Redemption Priority of Payments*).

Subordinated Termination Payment

Means any termination payments due and payable to any Hedging Counterparty under a Hedging Agreement where such termination results from (a) an Additional Termination Event relating to the credit rating or credit worthiness of the Hedging Counterparty as specified in the schedule to the relevant Hedging Agreement, (b) the bankruptcy of the relevant Hedging Counterparty, or (c) any default and/or failure to perform by such Hedging Counterparty under the relevant Hedging Agreement, other than, in the event of (a) or (b) above, the amount of any termination payment due and payable to such Hedging Counterparty in relation to the termination of such transaction to the extent of any premium received by the Issuer from a replacement hedging counterparty.

Monitoring

The Cover Pool Monitor has been appointed to (i) issue periodic reports to the NBB as Supervisor on compliance by the Issuer with the Belgian Covered Bond Regulations, (ii) test compliance with the Issuer's undertaking not to include commercial mortgage loans, residential mortgage backed securities, commercial mortgage backed securities or other asset backed securities in the Special Estate and (iii) perform the Statutory Tests both as provided for in the Belgian Covered Bond Regulations and in accordance with the requirements of the NBB as Supervisor. The NBB as Supervisor can also request that the Cover Pool Monitor performs other tasks and verifications.

See also "*Summary of the Belgian Covered Bond Regulations – Parties – 6. Specific Supervision – A. Cover Pool Monitor*" and "*Description of Principal Documents – Cover Pool Monitor Agreement*" below.

Breach of the Statutory Tests

If the Issuer is (and remains) unable to meet the requirements of the Statutory Tests or any other specific requirements which apply to it as an issuing credit institution of Belgian covered bonds, the Supervisor can require the Issuer to resolve the situation within a grace period specified by the Supervisor. If the situation is not resolved after expiry of this grace period, the Supervisor can remove the Issuer from the list of Belgian covered bonds issuers and revoke the Issuer's license to issue Belgian covered bonds. In situations of urgency the Supervisor can take such measure without first allowing a grace period within which to resolve the situation.

The Supervisor can also publish warnings/statements indicating that a credit institution has failed to comply with the Supervisor's requests to meet the requirements of the Belgian Covered Bond Regulations within a specified grace period. In addition, as part of its general supervisory function under the Credit Institutions Supervision Law, the Supervisor can impose fines and administrative penalties.

A removal of the Issuer from the list of Belgian covered bonds issuers will have no impact on the Mortgage Pandbrieven already issued by the Issuer.

See also “*Summary of the Belgian Covered Bond Regulations – 6. Specific Supervision – B. Supervisor*” below.

Cross Default	None (other than Cross-acceleration between Series of Mortgage Pandbrieven).
Negative Pledge	None.
Governing Law	<p>The Mortgage Pandbrieven and each of the Program Documents other than the Hedging Agreements, are governed by and construed in accordance with Belgian law.</p> <p>Each Hedging Agreement will be governed by and construed in accordance with English law.</p>

INFORMATION ON THE MORTGAGE PANDBRIEVEN THAT MAY BE ISSUED UNDER THE PROGRAMME

Distribution Mortgage Pandbrieven may be distributed by way of private placement on a syndicated or non-syndicated basis.

Issuance in Series Mortgage Pandbrieven will be issued in Series subject to, in each case, the terms set out in the applicable Final Terms in respect of such Series. Save in respect of the first issue of Mortgage Pandbrieven, Mortgage Pandbrieven issued under the Programme will either be fungible with an existing Series of Mortgage Pandbrieven or have different terms from any existing Series of Mortgage Pandbrieven (in which case they will constitute a new Series). The Issuer will issue Mortgage Pandbrieven without the prior consent of the Pandbrieven Holders pursuant to Condition 18 (*Further Issues*).

As used herein, **Tranche** means Mortgage Pandbrieven which are identical in all respects (including as to listing and admission to trading) and **Series** means a Tranche of Mortgage Pandbrieven together with any further Tranche or Tranches of Mortgage Pandbrieven which are (a) expressed to be consolidated and form a single series and (b) identical in all respects (including as to listing and admission to trading) except for their respective Issue Dates, Interest Commencement Dates and/or Issue Prices.

Final Terms Final terms (the **Final Terms**) will be issued and published in accordance with the terms and conditions set out herein under “*Terms and Conditions of the Mortgage Pandbrieven*” (the **Conditions**) prior to the issue of each Series or Tranche detailing certain relevant terms thereof which, for the purposes of that Series or Tranche only, complete the Conditions and the Base Prospectus and must be read in conjunction with the Conditions and the Base Prospectus. The terms and conditions applicable to any particular Series are the Conditions as completed by the applicable Final Terms.

Form of Mortgage Pandbrieven The Mortgage Pandbrieven can be issued (i) in dematerialised form (**Dematerialised Mortgage Pandbrieven**) in accordance with Article 468 et seq. of the Belgian Company Code via a book-entry system maintained in the records of the NBB as operator of the Securities Settlement System or (ii) in registered form (**Registered Mortgage Pandbrieven**) in accordance with Article 462 et seq. of the Belgian Company Code. No physical documents of title will be issued in respect of Dematerialised Mortgage Pandbrieven. Dematerialised

Mortgage Pandbrieven will be delivered in the form of an inscription on a securities account. See “*Forms of the Mortgage Pandbrieven*” below.

Issue Dates	The date of issue of a Series or Tranche as specified in the applicable Final Terms (each, the Issue Date in relation to such Series or Tranche).
Interest Commencement Dates	The date on which interest begins to accrue on a Series or Tranche as specified in the applicable Final Terms (each, the Interest Commencement Date in relation to such Series or Tranche).
Issue Prices	The price (usually calculated as a percentage of the principal amount of Mortgage Pandbrieven to be issued as part of such Series or Tranche) at which a Series or Tranche is to be subscribed for at the Issue Date, as specified in the applicable Final Terms (each, the Issue Price in relation to such Series or Tranche). Mortgage Pandbrieven may be issued at par or at a premium or discount to par as specified in the applicable Final Terms in respect of such Series.
Specified Currency	Euro or such other currency as is agreed between the Issuer and the relevant Dealer(s).
Denominations	The Mortgage Pandbrieven will be in such denominations as may be specified in the applicable Final Terms with a minimum specified denomination of EUR 100,000 (or a multiple of EUR 100,000) or its equivalent in any other Specified Currency.
Fixed Rate Mortgage Pandbrieven	The applicable Final Terms may provide that certain Mortgage Pandbrieven will bear interest at a fixed rate (Fixed Rate Mortgage Pandbrieven), which will be payable on each Interest Payment Date and on the applicable redemption date and will be calculated on the basis of such Day Count Fraction as may be agreed between the Issuer and the relevant Dealer(s) (as set out in the applicable Final Terms).
Floating Rate Mortgage Pandbrieven	<p>The applicable Final Terms may provide that certain Mortgage Pandbrieven bear interest at a floating rate (Floating Rate Mortgage Pandbrieven). Floating Rate Mortgage Pandbrieven will bear interest at a rate which is the aggregate rate of the rate determined:</p> <ul style="list-style-type: none">(i) on the same basis as the floating rate under a notional interest rate swap transaction in the relevant Specified Currency governed by an agreement incorporating the ISDA Definitions; or(ii) on the basis of a reference rate appearing on the agreed screen page of a commercial quotation service; or(iii) on such other basis as may be agreed between the Issuer and the Dealer(s), and <p>the margin (if any) relating to such floating rate (the Margin) will be agreed between the Issuer and the relevant Dealer(s) for each issue of Floating Rate Mortgage Pandbrieven, as set out in the applicable Final Terms.</p>

Zero Coupon Mortgage Pandbrieven The applicable Final Terms may provide that Mortgage Pandbrieven, bearing no interest (**Zero Coupon Mortgage Pandbrieven**), may be offered and sold at a discount to their nominal amount.

Interest Payment Dates In relation to any Series of Mortgage Pandbrieven, the Interest Payment Dates will be specified in the applicable Final Terms (as the case may be).

Early Redemption The Mortgage Pandbrieven can be redeemed prior to their stated maturity for taxation reasons in the manner set out in Condition 6.3 (*Redemption for taxation reasons*) and in the event of an illegality in the manner set out in Condition 6.5 (*Illegality*).

GENERAL INFORMATION

Proceeds of the issue of Mortgage Pandbrieven The gross proceeds from each issue of Mortgage Pandbrieven will be used by the Issuer for its general corporate purposes. If in respect of any particular issue, there is a particular identified use of proceeds, this will be stated in the applicable Final Terms.

Taxation All payments of principal, interest and other proceeds (if any) on the Mortgage Pandbrieven will be made (a) free and clear of any withholding or deduction for, or on account of, any taxes of Belgium, unless the Issuer or any intermediary that intervenes in the collection of interest and other proceeds on the Mortgage Pandbrieven is required by law to make such a withholding or deduction. In the event that such withholding, or deduction is required by law, the Issuer will, except in certain limited circumstances set out in Condition 7 (*Taxation*), be required to pay additional amounts to cover the amounts so deducted; and (b) subject to any withholding or deduction that, in certain specific circumstances, may be required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986 (the Code), or otherwise imposed pursuant to section 1471 through 1474 of the Code, any regulations or agreements thereunder, official interpretations thereof, or any law implementing an intergovernmental approach thereto.

Ratings Each Series issued under the Programme may be assigned a rating by the Rating Agencies. The Issuer may also issue Mortgage Pandbrieven which are unrated. Details of the ratings assigned to a particular Series of Mortgage Pandbrieven will be specified in the applicable Final Terms. Whether or not each credit rating applied in relation to the Mortgage Pandbrieven will be issued by a credit rating agency established in the European Union and registered under the CRA Regulation will be disclosed in the applicable Final Terms.

Fitch is established in the European Union and is registered for the purposes of the CRA Regulation.

Moody's is established in the European Union and is registered for the purposes of the CRA Regulation.

Each of Fitch and Moody's are included in the list of credit rating agencies published by the European Securities and Markets Authority on its website in accordance with the CRA Regulation.

Listing and admission to trading

This document has been approved as a base prospectus by the Belgian Financial Services and Market Authority (the **FSMA**). Application has been made to Euronext Brussels for the Mortgage Pandbrieven issued under the Programme after the date hereof to be admitted to listing on the official list and trading on the regulated market of Euronext Brussels.

Mortgage Pandbrieven may be listed or admitted to trading, as the case may be, on a regulated market for the purposes of Directive 2014/65/EC (as may be amended, updated or replaced from time to time, **MiFID II**), as may be agreed between the Issuer and the relevant Dealer(s) in relation to each issue. The Final Terms relating to each Tranche of the Mortgage Pandbrieven will state whether or not the Mortgage Pandbrieven are to be listed and/or admitted to trading and, if so, on which regulated markets.

Delivery of Mortgage Pandbrieven

Dematerialised Mortgage Pandbrieven will be deposited with the NBB and interests in them will be credited to the accounts held in the clearing system operated by the NBB or any successor thereto (the **Securities Settlement System**), by Euroclear Bank SA/NV (**Euroclear**), Clearstream Banking S.A. (**Clearstream, Luxembourg**), SIX SIS (Switzerland) or Monte Titoli (Italy) or other Securities System participants or their participants. Registered Mortgage Pandbrieven will be registered in a register maintained by the Issuer or by the Registrar in accordance with Article 462 et seq. of the Belgian Company Code.

Securities Settlement Systems

The Dematerialised Mortgage Pandbrieven will be created, cleared and settled in the Securities Settlement System. Euroclear and Clearstream, Luxembourg maintain accounts in the Securities Settlement System. The clearing of the Mortgage Pandbrieven through the Securities Settlement System is subject to prior approval of the NBB.

Selling Restrictions

There are restrictions on the offer, sale and transfer of the Mortgage Pandbrieven in the United States, the European Economic Area (the **EEA**) (including the United Kingdom, and Luxembourg), Switzerland and such other restrictions as may be required in connection with the offering and sale of a particular Tranche of Mortgage Pandbrieven. See "*Subscription and Sale*" below. Selling restrictions in respect of a particular Tranche may be specified in the applicable Final Terms.

PROGRAMME DOCUMENTS

Cover Pool Monitor Agreement

Under the terms of the Cover Pool Monitor Agreement originally entered into on 22 November 2013 between the Cover Pool Monitor, the Issuer and the Mortgage Pandbrieven Holder's representative (as amended and/or restated from time to time, the **Cover Pool Monitor Agreement**), the Cover Pool Monitor has, among other things, agreed (i) to issue periodic reports to the NBB as Supervisor on compliance by the Issuer with the Belgian Covered Bond Regulations, (ii) to test compliance with the Issuer's undertaking not to include commercial mortgage loans, residential mortgage backed securities, commercial mortgage backed securities or other asset backed securities in the Special Estate, and (iii) to perform the Statutory Tests both as provided for in the Belgian Covered Bond Regulations and in accordance with the requirements of the Supervisor.

**Mortgage Pandbrieven
Holder Representative
Agreement**

Under the terms of the Mortgage Pandbrieven Holder Representative Agreement originally entered into on 22 November 2013 (as amended and/or restated from time to time, the **Mortgage Pandbrieven Holder Representative Agreement**), between the Issuer and the Mortgage Pandbrieven Holders' Representative, the Mortgage Pandbrieven Holders' Representative has been appointed to act as representative (*vertegenwoordiger/représentant*) of the Pandbrieven Holders in accordance with the Belgian Covered Bond Regulations and the Conditions.

Agency Agreement

Under the terms of an agency agreement initially entered into on 22 November 2013 between, amongst others, the Issuer and ING as Fiscal Agent, Paying Agent, Listing Agent and Calculation Agent and the Mortgage Pandbrieven Holders' Representative (as amended and/or restated from time to time, the **Agency Agreement**), ING has agreed respectively to act as fiscal agent, paying agent, listing agent and calculation agent in relation to the Mortgage Pandbrieven. The Agency Agreement also provides for the appointment of a Registrar in respect of any Registered Mortgage Pandbrieven issued from time to time.

**Calculation Agency
Agreement**

The Agency Agreement provides for the appointment from time to time of a Calculation Agent to determine the interest rate in relation to any Floating Rate Mortgage Pandbrieven. Such Calculation Agent may be appointed pursuant to a Calculation Agency Agreement which supplements the arrangements in the Agency Agreement.

**Clearing Services
Agreement**

The Issuer, the Fiscal Agent and the NBB as operator of the Securities Settlement System have entered into a clearing services agreement on or around the date of this Base Prospectus in relation to the clearing of the Mortgage Pandbrieven (the **Clearing Services Agreement**).

Programme Agreement

The programme agreement initially entered into on 22 November 2013 between, amongst others, the Issuer, the Arranger and ING Bank, Belgian branch as the initial Dealer (as amended and/or restated from time to time, the **Programme Agreement**) sets out the terms under which Mortgage Pandbrieven may from time to time be agreed to be issued, including the appointment and resignation of Dealers.

Subscription Agreement

Prior to or on the date an issuance of any Series of Mortgage Pandbrieven, the Issuer, the Mortgage Pandbrieven Holders' Representative and the relevant Dealer(s) will enter into a Subscription Agreement (in the form attached to the Programme Agreement) supplementing the arrangements in the Programme Agreement and setting out, *inter alia*, the relevant underwriting commitments in respect of the particular issuance.

Hedging Agreements

The Issuer may, from time to time during the Programme, enter into interest rate swap agreements, currency swap agreements and other relevant swap or hedging agreements (together the **Hedging Agreements**) with one or more Hedging Counterparties for the purpose of, *inter alia*, protecting itself against certain risks (including, but not limited to, interest rate, currency, liquidity and credit) related to the Cover Assets (as defined below) and/or the Mortgage Pandbrieven.

Any Hedging Agreement(s) may be included as part of the Special Estate at the Issuer's discretion.

Liquidity Facility Agreements

The Issuer may, from time to time during the Programme, enter into liquidity facility agreements (the **Liquidity Facility Agreements**) with one or more Liquidity Facility Providers in order to improve the liquidity of the Special Estate.

Any Liquidity Facility Agreement(s) may be included as part of the Special Estate at the Issuer's discretion.

Special Estate Administration Agreement

Under the terms of a special estate administration agreement initially entered into on 22 November 2013 between the Issuer, the Mortgage Pandbrieven Holders' Representative and the Cover Pool Monitor (such special estate administration agreement as modified and/or supplemented and/or restated from time to time, the **Special Estate Administration Agreement**) all Mortgage Pandbrieven issued under the Programme are subject to and have the benefit of certain common terms regardless of whether the Mortgage Pandbrieven are issued under the Base Prospectus or not.

Programme Documents

The Agency Agreement, the Mortgage Pandbrieven Holder Representative Agreement, the Cover Pool Monitor Agreement, Special Estate Administration Agreement, the Clearing Services Agreement, any Calculation Agency Agreement, the Programme Agreement and each Subscription Agreement, each of the Final Terms, any Hedging Agreement, any Liquidity Facility Agreement and any additional document entered into in respect of the Mortgage Pandbrieven and/or the Special Estate and designated as a Programme Document by the Issuer and the Mortgage Pandbrieven Holders' Representative.

Investor Report

Each Investor Report will be made available on each Investor Report Date to the prospective investors in the Mortgage Pandbrieven and to the Pandbrieven Holders at the offices of the Issuer, the specified offices of the Fiscal Agent, on Bloomberg and on the Issuer's website (www.ing.be/investor-relations).

RISK FACTORS

PART 1 – GENERAL

Introduction

This Base Prospectus identifies in a general way the information that a prospective investor should consider prior to making an investment in the Mortgage Pandbrieven. However, a prospective investor should conduct its own thorough analysis (including its own accounting, legal and tax analysis) prior to deciding whether to invest in the Mortgage Pandbrieven as any evaluation of the suitability for an investor of an investment in the Mortgage Pandbrieven depends upon a prospective investor's particular financial and other circumstances, as well as on the specific terms of the Mortgage Pandbrieven. This Base Prospectus is not, and does not purport to be, investment advice or an investment recommendation to purchase Mortgage Pandbrieven. The Issuer is acting solely in the capacity of an arm's length contractual counterparty and not as a purchaser's financial adviser or fiduciary in any transaction unless it has agreed to do so in writing. If a prospective investor does not have experience in financial, business and investment matters sufficient to permit it to make such a determination, the investor should consult with its independent financial adviser prior to deciding to make an investment in the Mortgage Pandbrieven.

Each prospective investor in Mortgage Pandbrieven must determine, based on its own independent review and such professional advice as it deems appropriate under the circumstances, that its acquisition of the Mortgage Pandbrieven (i) is fully consistent with its (or if it is acquiring the Mortgage Pandbrieven in a fiduciary capacity, the beneficiary's) financial needs, objectives and condition, (ii) complies and is fully consistent with any investment policies, guidelines and restrictions applicable to it (whether acquiring the Mortgage Pandbrieven as principal or in a fiduciary capacity) and (iii) is a fit, proper and suitable investment for it (or, if it is acquiring the Mortgage Pandbrieven in a fiduciary capacity, for the beneficiary). In particular, investment activities of certain investors are subject to investment laws and regulations, or review or regulation by certain authorities. Each prospective investor should therefore consult its legal advisers to determine whether and to what extent (i) the Mortgage Pandbrieven are legal investments for it, (ii) the Mortgage Pandbrieven can be used as underlying securities for various types of borrowing and (iii) other restrictions apply to its purchase or pledge of any Mortgage Pandbrieven.

Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of Mortgage Pandbrieven under any applicable risk-based capital or similar rules.

In purchasing Mortgage Pandbrieven, investors assume the risk that the Issuer may become insolvent or otherwise be unable to make all payments due in respect of the Mortgage Pandbrieven. There are a wide range of factors which individually or together could result in the Issuer becoming unable to make all payments due in respect of the Mortgage Pandbrieven. It is not possible to identify all such factors or to determine which factors are most likely to occur, as the Issuer may not be aware of all relevant factors and certain factors which it currently deems not to be material may become material as a result of the occurrence of events outside the Issuer's control. The Issuer has identified in this Base Prospectus a number of factors which could materially adversely affect its business and ability to make payments due under the Mortgage Pandbrieven.

The Mortgage Pandbrieven may not be a suitable investment for all investors

Each potential investor in the Mortgage Pandbrieven must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- (i) have sufficient knowledge and experience to make a meaningful evaluation of the Mortgage Pandbrieven, the merits and risks of investing in the Mortgage Pandbrieven and the information contained or incorporated by reference in this Base Prospectus, any applicable supplement or Final Terms;
- (ii) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Mortgage Pandbrieven and the impact the Mortgage Pandbrieven will have on its overall investment portfolio;

- (iii) have sufficient financial resources and liquidity to bear all of the risks of an investment in the Mortgage Pandbrieven including Mortgage Pandbrieven with principal or interest payable in one or more currencies, or where the currency for principal or interest payments is different from the potential investor's currency;
- (iv) understand thoroughly the terms of the Mortgage Pandbrieven and be familiar with the behaviour of any relevant indices, securities, assets and/or financial markets; and
- (v) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

Absence of secondary market

There is not, at present, an active and liquid secondary market for the Mortgage Pandbrieven, and no assurance is provided that a secondary market for the Mortgage Pandbrieven will emerge. The Arrangers are not obliged to and do not intend to make a market for the Mortgage Pandbrieven. None of the Mortgage Pandbrieven has been, or will be, registered under the Securities Act or any other applicable securities laws and they are subject to certain restrictions on the resale and other transfer thereof as set forth under "*Subscription and Sale*". If a secondary market does emerge, it may not continue for the life of the Mortgage Pandbrieven or it may not provide Pandbrieven Holders with liquidity of investment with the result that a Pandbrieven Holder may not be able to find a buyer to buy its Mortgage Pandbrieven readily or at prices that will enable the Pandbrieven Holder to realise a desired yield.

The Issuer may, but is not obliged to, list an issue of Mortgage Pandbrieven on a stock exchange or regulated market. If Mortgage Pandbrieven are not listed or traded on any stock exchange or regulated market, pricing information for the relevant Mortgage Pandbrieven may be more difficult to obtain and the liquidity of such Mortgage Pandbrieven may be adversely affected, and therefore the price of the Mortgage Pandbrieven could be affected by their limited liquidity.

If Mortgage Pandbrieven are not listed or traded on a stock exchange or regulated market, they may be traded on trading systems governed by the laws and regulations in force from time to time (e.g. multilateral trading systems) or in other trading systems (e.g. bilateral systems, or equivalent trading systems). In the event that trading in such Mortgage Pandbrieven takes place outside any such stock exchange, regulated market or trading systems, the manner in which the price of such Mortgage Pandbrieven is determined may be less transparent and the liquidity of such Mortgage Pandbrieven may be adversely affected. Investors should note that the Issuer does not grant any warranty to Pandbrieven Holders as to the methodologies used to determine the price of Mortgage Pandbrieven which are traded outside a trading system, however, where the Issuer or any of its affiliates determines the price of such Mortgage Pandbrieven, it will take into account the market parameters applicable at such time in accordance with applicable provisions of law. Even if Mortgage Pandbrieven are listed and/or admitted to trading, this will not necessarily result in greater liquidity.

Each of the Issuer and any Dealer may, but is not obliged to, at any time purchase Mortgage Pandbrieven at any price in the open market or by tender or private agreement. Any Mortgage Pandbrieven so purchased may be held or resold or surrendered for cancellation. If any Mortgage Pandbrieven are redeemed in part, then the number of Mortgage Pandbrieven outstanding will decrease, which will reduce liquidity for the outstanding Mortgage Pandbrieven. Any such activities may have an adverse effect on the price of the relevant Mortgage Pandbrieven in the secondary market and/or the existence of a secondary market.

Any Dealer or any of its affiliates may, but is not obliged to, be a market maker, liquidity provider, specialist or bid intermediary, for an issue of Mortgage Pandbrieven. Even if a Dealer is a market-maker, liquidity provider, specialist or bid intermediary for an issue of Mortgage Pandbrieven, the secondary market for such Mortgage Pandbrieven may be limited and there is no assurance given as to the price offered by a market-maker, liquidity provider, specialist or bid intermediary or the impact of any such quoted prices on those available in the wider market and any such activities may be affected by legal restrictions in certain jurisdictions.

The appointment of an entity acting as a market maker, liquidity provider, specialist or bid intermediary with respect to the Mortgage Pandbrieven, may, under certain circumstances, have a relevant impact on the price of the Mortgage Pandbrieven in the secondary market.

If it is possible to sell Mortgage Pandbrieven, they would be sold for the prevailing bid price in the market and may be subject to a transaction fee. The prevailing bid price may be affected by several factors including prevailing interest rates at the time of sale, the time remaining to the stated maturity date, the creditworthiness of the Issuer and factors affecting the capital markets generally. The introduction of additional or competing products in the market may also have a negative effect on the price of any Mortgage Pandbrieven. It is therefore possible that an investor selling Mortgage Pandbrieven in the secondary market may receive substantially less than their original purchase price.

In addition, Pandbrieven Holders should be aware of the prevailing and widely reported global credit market conditions (which continue at the date hereof), whereby there is a general lack of liquidity in the secondary market for debt securities backed or collateralised by, amongst other things, residential mortgage loans. As a result of the current liquidity crisis, there exist significant additional risks to the Issuer and the investors which may affect the returns on the Mortgage Pandbrieven to investors.

In addition, the current liquidity crisis has stalled the primary market for a number of financial products including debt securities backed or collateralised by, amongst other things, residential mortgage loans. While it is possible that the current liquidity crisis may soon alleviate for certain sectors of the global credit markets, there can be no assurance that the market for debt securities backed or collateralised by, amongst other things, residential mortgage loans will recover at the same time or to the same degree as such other recovering global credit market sectors.

Limited liquidity in the secondary market in mortgage loans

The secondary mortgage markets are currently experiencing severe disruptions resulting from reduced investor demand for mortgage loans and increased investor yield requirements for those loans. As a result, the secondary market for mortgage loans is experiencing extremely limited liquidity. These conditions may continue or worsen in the future. This may, amongst other things, affect the ability of the Issuer or the Cover Pool Administrator, to obtain timely funding to fully redeem maturing Series with the sale proceeds of Cover Assets.

Limited liquidity in the secondary market may continue to have a severe adverse effect on the market value of debt securities, especially those securities that are more sensitive to prepayment, credit or interest rate risk and those securities that have been structured to meet the investment requirements of limited categories of investors. Consequently, an investor in the Mortgage Pandbrieven may not be able to sell its Mortgage Pandbrieven readily. The market values of the Mortgage Pandbrieven are likely to fluctuate and may be difficult to determine. Any of these fluctuations may be significant and could result in significant losses to such investor.

In addition, the forced sale into the market of debt securities held by structured investment vehicles, hedge funds, issuers of collateralised debt obligations and other similar entities that are currently experiencing funding difficulties could adversely affect an investor's ability to sell, and/or the price an investor receives for, the Mortgage Pandbrieven in the secondary market.

Counterparty risk exposure

The ability of the Issuer to make payments under the Mortgage Pandbrieven is subject to general credit risks, including credit risks of Borrowers, and other counterparties. Third parties that owe the Issuer money, securities or other assets may not pay or perform under their obligations. These parties include borrowers under loans granted, trading counterparties, counterparties under swaps and credit and other derivative contracts, agents and other financial intermediaries. These parties may default on their obligations to the Issuer due to bankruptcy, lack of liquidity, downturns in the economy or real estate values, operational failure or other reasons.

Counterparty credit risk is the translation of the credit risk embedded in financial transactions, investments and/or settlement transactions between counterparties. Those transactions include bilateral contracts such as over-the-counter (**OTC**) derivatives contracts as well as contracts settled

through clearing houses. The amount of this risk may vary over time in line with changing market parameters which then impacts the replacement value of the relevant transactions.

Counterparty risk lies in the event that a counterparty defaults on its obligations to pay the Issuer the full present value of the flows relating to a transaction or a portfolio for which the Issuer is a net receiver. Counterparty credit risk is also linked to the replacement cost of a derivative or portfolio in the event of counterparty default. Hence, it can be seen as a market risk in case of default or a contingent risk. Counterparty risk arises both from both bilateral activities of the Issuer with clients and clearing activities through a clearing house or an external clearer.

Credit ratings

The Issuer has a senior debt rating from Standard & Poor's Credit Market Services Europe Limited (**S&P**) of A+ (stable outlook), a senior debt rating from Moody's France SAS (**Moody's**) of A1 (stable outlook) and a senior debt rating from Fitch Ratings Ltd. (**Fitch**) of A+ (stable outlook).

Mortgage Pandbrieven issued under the Programme may be rated or unrated and one or more independent credit rating agencies may assign (additional) credit ratings to the Mortgage Pandbrieven or the Issuer. Where a Tranche of Mortgage Pandbrieven is rated, such rating will not necessarily be the same as the ratings assigned to other Tranches or Series of Mortgage Pandbrieven.

The ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed above, and other factors that may affect the value of the Mortgage Pandbrieven and the ability of the Issuer or the Issuer to make payments under the Mortgage Pandbrieven (including but not limited to market conditions and funding related and operational risks inherent to the business of the Issuer). A credit rating is not a recommendation to buy, sell or hold securities. There is no assurance that a rating will remain for any given period of time or that a rating will not be suspended, lowered or withdrawn by the relevant rating agency if, in its judgement, circumstances in the future so warrant. Over the course of the past years, the Issuer has from time to time been subject to its ratings being lowered.

In the event that a rating assigned to the Mortgage Pandbrieven or the Issuer is subsequently suspended, lowered or withdrawn for any reason, no person or entity is obliged to provide any additional support or credit enhancement with respect to the Mortgage Pandbrieven, the Issuer may be adversely affected, the market value of the Mortgage Pandbrieven is likely to be adversely affected and the ability of the Issuer to make payments under the Mortgage Pandbrieven may be adversely affected.

In addition, the Issuer's bank assets are risk weighted. Downgrades of these assets could result in a higher risk weighting which may result in higher capital requirements and thus a need to deleverage. This may impact net earnings and the return on capital, and may have an adverse impact on the Issuer's financial position and ability to make payments under the Mortgage Pandbrieven.

The return on an investment in Mortgage Pandbrieven will be affected by charges incurred by investors

An investor's total return on an investment in Mortgage Pandbrieven will be affected by the level of fees charged to the investor, including fees charged to the investor as a result of the Mortgage Pandbrieven being held in a clearing system. Such fees may include charges for opening accounts, transfers of securities, custody services and fees for payment of principal, interest or other sums due under the terms of the Mortgage Pandbrieven. Investors should carefully investigate these fees before making their investment decision.

Tax risk

This Base Prospectus includes general summaries of the Belgian tax considerations relating to an investment in the Mortgage Pandbrieven. Such summaries may not apply to a particular holder of Mortgage Pandbrieven or to a particular issue and do not cover all possible tax considerations. In addition, the tax treatment may change before the maturity of Mortgage Pandbrieven. Any potential investor should consult its own independent tax adviser for more information about the tax

consequences of acquiring, owning and disposing of Mortgage Pandbrieven in its particular circumstances.

Risks relating to FATCA

In certain very exceptional circumstances the Issuer, the Fiscal Agent and certain other entities through which payments on the Mortgage Pandbrieven are made might be required to withhold U.S. tax at a rate of 30% on a portion of interest payments made in respect of Mortgage Pandbrieven that would be treated as debt for U.S. federal tax purposes, pursuant to sections 1471 through 1474 of the U.S. Internal Revenue Code and the regulations and other guidance promulgated thereunder (**FATCA**).

Under FATCA, non-U.S. financial institutions generally will be required to enter into agreements with the U.S. Internal Revenue Service (the **IRS**) to identify financial accounts held by certain U.S. persons or entities with substantial U.S. ownership, as well as accounts of other financial institutions that are not themselves participating in (or otherwise exempt from) the FATCA reporting regime. For these purposes, the term financial institution includes, among others, banks, insurance companies and funds that are engaged primarily in the business of investing, reinvesting or trading in securities, commodities or partnership interests. If a participating financial institution makes a relevant payment to an accountholder that has not provided information requested to establish the accountholder is exempt from reporting under the rules, or if the recipient of the payment is a non-participating financial institution (that is not otherwise exempt), the payor might be required to withhold 30% on a portion of the payment which is or is deemed to be from US source. However, the IRS is further considering the treatment of these so called foreign pass-through payments and it is uncertain whether and how this rule will ultimately apply to the Issuer or the Mortgage Pandbrieven.

If the Issuer or one of its agents were required to withhold any amount from any payment on the Mortgage Pandbrieven in respect of FATCA, there will be no “gross up” (or any other additional amount) payable by way of compensation to the investor for the withheld amount. An investor that is able to claim the benefits of an income tax treaty between its own jurisdiction and the United States may be entitled to a refund of amounts withheld pursuant to the FATCA rules, though the investor would have to file a U.S. tax return to claim this refund and may not be entitled to interest from the IRS for the period prior to the refund.

On 23 April 2014, the Belgian and US governments signed an Intergovernmental Agreement (IGA) intended to implement FATCA in Belgium. The Belgian IGA is a so-called Model 1 agreement, meaning that foreign financial institutions established in Belgium will be required to report information on U.S. accountholders directly to the Belgian tax authorities, who in turn will report to the IRS. The Belgian IGA is intended to simplify FATCA requirements for Belgian financial institutions but in many case still requires significant efforts to maintain compliance.

Belgium has implemented FATCA in its domestic legislation by a law of 16 december 2015 (“*Wet tot regeling van de mededeling van inlichtingen betreffende financiële rekeningen, door de Belgische financiële instellingen en de FOD Financiën in het kader van automatische uitwisseling van inlichtingen op internationaal niveau en voor belastingdoeleinden*”) Under this law, Belgian financial institutions holding Mortgage Pandbrieven for “US accountholders “ and for “Non US owned passive Non Financial Foreign entities” are held to report financial information regarding the Mortgage Pandbrieven (income, gross proceeds,..) to the Belgian competent authority, who shall communicate the information to the US tax authorities.

FATCA is particularly complex and its application to the Issuer or the Mortgage Pandbrieven issued is uncertain at this time. Each holder of Mortgage Pandbrieven should consult its own tax advisor to obtain a more detailed explanation of FATCA and to learn how it might affect such holder in its specific circumstance, in particular if it may be, or hold its interest through an entity that is, classified as a financial institution under FATCA.

PART 2 – RISK FACTORS RELATING TO THE ISSUER AND ITS OPERATIONS

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

Because the Issuer is part of a financial services company conducting business on a global basis, its revenues and earnings are affected by the volatility and strength of the economic, business, liquidity, funding and capital markets environments specific to the geographic regions in which it conducts business. The on-going turbulence and volatility of such factors have adversely affected, and may continue to adversely affect, the profitability, solvency and liquidity of the Issuer's business.

Factors such as interest rates, securities prices, credit spreads, liquidity spreads, exchange rates, consumer spending, changes in client behaviour, business investment, real estate values, private equity valuations, government spending, inflation or deflation, the volatility and strength of the capital markets, political events and trends, and terrorism all impact the business and economic environment and, ultimately, the Issuer's solvency, liquidity and the amount and profitability of business the Issuer conducts in a specific geographic region. The Issuer is particularly exposed to financial, economic, market and political conditions in the Benelux countries, from which the Issuer derives a significant portion of its revenues. In an economic downturn characterised by higher unemployment, lower family income, lower corporate earnings, higher corporate and private debt defaults, lower business investments and lower consumer spending, the demand for banking products is usually adversely affected and the Issuer's reserves and provisions typically would increase, resulting in overall lower earnings. Securities prices, real estate values and private equity valuations may also be adversely impacted, and any such losses would be realised through profit and loss and shareholders' equity. The Issuer also offers a number of financial products that expose it to risks associated with fluctuations in interest rates, securities prices, corporate and private default rates, the value of real estate assets, exchange rates and credit spreads. See also "*Interest rate volatility and other interest rate changes may adversely affect the Issuer's profitability*", "*Continued risk of resurgence of turbulence and on-going volatility in the financial markets and the economy generally have adversely affected, and may continue to adversely affect, the Issuer and its business, financial condition and results of operations*" and "*Market conditions observed over the past few years may increase the risk of loans being impaired. The Issuer is exposed to declining property values on the collateral supporting residential and commercial real estate lending*" below.

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

- reserve and provisions inadequacies which could ultimately be realised through profit and loss and shareholders' equity;
- the write-down of tax assets impacting net results and/or equity;
- impairment expenses related to goodwill and other intangible assets, impacting net results;
- movements in risk-weighted assets for the determination of required capital;
- changes in credit valuation adjustments and debt valuation adjustments; and/or
- additional costs related to maintenance of higher liquidity buffers and/or collateral placements.

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

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

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

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

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

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

In the course of 2008 and 2009, governments around the world, including the Belgian and Dutch government as far as respectively the Issuer and ING Bank, the Issuer's holding company, are concerned, implemented unprecedented measures to provide assistance to financial institutions, in certain cases requiring (indirect) influence on or changes to governance and remuneration practices. In certain cases, governments nationalised companies or parts thereof. The measures adopted in The Netherlands included emergency funding and capital reinforcement, and a Dutch Credit Guarantee Scheme, both of which have expired. ING's completed restructuring plan and the divestments in

connection with that plan altered the size and structure of ING generally and involved significant costs, which required changes in the Issuer's ING's operations, funding and liquidity. Any potential future transactions with the Dutch State or any other government, if any, or actions by such government regarding ING Bank or ING generally could adversely impact the position or rights of bondholders, customers or creditors and the Issuer's ING's results, operations, solvency, liquidity and governance.

ING Bank, the Issuer's holding company, and the Issuer are subject to the jurisdiction of a variety of banking regulatory bodies, some of which have proposed regulatory changes in recent years that, if implemented, would hinder their ability to manage their respective liquidity in a centralized manner. Furthermore, regulatory liquidity requirements in certain jurisdictions in which the Issuer operates are generally becoming more stringent, including those forming part of the "Basel III" requirements discussed further below under "*The Issuer operates in highly regulated industries. Changes in laws and/or regulations governing financial services or financial institutions or the application of such laws and/or regulations governing its business may reduce its profitability*", undermining the Issuer's efforts to maintain this centralized management of its liquidity. These developments may cause trapped pools of liquidity and capital, resulting in inefficiencies in the cost of managing the Issuer's liquidity and solvency, and hinder its efforts to integrate its balance sheet.

The default of a major market participant could disrupt the markets

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

The Issuer operates in highly regulated industries.

Changes in laws and/or regulations governing financial services or financial institutions or the application of such laws and/or regulations governing its business may reduce its profitability.

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

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

Following the start of the financial crisis, regulators around the world have increased their focus on the regulation of the financial services industry. Most of the principal markets where the Issuer conducts its business have adopted, or are currently in the implementation phase of, major legislative and/or regulatory initiatives in response to the financial crisis. Various initiatives and measures have been taken at the level of the European Union or at the level of national governments, including a stress test exercise coordinated by the European Banking Authority in cooperation with the European Central Bank, a liquidity risk assessments at European and national levels and the adoption of a new regulatory framework, including the so-called “banking Union” as a result of which the responsibility for the supervision of the major Eurozone credit institutions (including the Issuer) has been assumed at European level (see below – *Single Supervisory Mechanism*). Governmental and regulatory authorities in the Benelux and elsewhere have implemented, or are in the process of implementing measures to increase regulatory control in their respective financial markets and financial services sectors, including, among others, in the areas of prudential rules, liquidity and capital requirements, executive compensation, crisis and contingency management, bank taxes and financial reporting. Additionally, governmental and regulatory authorities in a multitude of jurisdictions continue to consider new mechanisms to limit the occurrence and/or severity of future economic crises (including proposals to restrict the size of financial institutions operating in their jurisdictions and/or the scope of operations of such institutions).

Furthermore, the Issuer is subject to different tax regulations in each of the jurisdictions where it conducts business. Changes in tax laws (including case law) could increase the Issuer’s taxes and its effective tax rates and could materially impact its tax receivables and liabilities as well as deferred tax assets and deferred tax liabilities, which could have a material adverse effect on its business, results of operations and financial condition. Changes in tax laws could also make certain Issuer’s products less attractive, which could have adverse consequences for the Issuer’s businesses and results.

Compliance with applicable laws and regulations is resources-intensive, and changes in laws and regulations may materially increase costs. The Issuer expects the scope and extent of regulation in the jurisdictions in which it conducts its business, as well as regulatory oversight and supervision, to generally continue to increase. However, the Issuer cannot predict whether or when future legislative or regulatory actions may be taken, or what impact, if any, actions taken to date or in the future could have on its business, results of operations and financial condition. Regulation is becoming increasingly more extensive and complex and the industries in which the Issuer operates are increasingly coming under the scrutiny of regulators, and affected companies, including the Issuer, are required to meet the demands, which often necessitate additional resources. These regulations can limit the activities of the Issuer, among others, through stricter net capital, customer protection and market conduct requirements and restrictions on the businesses in which it can operate or invest.

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

Basel III and CRD IV

In December 2010, the Basel Committee on Banking Supervision (the **Basel Committee**) announced higher global minimum capital standards for banks, and introduced a new global liquidity standard and a new leverage ratio. The Basel Committee’s package of reforms, collectively referred to as the Basel III rules, among other requirements, increased the amount of common equity required to be held by subject banking institutions, prescribe the amount of liquid assets and the long-term funding a subject banking institution must hold at any given moment, and limit leverage. Banks will be required to hold a

“capital conservation buffer” to withstand future periods of stress such that the total common equity Tier 1 ratio, when fully phased in on 1 January 2019, will rise to 7%. Basel III also introduced a “countercyclical buffer” as an extension of the capital conservation buffer, which would allow national regulators to require banks to hold more capital during periods of high credit growth (to strengthen capital reserves and moderate the debt markets). Further, Basel III has strengthened the definition of capital, that will have the effect of disqualifying many hybrid securities, including those issued by ING Bank, from inclusion in regulatory capital, as well as the higher capital requirements for trading, derivative and securitisation activities as part of a number of reforms to the Basel II framework. In addition, the Basel Committee and the Financial Stability Board (the **FSB**) published measures in October 2011 that would have the effect of requiring higher loss-absorbency capacity, liquidity surcharges, exposure limits and special resolution regimes for, and instituting more intensive and effective supervision of, “systemically important financial institutions” (**SIFIs**) and so-called “Global” SIFIs (**G-SIFI**), in addition to the Basel III requirements otherwise applicable to most financial institutions. In particular in November 2015, the FSB published the final Total Loss-Absorbing Capacity (**TLAC**) standard for G-SIFIs, which aims for G-SIFIs to have sufficient loss-absorbing and recapitalisation capacity available in resolution. The implementation of these measures began in 2012, and full implementation is targeted for 2019, with the TLAC requirements to apply from 2019. ING Bank has been designated by the Basel Committee and the FSB as one of the global systemically important banks (**G-SIBs**), forming part of the G-SIFIs, since 2011, and by the Dutch Central Bank (*De Nederlandsche Bank N.V.*, “**DNB**”) and the Dutch Ministry of Finance as a domestic SIFI since November 2011. The Basel III proposals and their potential impact are monitored via semi-annual monitoring exercises in which the Issuer participates. As a result of such monitoring exercises and ongoing discussions within the regulatory environment, revisions have been made to the original Basel III proposals as was the case with the revised Liquidity Coverage Ratio in 2013 and the revised Net Stable Funding Ratio and Leverage Ratio in January 2014. In December 2017, Basel III revisions were formally announced by the Basel Committee on Banking Supervision (**BCBS**). These new prudential rules for banks consist of a revision to the standardised approach to credit risk, the introduction of a capital floor based on standardized approaches, the use of internal models, limitation of options for modelling operating risks, and new rules for the establishment of risk-weighted items and unused credit lines at the banks. With a long implementation phase and the transposition into EU regulation still pending, some question marks remain on how this will shape up.

For European banks, the Basel III requirements were implemented through Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms (**CRR**) and Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms (**CRD IV Directive** and together with the CRR, **CRD IV**). The CRR entered into force on 28 June 2013 and the CRD IV Directive on 17 July 2013, and all banks and investment firms in the EU (as opposed to the scope of the Basel III requirements, which apply to “internationally active banks”) were required to apply the new rules from 1 January 2014 in phases, with full implementation by 1 January 2019. The full impact of these rules, and any additional requirements for SIFIs or G-SIFIs, if and as applicable to ING Bank and/or to the Issuer, will depend on how the CRD IV Directive is transposed into national laws in each Member State, including the extent to which national regulators and supervisors set more stringent limits and additional capital requirements or surcharges. In the next phase for regulatory requirements for banks’ risk and capital management, the regulators are focusing on the required capital calculations across banks. Since the start of the financial crisis there has been much debate on the risk-weighted capitalisation of banks, and specifically on whether internal models are appropriate for such purposes. These developments have suggested that stricter rules may be applied by a later framework. The Basel Committee released several consultative papers, containing proposals to change the methodologies for the calculation of capital requirements and is expected to issue further standards in this respect. Within these proposals the Basel Committee suggests methods to calculate risk-weighted assets (**RWA**) using more standardised or simpler methods in order to achieve greater comparability, transparency and consistency. In November 2016, the EC proposed substantial amendments (commonly referred to as CRD V) to CRD IV (including the CRD IV Directive), the BRR Directive (as defined below) and the Single Resolution Mechanism Regulation to, among other things, implement these revisions in the EU legislation. Most proposed changes are currently scheduled to be adopted and implemented in large part by 2019 the earliest. These proposals will likely impact the capital requirements for currently reported exposures (e.g. credit risk via revised standardised RWA floor) but may also lead to new capital requirements. The proposals cover multiple areas, including

the Pillar 2 framework, the leverage ratio, mandatory restrictions on distributions, permission for reducing own funds and eligible liabilities, macroprudential tools, a new category of 'non-preferred' senior debt, the minimum requirement for own funds and eligible liabilities (**MREL**) and the integration of the TLAC standard into EU legislation. The proposals are to be considered by the European Parliament and the Council of the European Union and therefore remain subject to change. The final and complete package of new legislation may not include all elements of the original proposals and new or amended elements may be introduced through the course of the legislative process. Until the legislative process has been finalised and resulted in new law, it is uncertain how the proposals will affect ING Bank, the Issuer or holders of their securities. The proposals, as well as the economic and financial environment at the time of implementation and beyond, can have a material impact on their respective operations and financial condition and they may require ING Bank and/or the Issuer to seek additional capital. In the Credit Institutions Supervision Law, deadlines for the implementation of the capital requirement rules are more stringent than in Basel III and the CRD IV.

Single Supervisory Mechanism

In response to the financial crisis, European leaders agreed on setting up a Banking Union with common rules in respect of prudential supervision, management of failing institutions and depositor protection for financial actors in all member states, forming a Single Rulebook

In order to ensure common implementation of such rules, in October 2013, the European Council adopted a single supervisory mechanism (**SSM**), to be composed of national competent authorities and the European Central Bank (**ECB**), as part of the prospective EU banking union. In November 2014, the ECB assumed responsibility for a significant part of the prudential supervision of banks in the Eurozone, including ING Bank, following a year-long preparatory phase which included an in-depth comprehensive assessment of the resilience and balance sheets of the biggest banks in the Eurozone. On 26 October 2014, the ECB announced that ING Bank passed the asset quality review and stress test.

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

In order to make capital levels more comparable and to reduce variability in banks' internal models, the ECB introduced the Targeted Review of Internal Models (**TRIM**) in June 2017 to assess reliability and comparability between banks' models. The TRIM aims to create a level playing field by harmonising the regulatory guidance around internal models, and the ultimate goal is to restore trust in the use of internal models by European banks. The operating consequences of the TRIM exercise have been significant. The TRIM is expected to finalise in 2019, and could impact ING through more stringent regulation on internal models. There is also heightened supervisory attention for the credit quality of loans to corporates and/or households. These exercises could impact the RWA ING recognises for certain assets.

In addition to the creation of the SSM, the European institutions have also agreed on the establishment of a Single Resolution Mechanism (**SRM**), which, in line with the SSM, provides for the creation of a Single Resolution Board which is a centralised power of resolution, competent to assess and propose resolution plans in the event of a bank resolution of institutions such as ING Bank and the Issuer. The aim is that the SRB is to be responsible for key decisions on how a bank, subject to SSM supervision, is to be resolved if a bank has irreversible financial difficulties and cannot be wound up

under normal insolvency proceedings without destabilising the financial system. The SRB is a key element of the SRM and is European resolution authority for the Banking Union and is fully operational, with a complete set of resolution powers, as of 1 January 2016. The SRB works in close cooperation with the national resolution authorities such as the Belgian resolution authority. The SRB is also in charge of the Single Resolution Fund, a pool of money financed by the banking sector which will be set up to ensure that medium-term funding support is available while a credit institution is being restructured (see *infra*, *Bank Recovery and Resolution Regime*).

Law on the Legal Status and Supervision of Credit Institutions

The banking regime in Belgium is governed by the Law on the Legal Status and Supervision of Credit Institutions and stockbroking firms of 25 April 2014 (the **Credit Institutions Supervision Law**). The Credit Institutions Supervision Law replaced the Act on the Legal Status and Supervision of Credit Institutions of 22 March 1993 and its subsequent modifications. The Credit Institutions Supervision Law sets forth the conditions under which the Issuer may operate in Belgium and defines the regulatory and supervisory powers of the Supervisor. The Credit Institutions Supervision Law aims to reinforce the financial solidity of Belgian credit institutions by way of, *inter alia*, strengthening own funds, imposing stricter liquidity requirements and limits on distributions. The Credit Institutions Supervision Law largely follows the evolution of European legislation. It implements, among other things, the CRD IV Directive and, where applicable, the CRR. The CRR was directly applicable as from 1 January 2014, subject to further implementation and phased introduction of certain provisions, set out therein. The Credit Institutions Supervision Law also puts a lot of emphasis on the solid and efficient organisation of credit institutions and hereto introduces a dual governance structure at management level, specialised committees within the board (audit committee, risk committee, remuneration committee and nomination committee), independent control functions, and strict remuneration policies (including limits on the amount of compensation, the form and timing for vesting and payment of variable remuneration, as well as reduction and claw-back mechanics). The Credit Institutions Supervision Law also introduces a prohibition in principle of proprietary trading. The prohibition applies to the Issuer as from 1 January 2015. However, some proprietary trading activities are excluded from the prohibition. Permitted proprietary trading activities (including market-making, hedging, treasury management and long-term investments) are capped, and these types of activities must comply with strict requirements on reporting, internal governance, and risk-management.

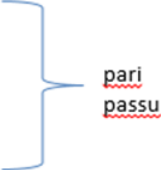
In addition, on 31 July 2017, the Belgian legislator adopted a new law to, amongst others, amend the Credit Institutions Supervision Law in order to give effect to the European Commission's proposals of 23 November 2016 to amend CRD IV and BRR Directive. In particular, the law also adds a new article 389/1 in the Banking Law which aims at increasing the effectiveness of the bail-in tool and introduces a new category of claims in the statutory creditor hierarchy in the case of a liquidation procedure (*liquidatieprocedure/procédure de liquidation*) of a credit institution. Article 389/1, 2° of the Credit Institutions Supervision Law now divides senior notes into: (i) senior preferred notes, retaining the same ranking as the previous senior notes; and (ii) senior non-preferred notes.

Senior non-preferred notes are direct, unconditional, senior, and unsecured (*chirografaire/chirographaires*) obligations. They must have the following characteristics:

- the principal and interests of the claim may not be contingent on the occurrence of an event that is uncertain at the time of the issuance, except, in respect of interest, if it is determinable at any moment in accordance with a formula provided in the issuance terms;
- their maturity may not be less than one year;
- the issuance terms must expressly provide that the claim is unsecured (*chirografaire /chirographaire*) and that their ranking is as set forth in Article 389/1, 2° of the Credit Institutions Supervision Law.

In accordance with this new provision, in case of liquidation of a credit institution or stockbroking firm, the claims will rank as follows (whereby Common Equity Tier 1 will rank lowest):

Common Equity Tier 1
Additional Tier 1
Tier 2 + other Subordinated Liabilities
Non Preferred Senior Unsecured Instruments <i>(art. 389/1, 2° Belgian Banking Law 25 April 2014)</i>
Other Preferred Senior Unsecured Liabilities
Derivatives
Deposits Large Enterprises (>100,000 EUR)
Deposits SME and Physical Persons (>100,000 EUR)
Covered Deposits (<100,000 EUR)
Secured Liabilities



Further to the above, it should be noted that (i) certain elements of the Credit Institutions Supervision Law require further detailed measures to be taken by other authorities, in particular the National Bank of Belgium, (ii) certain elements of the Credit Institutions Supervision Law will be influenced by further regulations (including through technical standards) taken or to be taken at European level, and (iii) the application of the Credit Institutions Supervision Law may be influenced by the recent assumption by the European Central Bank of certain supervisory responsibilities which were previously handled by the National Bank of Belgium and, in general, by the allocation of responsibilities between the European Central Bank and the National Bank of Belgium.

It should also be noted that certain of the European initiatives (in particular the prohibition on proprietary trading) to be transposed into Belgian law pursuant to the Credit Institutions Supervision Law are still in draft form, or subject to political discussion, at the European level. Whilst the Credit Institutions Supervision Law contains powers to allow the government to conform the Credit Institutions Supervision Law to developments at a European level in certain areas through a royal decree, it cannot be ruled out that there will be differences between the regulatory regime promulgated by the relevant European directives and the regulatory regime of the Credit Institutions Supervision Law.

Although the Issuer works closely with its regulators and continually monitors regulatory developments, there can be no assurance that the additional regulatory or capital requirements included in the Credit Institutions Supervision Law will not have an adverse impact on the Issuer, its business, financial condition or results of operations.

Bank Recovery and Resolution Regimes

On 6 May 2014, the Council of the European Union adopted Directive 2014/59/EU establishing a framework for the recovery and resolution of credit institutions and investment firms and amending Council Directive 82/891/EEC, and Directives 2001/24/EC, 2002/47/EC, 2004/25/EC, 2005/56/EC, 2007/36/EC, 2011/35/EU, 2012/30/EU and 2013/36/EU, and Regulations (EU) No 1093/2010 and (EU) No 648/2012, of the European Parliament and of the Council (the **BRR Directive**).

The stated aim of the BRR Directive is to provide relevant supervisory and resolution authorities, including the resolution college of the National Bank of Belgium within the meaning of Article 21ter of the Law of 22 February 1998 establishing the organic statute of the National Bank of Belgium or any successor body or authority (the **National Resolution Authority**), with common tools and powers to address banking crises pre-emptively in order to safeguard financial stability and minimise taxpayers' exposure to losses. The BRR Directive was further complemented by the Regulation (EU) No 806/2014 of the European Parliament and of the Council of 15 July 2014 establishing uniform rules and a uniform procedure for the resolution of credit institutions and certain investment firms in the

framework of a Single Resolution Mechanism and a Single Bank Resolution Fund and amending the SRM, entered into force on 19 August 2014. From that moment, a centralized power of resolution has been established and entrusted to the Single Resolution Board, which is operational as from 1 January 2016 and works in close operation with the national resolution authorities of participating Member States.

The BRR Directive had been transposed into Belgian law as from 6 March 2015. Under the Belgian bank recovery and resolution regime, the supervisory and resolution authorities (which includes the National Resolution Authority) are able to take a number of measures in respect of any credit institution it supervises if deficiencies in such credit institution's operations are not remedied. Such measures include: the appointment of a special commissioner whose consent is required for all or some of the decisions taken by all the institution's corporate bodies; the imposition of additional requirements in terms of solvency, liquidity, risk concentration and the imposition of other limitations; the limitations on variable remuneration; the complete or partial suspension or prohibition of the institution's activities; the requirement to transfer all or part of the institution's participations in other companies; the replacement of the institution's directors or managers; the revocation of the institution's licence; and the right to impose the reservation of distributable profits, or the suspension of dividend distributions or interest payments to holders of additional Tier 1 capital instruments.

Furthermore, the lead regulators can impose specific measures on important financial institutions (including the Issuer, and whether systemic or not), when the resolution authority is of the opinion that (a) such financial institution has an unsuitable risk profile or (b) the policy of the financial institution can have a negative impact on the stability of the financial system.

The Credit Institutions Supervision Law allows the National Resolution Authority to take resolution actions. Such powers include the power to (i) direct the sale of the relevant financial institution or the whole or part of its business on commercial terms without requiring the consent of the shareholders or complying with procedural requirements that would otherwise apply, (ii) transfer all or part of the business of the relevant financial institution to a "bridge institution" (an entity created for that purpose which is wholly or partially in public control) and (iii) separate assets by transferring impaired or problem assets to a bridge institution or one or more asset management vehicles to allow them to be managed with a view to maximising their value through eventual sale or orderly wind-down.

Implementation by the supervisory and/or resolution authorities of any of their powers of intervention could have significant consequences on the Issuer's profitability, operations and financing costs. Moreover, as these are new rules and as there remain a number of important implementing measures that still need to be adopted, there is considerable uncertainty about the potential effect thereof on the business and operations of the Issuer and how the authorities may choose to exercise the powers afforded to them under such laws and regulations.

Dodd-Frank Act

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

Title VII of Dodd-Frank creates a new framework for regulation of the over-the-counter derivatives markets and certain market participants which has affected and could continue to affect various activities of the Issuer and its affiliates. ING Capital Markets LLC has registered with the U.S. Commodity Futures Trading Commission (**CFTC**) as a swap dealer. The SEC is expected to adopt regulations establishing registration and margin and capital requirements for security-based swaps. Along with the still indeterminate effective date for SEC regulations on, among others, reporting,

registration, and internal and external business conduct with respect to security-based swaps, these are likely to materially impact ING. Additionally, the CFTC is expected to adopt capital requirements for swap dealers, although the specific requirements, and any available exemptions, have not been finalised. If these requirements are applicable to ING, and no exemptions are available, it is possible that these requirements will be difficult for ING to comply with and may, as a result, materially and adversely impact ING's ability to operate as a swap dealer in the U.S. Other CFTC regulatory requirements, already implemented, include registration of swap dealers, business conduct rules imposed on swap dealers, requirements that some categories of swaps be centrally executed on regulated trading facilities and cleared through regulated clearing houses, and initial and variation margin requirements for uncleared swaps. In addition, new position limits requirements for market participants that have been proposed and may be contained in final regulations to be adopted by the CFTC could limit ING's position sizes in swaps referencing specified commodities and similarly limit the ability of counterparties to utilise certain of ING's products by narrowing the scope of hedging activity that is permitted for commercial end users, and the trading activity of speculators. All of the foregoing areas of regulation of the derivative markets and market participants will likely result in increased cost of hedging and other trading activities, both for the Issuer and its customers, which could expose the Issuer's business to greater risk and could reduce the size and profitability of its customer business. In addition, the imposition of these regulatory restrictions and requirements, could result in reduced market liquidity, which could in turn increase market volatility and the risks and costs of hedging and other trading activities.

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

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

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

For instance, ING Bank, may at some point in time consider whether to establish a branch office in the U.S. If ING Bank were to establish a U.S. branch, it would be subject to supervision and regulation by the Federal Reserve under various laws and various restrictions on its activities under those laws, including the Bank Holding Company Act of 1956, as amended, and the International Banking Act of 1978, and, as a consequence, such supervision and regulation, including such restrictions on activities, could materially impact the Issuer's operations. These would include, among others, the Volcker Rule and heightened supervisory requirements and prudential standards.

Dodd-Frank also includes various securities law reforms that may affect the Issuer's business practices and the liabilities and/or exposures associated therewith, including a provision intended to authorise the SEC to impose on broker-dealers fiduciary duties to their customers, as applied to

investment advisers under existing law, which new standard could potentially expose certain of ING's U.S. broker-dealers to increased risk of SEC enforcement actions and liability. In 2011, the SEC staff released a study on this issue, and members of the SEC's Investor Advisory Committee voted in November 2013 to recommend the proposal implementing a uniform fiduciary standard for most brokers and registered investment advisers to the SEC.

Although the full impact of Dodd-Frank and its implementing regulations cannot be determined at this time, many of their requirements have had and may continue to have profound and/or adverse consequences for the financial services industry, including for the Issuer. Dodd-Frank, in its current form, could make it more expensive for the Issuer to conduct business, require it to make changes to its business model or satisfy increased capital requirements, subject it to greater regulatory scrutiny or to potential increases in whistle-blower claims in light of the increased awards available to whistle-blowers under Dodd-Frank and have a material effect on the Issuer's results of operations or financial condition.

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

Foreign Account Tax Compliance Act and other U.S. withholding tax regulations

Under provisions of U.S. tax law commonly referred to as FATCA, non-U.S. financial institutions are required to provide certain information on their U.S. accountholders and/or certain U.S. investors to the U.S. Internal Revenue Service (**IRS**). A 30% withholding tax is imposed on 'withholdable payments' made to non-compliant non-U.S. financial institutions. In addition to FATCA, non-U.S. financial institutions are required to comply with other U.S. withholding and reporting requirements on certain payments. The Issuer intends to take all necessary steps to comply with FATCA and other U.S. withholding tax regulations. ING is for example updating and strengthening its withholding compliance programme and reviewing, amending and filing the necessary tax returns and information reports.

Some countries, including The Netherlands, Luxembourg and Belgium, have entered into intergovernmental agreements (**IGAs**) with the United States to facilitate the type of information reporting required under FATCA. While the existence of IGAs will not eliminate the risk of the withholding described above, these agreements are expected to reduce that risk for financial institutions and investors in countries that have entered into IGAs. IGAs will often require financial institutions in those countries to report some information on their U.S. accountholders to the taxing authorities of those countries, who will then pass on the information to the IRS. This is the case for the Belgian IGA, which is a so-called Model 1 agreement which requires foreign financial institutions established in Belgium to report information on U.S. accountholders directly to the Belgian tax authorities, who will in turn transfer the reported information to the IRS.

Under the Belgian law implementing the FATCA legislation ("*Wet tot regeling van de mededeling van inlichtingen betreffende financiële rekeningen, door de Belgische financiële instellingen en de FOD Financiën in het kader van automatische uitwisseling van inlichtingen op internationaal niveau en voor belastingdoeleinden*" of 16 December 2015.), Belgian financial institutions holding Mortgage Pandbrieven for "US accountholders " and for "Non US owned passive Non Financial Foreign entities" shall report financial information regarding the Mortgage Pandbrieven (income, gross proceeds,..) to the Belgian competent authority, who shall communicate the information to the US tax authorities.

If the Issuer is unable to comply with requirements imposed under IGAs or otherwise comply with FATCA (including as a result of local laws in non-IGA countries prohibiting information sharing with the IRS, as a result of contracts or local laws prohibiting withholding on certain payments to accountholders or other investors, or as a result of the failure of accountholders or other investors to provide requested information), certain payments to the Issuer may be subject to withholding under FATCA. Payments made with respect to certain products offered by members of the Group may also be or become subject to withholding under FATCA. The possibility of such withholding and the need

for accountholders, policyholders, annuitants and investors to provide certain information may adversely affect the sales of certain of the Issuer's products. In addition, (i) compliance with the terms of IGAs and with FATCA, with any regulations or other guidance promulgated thereunder or any legislation promulgated under an IGA, and (ii) offering products subject to U.S. withholding, may substantially increase the Issuer's compliance costs. Because legislation and regulations implementing FATCA and the IGAs remain under development, the future impact of this law on the Issuer is uncertain. Failure to comply with FATCA and other U.S. withholding tax regulations could harm ING's reputation and could subject the Issuer to enforcement actions, fines and penalties, which could have a material adverse effect on the Issuer's business, reputation, revenues, results of operations, financial condition and prospects.

Exchange of information: Common Reporting Standard

Following recent international development, the exchange of information is now governed by the broader Common Reporting Standard (**CRS**). On 15 January 2018, 98 jurisdictions had signed the multilateral competent authority agreement (**MCAA**), which is a multilateral framework agreement to automatically exchange financial and personal information, with the subsequent bilateral exchanges coming into effect between those signatories that file the subsequent notifications.

About 50 jurisdictions, including Belgium, have committed to a specific and ambitious timetable leading to the first automatic information exchanges in 2017, relating to income year 2016 (**early adopters**).

Under CRS, financial institutions resident in a CRS country are required to report, according to a due diligence standard, financial information with respect to reportable accounts, which includes interest, dividends, account balance or value, income from certain insurance products, sales proceeds from financial assets and other income generated with respect to assets held in the account or payments made with respect to the account. Reportable accounts include accounts held by individuals and entities (incl. trusts and foundations) with fiscal residence in another CRS country. The standard includes a requirement to look through passive entities to report on the relevant controlling persons.

On 9 December 2014, EU Member States adopted Directive 2014/107/EU on administrative cooperation in direct taxation (**DAC**), which provides for mandatory automatic exchange of financial information as foreseen in CRS. DAC amends the previous Directive on administrative cooperation in direct taxation, Directive 2011/16/EU.

The mandatory automatic exchange of financial information by EU Member States as foreseen in DAC will at the latest take place as of 30 September 2017, except with regard to Austria. The mandatory automatic exchange of financial information by Austria will at the latest take place as of 30 September 2018.

The Belgian government has implemented said Directive 2014/107/EU, respectively the Common Reporting Standard, per law of 16 December 2015 ("*Wet tot regeling van de mededeling van inlichtingen betreffende financiële rekeningen, door de Belgische financiële instellingen en de FOD Financiën in het kader van automatische uitwisseling van inlichtingen op internationaal niveau en voor belastingdoeleinden*") (**Law of 16 December 2015**).

As a result of the Law of 16 December 2015, the mandatory exchange of information applies in Belgium (i) as of income year 2016 (first information exchange in 2017) towards EU Member States (including Austria, irrespective of the fact that the automatic exchange of information by Austria towards other EU Member States is only foreseen as of income year 2017), (ii) as of income year 2014 (first information exchange in 2016) towards the US and (iii) with respect to any other non-EU States that have signed the MCAA, as of the respective date to be further determined by Royal decree. In a Royal Decree of 14 June 2017, it has been determined that the automatic provision of information has to be provided as from 2017 (for the 2016 financial year) for a first list of 18 foreign jurisdictions, and as from 2018 (for the 2017 financial year) for a second list of 44 jurisdictions.

The Mortgage Pandbrieven are subject to DAC and to the Law of 16 December 2015. Under this Directive and Law, Belgian financial institutions holding the Mortgage Pandbrieven for tax residents in another CRS contracting state, shall report financial information regarding the Mortgage Pandbrieven (income, gross proceeds,..) to the Belgian competent authority, who shall communicate the information to the competent authority of the state of the tax residence of the beneficial owner.

The Financial Stability Board (FSB)

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

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

Additional Governmental Measures

Governments in Belgium, The Netherlands, Luxembourg and abroad have also intervened over the past few years on an unprecedented scale, responding to stresses experienced in the global financial markets. Some of the measures adopted subject the institutions for which they were designed to additional restrictions, oversight or costs.

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

The Issuer is subject to a bank levy (*“Jaarlijkse taks op de kredietinstellingen/Taxe annuelle sur les établissements de crédit”* laid down in Article 201/10 and following of the Code on Miscellaneous Duties and Taxes). This levy results in increased taxes on the Issuer’s banking operations, which could negatively impact its operations, financial condition and liquidity.

Moreover, general changes to the Belgian corporate income tax system, such as the fact that henceforward the notional interest deduction will only apply to so-called “incremental equity” (namely that as of 2018, the notional interest deduction is computed on the basis of the “average 5 year increase” of the qualifying BE GAAP net equity of the relevant company, rather than on the basis of the “full” amount of that net equity) could, depending on the concrete circumstances, have an adverse impact on the financial and tax position of the Issuer.

Continued risk of resurgence of turbulence and on-going volatility in the financial markets and the economy generally have adversely affected, and may continue to adversely affect, the Issuer and its business, financial condition and results of operations

General

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

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

In addition, the confidence of customers in financial institutions is being tested. Consumer confidence in financial institutions may, for example, decrease due to the Issuer’s or its competitors’ failure to communicate to customers the terms of, and the benefits to customers of, complex or high-fee financial products. Reduced confidence could have an adverse effect on the Issuer’s revenues and results of operations, including withdrawal of deposits. Because a significant percentage of the

Issuer's customer deposit base is originated via Internet banking, a loss of customer confidence may result in a rapid withdrawal of deposits over the Internet.

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

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

Market concerns over the direct and indirect exposure of European banks and insurers to the sovereign debt of several EU Member States since 2010 have resulted in a widening of credit spreads and increased costs of funding for some European financial institutions. The sovereign debt crisis has also highlighted issues relating to the strength of the banking sector in Europe and the Euro. In addition, risks and ongoing concerns about the crisis in the Italian banking sector and its potential spill-over effect into other Member States, deterioration of the political situation in Turkey, as well as the possible default by one or more Member States could have a detrimental impact on the global economic recovery, sovereign and non-sovereign debt in these countries and the financial condition of European and other financial institutions, including the Issuer. Additionally, the possibility of capital market volatility spreading through a highly integrated and interdependent banking system remains elevated. In the event of any default or similar event with respect to a sovereign issuer, some financial institutions may suffer significant losses, following which they would require additional capital, and such capital may not be available. The Issuer is exposed to the risk of downgrades of European sovereign ratings or corporate ratings, because they may affect its financial costs and, as a result its profitability. Market disruptions in Europe related to sovereign debt and the banking sector continue to be a threat to global capital markets and remain a challenge to global financial stability. In the event of any default or similar event with respect to a sovereign issuer, some financial institutions may suffer significant losses, following which they would require additional capital, that may not be available. Market and economic disruptions stemming from the crisis in Europe also have affected, and may continue to affect, consumer confidence levels and spending, bankruptcy rates, levels of incurrence of, and default on, consumer debt and home prices, among other factors. There can be no assurance that market disruptions in Europe, including the increased cost of funding for certain government and financial institutions, will not spread, nor can there be any assurance that future assistance packages will be available or, even if provided, will be sufficient to stabilise the affected countries and markets in Europe or elsewhere. To the extent uncertainty regarding the economic recovery continues to negatively impact consumer confidence and consumer credit factors, the Issuer's business and results of operations could be significantly and adversely impacted. Additionally extreme prolonged market events, such as the recent global credit crisis, could cause the Issuer to incur significant losses and may lead to USD funding shortages for EU banks.

In addition, although the UK is not a member state of the Eurozone, the decision of the UK to leave the EU remains a major political and economic event and may further destabilise the Eurozone. The outcome of the negotiations between the UK and the EU, which at the date of this Prospectus are still ongoing, remains highly uncertain as does its economic and operational impact on the Group and its counterparties. Concerns regarding other Member States' potential exit from the EU or the Eurozone also have emerged following the 'Brexit' referendum. The possible exit from the EU and/or the Eurozone of one or more European states and/or the replacement of the Euro by one or more successor currencies could create significant uncertainties regarding the enforceability and valuation of Euro denominated contracts to which the Issuer (or its counterparties) is a party and thereby

materially and adversely affect the Issuer and/or its counterparties' liquidity, financial condition and operations. Such uncertainties may include the risk that (i) an obligation that was expected to be paid in Euros is redenominated into a new currency (which may not be easily converted into other currencies without incurring significant cost), (ii) currencies in some Member States may depreciate relative to others, (iii) former EU and/or Eurozone Member States may impose capital controls that would make it complicated or illegal to move capital out of such countries, and/or (iv) some courts (in particular, courts in countries that have left the EU and/or the Eurozone) may not recognise and/or enforce claims denominated in Euros (and/or in any replacement currency). These factors, combined with volatile oil prices, reduced business and consumer confidence and/or continued high unemployment, have negatively affected the economy of main geographic regions where the Issuer conducts its business. The Issuer's results of operations, liquidity position, capital position and investment portfolio are exposed to these risks and may be adversely affected as a result.

U.S. Sovereign Credit Rating

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

Because the Issuer operates in highly competitive markets, including its home market, it may not be able to increase or maintain its market share, which may have an adverse effect on its results of operations

There is substantial competition in Belgium and the other countries in which the Issuer does business for the types of wholesale banking, retail banking, investment banking and other products and services it provides. Customer loyalty and retention can be influenced by a number of factors, including brand recognition, reputation, relative service levels, the prices and attributes of products and services, scope of distribution, credit ratings and actions taken by existing or new competitors. A decline in the Issuer's competitive position as to one or more of these factors could adversely impact its ability to maintain or further increase its market share, which would adversely affect its results of operations. Such competition is most pronounced in Northern European mature markets, such as Belgium, where the Issuer has leading domestic banking positions. The Issuer's main competitors in the banking sector are BNP Paribas Fortis, KBC Bank and Belfius Bank. Competition could also increase due to new entrants in the markets that may have new operating models that are not burdened by potentially costly legacy operations and that are subject to reduced regulation. New entrants may rely on new technologies, advanced data and analytic tools, lower costs to serve, reduced regulatory burden and/or faster processes in order to challenge traditional banks. Developments in technology have also accelerated the use of new business models. For example, new business models have been observed in retail payments, consumer and commercial lending (such as peer-to-peer lending), foreign exchange and low-cost investment advisory services. In particular, the emergence of disintermediation in the financial sector resulting from new banking, lending and payment solutions offered by rapidly evolving incumbents, challengers and new entrants, in particular with respect to payment services and products, and the introduction of disruptive technology may impede the Issuer's ability to grow or retain its market share and impact its revenues and profitability.

Increasing competition in the markets in which the Issuer operates may significantly impact the Issuer's results if it is unable to match the products and services offered by its competitors. Future economic turmoil may accelerate additional consolidation activity. Over time, certain sectors of the financial services industry have become more concentrated, as institutions involved in a broad range of financial services have been acquired by or merged into other firms or have declared bankruptcy. These developments could result in the Issuer's competitors gaining greater access to capital and liquidity, expanding their ranges of products and services, or gaining geographic diversity.

The Issuer may experience pricing pressures as a result of these factors in the event that some of its competitors seek to increase market share by reducing prices. Due to the competitive nature of the financial services industry, there can be no assurance that the Issuer will continue to effectively compete within the industry or that competition will not have a material adverse impact on its business, results of operations and financial condition.

The inability of counterparties to meet their financial obligations could have a material adverse effect on the Issuer's results of operations

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

The Issuer routinely executes a high volume of transactions, such as unsecured debt instruments, derivative transactions and equity investments, with counterparties and customers in the financial services industry, including brokers and dealers, commercial and investment banks, mutual and hedge funds, insurance companies, institutional clients, futures clearing merchants, swap dealers and other institutions, resulting in large periodic settlement amounts, which may result in the Issuer having significant credit exposure to one or more of such counterparties or customers. As a result, the Issuer faces concentration risk with respect to liabilities or amounts it expects to collect from specific counterparties and customers. The Issuer is exposed to increased counterparty risk as a result of recent financial institution failures and weakness and will continue to be exposed to the risk of loss if counterparty financial institutions fail or are otherwise unable to meet their obligations. A default by, or even concerns about the creditworthiness of, one or more of these counterparties or customers or other financial services institutions could therefore have an adverse effect on the Issuer's results of operations or liquidity.

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

In addition, the Issuer is subject to the risk that its rights against third parties may not be enforceable in all circumstances. The deterioration or perceived deterioration in the credit quality of third parties whose securities or obligations the Issuer holds could result in losses and/or adversely affect its ability to rehypothecate or otherwise use those securities or obligations for liquidity purposes. A significant downgrade in the credit ratings of the Issuer's counterparties could also have a negative impact on its income and risk weighting, leading to increased capital requirements.

While in many cases the Issuer is permitted to require additional collateral from counterparties that experience financial difficulty, disputes may arise as to the amount of collateral it is entitled to receive and the value of pledged assets. The Issuer's credit risk may also be exacerbated when the collateral it holds cannot be realised or is liquidated at prices not sufficient to recover the full amount of the loan or derivative exposure due to the Issuer, which is most likely to occur during periods of illiquidity and depressed asset valuations, such as those experienced during the financial crisis of 2008. The termination of contracts and the foreclosure on collateral may subject the Issuer to claims. Bankruptcies, downgrades and disputes with counterparties as to the valuation of collateral may also tend to increase in times of market stress and illiquidity.

Any of these developments or losses could materially and adversely affect the Issuer's business, financial condition, results of operations, liquidity and/or prospects.

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

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

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

Interest rate volatility and other interest rate changes may adversely affect the Issuer's profitability

Changes in prevailing interest rates may negatively affect the Issuer's business, including the level of net interest revenue the Issuer earns, and the levels of deposits and the demand for loans. A sustained increase in the inflation rate in the Issuer's principal markets may also negatively affect its business, financial condition and results of operations. For example, a sustained increase in the inflation rate may result in an increase in nominal market interest rates. A failure to accurately anticipate higher inflation and factor it into the Issuer's product pricing assumptions may result in mispricing of its products, which could materially and adversely impact its results of operations. On the other hand, recent concerns regarding negative interest rates and the low level of interest rates generally may negatively impact the Issuer's net interest income, which may have an adverse impact on its profitability.

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

- lower earnings over time on investments, as reinvestments will earn lower rates;
- increased prepayment or redemption of mortgages and fixed maturity securities in the Issuer's investment portfolios, as well as increased prepayments of corporate loans. This as borrowers seek to borrow at lower interest rates potentially combined with lower credit spreads.

Consequently, the Issuer may be required to reinvest the proceeds into assets at lower interest rates;

- lower profitability as the result of a decrease in the spread between client rates earned on assets and client rates paid on savings, current account and other liabilities;
- higher costs for certain derivative instruments that may be used to hedge certain of the Issuer's product risks;
- lower profitability, since the Issuer may not be able to fully track the decline in interest rates in its savings rates;
- lower profitability since the Issuer may not always be entitled to impose surcharges to customers to compensate for the decline in interest rates;
- lower interest rates may cause asset margins to decrease thereby lowering the Issuer's results of operations. This may for example be the consequence of increased competition for investments as result of the low rates, thereby driving margins down;and/or
- (depending on the position) a significant collateral posting requirement associated with the Issuer's interest rate hedge programs, which could materially and adversely affect liquidity and its profitability.

All these effects may be amplified in a negative rate environment. In such environment there may also be the risk that a rate is to be paid on assets, while there is no comparable rate paid on the liabilities. This will reduce the Issuer's results of operations.

Rapidly increasing interest rates may result in

- a decrease in the demand for loans;
- higher interest rates to be paid on debt securities that the Issuer has issued or may issue on the financial markets from time to time to finance its operations and on savings, which would increase its interest expenses and reduce its results of operations;
- higher interest rates can lead to lower investments prices and a reduction in the revaluation reserves, thereby lowering IFRS equity and the capital ratios. Also the lower securities value leads to a loss of liquidity generating capacity which needs to be compensated by attracting new liquidity generating capacity which reduces the Issuer's results of operations;
- prepayment losses if prepayment rates are lower than expected or if interest rates increase too rapidly to adjust the accompanying hedges; and/or
- (depending on the position) a significant collateral posting requirement associated with the Issuer's interest rate hedge programs.

The Issuer may incur losses due to failures of banks falling under the scope of state compensation schemes

In Belgium and Luxembourg, deposit guarantee schemes and similar funds (**Compensation Schemes**) have been implemented from which compensation may become payable to customers of financial services firms in the event the financial service firm is unable to pay, or unlikely to pay, claims against it. These Compensation Schemes are mainly funded, directly or indirectly, by financial services firms which operate and/or are licensed in the relevant jurisdiction. The Issuer is a participant in the Belgian Deposit Guarantee Scheme, which guarantees an amount of EUR 100,000 per person per bank (regardless of the number of accounts held). The Belgian Compensation Scheme is an ex-ante scheme where the Issuer pays yearly contributions to ensure the scheme holds a target level of fund regardless of whether any failures occur. ING Luxembourg S.A., the Issuer's Luxembourg subsidiary, is participating to the Luxembourg Deposit Guarantee Scheme which is an ex-post

scheme, whereby the participating bank contributes after the failure of a firm. The ultimate costs to the industry of payments which may become due under the Compensation Schemes remains uncertain, although they may be significant and these and the associated costs to the Issuer and its Luxembourg subsidiary may have a material adverse effect on its financial condition. However, in December 2013, EU Member States and the European Parliament agreed on reforms to the EU Directive on the deposit guarantee schemes, which were adopted by the European Parliament in April 2014 and published in the Official Journal of the EU in June 2014. Main characteristics include an ex-ante funding of up to 0.8% of the banking sector's insured deposits for payouts, to be built up in 10 years, but ultimate contributions will be risk-based.

The costs associated with potential future ex-ante contributions are today unknown and will depend on the methodology used to calculate risk-weighting, but, given the Issuer's size, may be significant. See also "The Issuer operates in highly regulated industries. Changes in laws and/or regulations governing financial services or financial institutions or the application of such laws and/or regulations governing its business may reduce its profitability — Bank Recovery and Resolution Regimes".

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

Inflation and deflation may negatively affect the Issuer's business.

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

1. decrease the estimated fair value of certain fixed income securities that the Issuer holds in its investment portfolios resulting in:
 - reduced levels of unrealised capital gains available to the Issuer, which could negatively impact its solvency position and net income; and/or
 - a decrease in collateral values;
2. result in increased withdrawal of certain savings products, particularly those with fixed rates below market rates;
3. require the Issuer, as an issuer of securities, to pay higher interest rates on debt securities that it issues in the financial markets from time to time to finance its operations, which would increase its interest expenses and reduce its results of operations.

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

1. result in impairment charges to equity securities that the Issuer holds in its investment portfolios and reduced levels of unrealised capital gains available to it, which would reduce its net income; and
2. lower the value of the Issuer's equity investments impacting its capital position.

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

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

Risks related to the Issuer's business, operations and regulatory environment

The Issuer may be unable to manage its risks successfully through derivatives

The Issuer employs various economic hedging strategies with the objective of mitigating the market risks that are inherent in its business and operations. These risks include currency fluctuations, changes in the fair value of its investments, the impact of interest rates, equity markets and credit spread changes, the occurrence of credit defaults and changes in client behaviour. The Issuer seeks to control these risks by, among other things, entering into a number of derivative instruments, such as swaps, options, futures and forward contracts, including, from time to time, macro hedges for parts of its business, either directly or as a counterparty or as a credit support provider to affiliate counterparties.

Developing an effective strategy for dealing with these risks is complex, and no strategy can completely insulate the Issuer from risks associated with those fluctuations. The Issuer's hedging strategies also rely on assumptions and projections regarding the Issuer's assets, liabilities, general market factors, and the creditworthiness of the Issuer's counterparties that may prove to be incorrect or prove to be inadequate. Accordingly, the Issuer's hedging activities may not have the desired beneficial impact on its results of operations or financial condition. Poorly designed strategies or improperly executed transactions could actually increase its risks and losses. Hedging strategies involve transaction costs and other costs, and, if the Issuer terminates a hedging arrangement, it may also be required to pay additional costs, such as transaction fees or breakage costs. There have been periods in the past, and it is likely that there will be periods in the future, during which the Issuer has incurred or may incur losses on transactions, possibly significant, after taking into account its hedging strategies. Further, the nature and timing of the Issuer's hedging transactions could actually increase its risk and losses. Hedging instruments the Issuer uses to manage product and other risks might not perform as intended or expected, which could result in higher (un)realised losses, such as credit value adjustment risks or unexpected profit and loss effects, and unanticipated cash needs to collateralise or settle such transactions. Adverse market conditions can limit the availability and increase the costs of hedging instruments, and such costs may not be recovered in the pricing of the underlying products being hedged. In addition, hedging counterparties may fail to perform their obligations resulting in unhedged exposures and losses on positions that are not collateralised. As such, the Issuer's hedging strategies and the derivatives that the Issuer uses or may use may not adequately mitigate or offset the risks they intend to cover and the Issuer's hedging transactions may result in losses.

The Issuer's hedging strategy additionally relies on the assumption that hedging counterparties remain able and willing to provide the hedges required by its strategy. Increased regulation, market shocks, worsening market conditions (whether due to the on-going Euro crisis or otherwise) and/or other factors that affect or are perceived to affect the financial condition, liquidity and creditworthiness of the Issuer may reduce the ability and/or willingness of such counterparties to engage in hedging contracts with the Issuer and/or other parties, affecting its overall ability to hedge its risks and adversely affecting its business, operations, financial condition and liquidity.

The Issuer may be unable to retain key personnel

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

As part of their responses to the financial crisis of 2008, the European Commission and national governments throughout Europe have introduced and are expected to continue introducing various legislative initiatives that aim to ensure that financial institutions' remuneration policies and practices are consistent with and promote sound and effective risk management, and impose restrictions on the remuneration of personnel, with a focus on risk alignment of performance-related remuneration. Such initiatives include, among others, measures set out in (i) the so-called Capital Requirements Directive III and the CRD IV Directive, and (ii) the Guidelines on Remuneration Policies and Practices published by (the predecessor of) the European Banking Authority, to ensure that financial institutions' remuneration policies and practices are consistent with and promote sound and effective risk management, and that impose restrictions on the remuneration of personnel, in particular senior management, with a focus on risk alignment of performance-related remuneration. Also the Credit Institutions Supervision Law introduced provisions on remuneration (including a limitation of the variable remuneration to the highest of 50% of the fixed income or EUR 50,000 without exceeding the fixed income). The provisions on remuneration included in the Credit Institutions Supervision Law are more stringent than the EU rules on variable remuneration included in the CRD IV Directive.

Since the financial crisis, ING has adapted its remuneration policies to the new national and international standards. The (increasing) restrictions on remuneration will continue to have an impact on the Issuer's existing remuneration policies and individual remuneration packages for personnel. This may restrict the Issuer's ability to offer competitive compensation compared with companies (financial and/or non-financial) that are not subject to such restrictions and it could adversely affect the Issuer's ability to retain or attract key personnel.

The Issuer may not be able to protect its intellectual property and may be subject to infringement claims by third parties, which may have a material adverse effect on the Issuer's business and results of operations.

In the conduct of its business, the Issuer relies on a combination of contractual rights with third parties and copyright, trademark, trade name, patent and trade secret laws to establish and protect its intellectual property. Although it endeavours to protect its rights, third parties may infringe or misappropriate its intellectual property. The Issuer may have to litigate to enforce and protect its copyrights, trademarks, trade names, patents, trade secrets and know-how or to determine their scope, validity or enforceability. In that event, the Issuer may be required to incur significant costs and its efforts may not prove successful. The inability to secure or protect the Issuer's intellectual property assets could have a material adverse effect on its business and its ability to compete. The Issuer may also be subject to claims made by third parties for (1) patent, trade mark or copyright infringement, (2) breach of copyright, trade mark or licence usage rights, or (3) misappropriation of trade secrets. Any such claims and any resulting litigation could result in significant expense and liability for damages. If the Issuer was found to have infringed or misappropriated a third-party patent or other intellectual property right, it could in some circumstances be enjoined from providing certain products or services to its customers or from utilising and benefiting from certain methods, processes, copyrights, trade marks, trade secrets or licences. Alternatively, it could be required to enter into costly licensing arrangements with third parties or to implement a costly workaround. Any of these scenarios could have a material adverse effect on the Issuer's business and results of operations.

Because the Issuer uses assumptions to model client behaviour for the purpose of its market risk calculations, the difference between the realisation and the assumptions may have an adverse impact on the risk figures and future results

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

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

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

The Issuer's risk management policies and guidelines may prove inadequate for the risks it faces

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

The Issuer is subject to a variety of regulatory risks as a result of its operations in certain countries

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

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

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

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

Products distributed through person-to-person sales forces have a higher exposure to such claims as the sales forces provide face-to-face financial planning and advisory services. Complaints may also arise if customers feel that they have not been treated reasonably or fairly, or that the duty of care has not been complied with. While a considerable amount of time and resources have been invested in reviewing and assessing historical sales practices and products that were sold in the past, and in the maintenance of effective risk management and legal and compliance procedures to monitor current sales practices, there can be no assurance that all of the issues associated with current and historical sales practices have been or will be identified, nor that any issues already identified will not be more widespread than presently estimated.

The negative publicity associated with any sales practices, and any compensation payable in respect of any such issues and regulatory changes resulting from such issues, has had and could have a material adverse effect on the Issuer's business, reputation, revenues, results of operations, financial condition and prospects.

Ratings are important to the Issuer's business for a number of reasons. A downgrade or a potential downgrade in the Issuer's financial strength or its credit ratings could have an adverse impact on its operations and net results

Credit ratings represent the opinions of rating agencies regarding an entity's ability to repay its indebtedness. The Issuer's credit ratings are important to its ability to raise capital and funding through the issuance of debt and to the cost of such financing. In the event of a downgrade, the cost of issuing debt will increase, having an adverse effect on its net result. Certain institutional investors may also be obliged to withdraw their deposits from the Issuer following a downgrade, which could have an adverse effect on its liquidity. The Issuer has credit ratings from Standard & Poor's Credit Market Services Europe Limited, Moody's Investor Service Ltd. and Fitch France S.A.S. Each of the rating agencies reviews its ratings and rating methodologies on a recurring basis and may decide on a downgrade at any time.

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

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

The Issuer may be exposed to business, operational, regulatory, reputational and other risks in connection with climate change

Climate change is a challenge which may expose the Issuer to significant risks. The perception of climate change as a risk by civil society, shareholders, governments and other stakeholders continues to increase, including in relation to the financial sector's operations and strategy, and international actions, such as the Paris agreement on CO2 emissions, may also result in financial institutions coming under increased pressure from such stakeholders regarding the management and disclosure of their climate risks and related lending and investment activities. Additionally, rising climate change concerns may lead to additional regulation that could increase the Issuer's operating costs or negatively impact the profitability of its investments. There may be substantial costs in complying with current or future laws and regulations relating to climate change. Any of these risks may result in changes in the Issuer's business activities or other liabilities or costs, including exposure to reputational risks, any of which may have a material and adverse impact on its business, results of operation or financial condition.

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

The Issuer faces the risk that the design and operating effectiveness of its controls and procedures may prove to be inadequate. Operational risks are inherent to the Issuer's business. The Issuer's businesses depend on the ability to process a large number of transactions efficiently and accurately. In addition, the Issuer routinely transmits, receives and stores personal confidential and proprietary information by email and other electronic means. Although the Issuer endeavours to safeguard its systems and processes, losses can result from inadequately trained or skilled personnel, IT failures (including due to a computer virus or a failure to anticipate or prevent cyber attacks or other attempts to gain unauthorised access to digital systems for purposes of misappropriating assets or sensitive information, corrupting data, or impairing operational performance, or security breaches by third parties), inadequate or failed internal control processes and systems, regulatory breaches, human errors, employee misconduct including fraud, or from natural disasters or other external events that interrupt normal business operations. The Issuer depends on the secure processing, storage and transmission of confidential and other information in its computer systems and networks. The equipment and software used in the Issuer's computer systems and networks may not always be capable of processing, storing or transmitting information as expected. Despite the Issuer's business continuity plans and procedures, certain of the Issuer's computer systems and networks may have insufficient recovery capabilities in the event of a malfunction or loss of data. The Issuer is currently in the process of replacing its IT/operational systems as contemplated by its Think Forward strategy. Any failure or delay in implementation or integration of the new IT/operational systems on the anticipated time schedule or a failure of these systems to operate as anticipated could affect the Issuer's ability to efficiently serve its clients, process, store or transmit information as well as its ability to implement its Think Forward strategy in the manner and time frame currently contemplated. Like other financial institutions and global companies, the Issuer is regularly the target of attempted cyber attacks, particularly threats from Distributed Denial of Services (**DDos**), targeted attacks (also called advanced Persistent Threats) (**Targeted Attacks**) and ransomware (also known as cryptoviral extortion) (**Ransomware**) intensify worldwide, and attempts to gain unauthorised access, and the techniques used for such attacks are increasingly sophisticated. In the case of a DDos attack, multiple compromised systems are targeting one single system. The flood of traffic or requests for data coming from different sources overwhelms the target, causing a denial of service by the target. Targeted Attacks on the other hand refer to IT attacks that focus on specific targets (for example industries, political parties, governmental institutions, etc.). Targeted attacks are often not isolated incidents, but form part of a grand scheme for which different methods are used over a longer period in time. Finally, Ransomware is a type of malware which causes the victim's data to be locked –often through encryption- and only to be unlocked once the victim makes a payment.

The Issuer has faced, and expect this trend to continue, an increasing number of attempted cyber attacks as the Issuer has expanded its mobile- and other internet-based products and services, as well as its usage of mobile and cloud technologies. In addition, due to the Issuer's interconnectivity with third-party vendors, exchanges, clearing houses, financial institutions and other third parties, the

Issuer could be adversely impacted if any of them is subject to a successful cyber attack or other information security event. Whilst the Issuer has policies and processes to protect its systems and networks, and strives to continuously monitor and develop them to protect its technology infrastructure and data from misappropriation, they may be vulnerable to unauthorised access, computer viruses or other malicious code, cyber attacks and other external attacks or internal breaches that could have a security impact and jeopardise the Issuer's confidential information or that of its clients or its counterparties. These events can potentially result in financial loss and harm to the Issuer's reputation, hinder its operational effectiveness, result in regulatory censure, and could have a material adverse effect on its business, reputation, revenues, results of operations, financial condition and prospects. Widespread outbreaks of communicable diseases may impact the health of the Issuer's employees, increasing absenteeism, or may cause a significant increase in the utilisation of health benefits offered to its employees, either or both of which could adversely impact its business. In addition, other events including unforeseeable and/or catastrophic events can lead to an abrupt interruption of activities, and the Issuer's operations may be subject to losses resulting from such disruptions. Losses can result from destruction or impairment of property, financial assets, trading positions, and the loss of key personnel. If the Issuer's business continuity plans are not able to be implemented, are not effective or do not sufficiently take such events into account, losses may increase further.

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

The Issuer is involved in governmental, regulatory, arbitration and legal proceedings and investigations involving claims by and against it which arise in the ordinary course of business, including in connection with its activities as financial services provider, employer, investor and taxpayer. Financial reporting irregularities involving other large and well-known companies, possible findings of government authorities in various jurisdictions which are investigating several rate-setting processes, notifications made by whistle-blowers, increasing regulatory and law enforcement scrutiny of "know your customer" anti-money laundering, tax evasion, prohibited transactions with countries or persons subject to sanctions, and bribery or other anti-corruption measures and anti-terrorist-financing procedures and their effectiveness, regulatory investigations of the banking industry, and litigation that arises from the failure or perceived failure by the Issuer to comply with legal, regulatory, tax and compliance requirements, could result in adverse publicity and reputational harm, lead to increased regulatory supervision, affect the Issuer's ability to attract and retain customers and maintain access to the capital markets, result in cease and desist orders, claims, enforcement actions, fines and civil and criminal penalties or other disciplinary action, or have other material adverse effects on the Issuer in ways that are not predictable. Some claims and allegations may be brought by or on behalf of a class and claimants may seek large or indeterminate amounts of damages, including compensatory, liquidated, treble and punitive damages. See also "*The Issuer is exposed to the risk of claims from customers who feel misled or treated unfairly because of advice or information received*" above. The Issuer's reserves for litigation liabilities may prove to be inadequate.

Claims and allegations, should they become public, need not be well founded, true or successful to have a negative impact on the Issuer's reputation. In addition, press reports and other public statements that assert some form of wrongdoing could result in inquiries or investigations by regulators, legislators and law enforcement officials, and responding to these inquiries and investigations, regardless of their ultimate outcome, is time-consuming and expensive. Adverse publicity, claims and allegations, litigation and regulatory investigations and sanctions may have a material adverse effect on the Issuer's business, revenues, results of operations, financial condition and/or prospects in any given period. For additional information with respect to specific proceedings, see "*General Information — Litigation*".

ING's Transformation Plan may not achieve its targets

In October 2016, ING announced its transformation plan for the 5 years to come (Transformation Plan), to remain on track in delivering on its purpose and customer promise: empowering people to stay a step ahead in life and in business. This Transformation Plan, that is still subject to the approval of the European Central Bank, will:

- further optimize its branch network. The optimization of the branch network of ING will include a merger with its subsidiary Record Bank which brand will disappear, a transfer of the Record Bank customers to ING (which all took place in the period from April to June 2018) and a new mix between statutory and independent branches; and
- imply a move towards one integrated banking platform between ING in Belgium and in the Netherlands. This Orange Bridge/Unite will be built on the concepts of one strategy, one value proposition and one set of systems.

Hence, the Transformation Plan includes (i) a simplification of the organization (including IT) and of the product offering, (ii) cost-reduction measures and (iii) a decrease of the ING risk profile and of its capital requirements. The Transformation Plan is therefore subject to a variety of risks, including:

- contemplated costs or timelines to effect these initiatives may exceed estimates;
- the loss of skilled employees in connection with the initiatives; and
- projected revenues, savings or economies of scale may fall short of targets.

While ING has begun and expects to continue to implement these strategies, there can be no assurance that ING will be able to do so successfully or that ING will realize the projected benefits of these restructuring. If ING is unable to realize these benefits, ING's business may be adversely affected. Moreover, continued implementation of restructuring may have a material adverse effect on ING's business and financial condition.

PART 3 – RISKS RELATING TO THE MORTGAGE PANDBRIEVEN

Risks related to Mortgage Pandbrieven in general

The risk factors below include a summary description of certain risks relating to the Mortgage Pandbrieven in general:

Belgian Covered Bond Regulations

The Mortgage Pandbrieven as described in this Base Prospectus will be issued on the basis of and in accordance with the provisions of the statutory framework constituted by the Belgian Covered Bond Regulations. To date the provisions of the Belgian Covered Bond Regulations have not yet been the object of interpretation by case law. Furthermore, only a limited number of issuances of similar securities as the Mortgage Pandbrieven have been based on the Belgian Covered Bond Regulations. The application and implementation of certain provisions of the Belgian Covered Bond Regulations may therefore remain open to further interpretation discussions and the possibility that amendments or changes, affecting the Mortgage Pandbrieven may be needed cannot be excluded.

Potential Pandbrieven Holders may be unfamiliar with certain aspects of the Belgian Covered Bond Regulations (and, in a more general sense, Belgian law) as referred to in this Base Prospectus. Potential Pandbrieven Holders should pay particular attention to sections of the Base Prospectus containing such references. For further information on the Belgian Covered Bond Regulations, see “*Summary of the Belgian Covered Bond Regulations*” below.

Change of Law

The Mortgage Pandbrieven are based on Belgian law, tax rules, regulations, guidelines and administrative practice in effect as at the date of the relevant Mortgage Pandbrieven. No assurance can be given that there will be no change to such law, tax rules, regulations, guidelines and administrative practice after the date of issuance of the relevant Mortgage Pandbrieven which might have an adverse impact on the Mortgage Pandbrieven. Such changes may occur at any time (including during any subscription period or the term of the Mortgage Pandbrieven), resulting in an adverse effect on a Pandbrieven Holder, including that the Mortgage Pandbrieven may be redeemed before their due date, their liquidity may decrease and/or the tax treatment of amounts payable to or receivable by an affected Pandbrieven Holder may be less than otherwise expected by such Pandbrieven Holder.

Liabilities under the Mortgage Pandbrieven

The Mortgage Pandbrieven will be solely obligations of the Issuer. The Issuer will be liable solely in its corporate capacity for its obligations in respect of the Mortgage Pandbrieven and such obligations will not be the obligations of its respective officers, members, directors, employees, security holders or incorporators.

The Mortgage Pandbrieven will not be obligations or responsibilities of, or guaranteed by, any other entity or person than the Issuer, in whatever capacity acting, including (without limitation) the Mortgage Pandbrieven Holders’ Representative, the Cover Pool Monitor, the Cover Pool Administrator, the Supervisor, the Agents, the Hedging Counterparties, the Arranger, or the Dealers or any of their officers, members, directors, employees, security holders or incorporators. None of the Arranger, the Dealers, the Hedging Counterparties, the Mortgage Pandbrieven Holders’ Representative, the Cover Pool Monitor, the Agents, the Cover Pool Administrator, the Supervisor, any company in the same group of companies as such entities or any other party to the Programme Documents will accept any liability whatsoever in respect of any failure by the Issuer to pay any amount due under the Mortgage Pandbrieven.

CRA Regulation

In general, European regulated investors are restricted under the CRA Regulation from using credit ratings for regulatory purposes, unless such ratings are issued by a credit rating agency established in the EU and registered under the CRA Regulation (and such registration has not been withdrawn or suspended), subject to transitional provisions that apply in certain circumstances whilst the registration application is pending. Such general restriction will also apply in the case of credit ratings issued by non-EU credit rating agencies, unless the relevant credit ratings are endorsed by an EU-registered credit rating agency or the relevant non-EU rating agency is certified in accordance with the CRA Regulation (and such endorsement action or certification, as the case may be, has not been withdrawn or suspended). The list of registered and certified rating agencies published by the European Securities and Markets Authority (**ESMA**) on its website in accordance with the CRA Regulation is not conclusive evidence of the status of the relevant rating agency included in such list, as there may be delays between certain supervisory measures being taken against a relevant rating agency and the publication of the updated ESMA list. Certain information with respect to the credit rating agencies and ratings will be disclosed in the applicable Final Terms.

Modifications and waivers under the Mortgage Pandbrieven and the Programme Documents without Pandbrieven Holders' consent

Pursuant to the Conditions and the terms of the Mortgage Pandbrieven Holder Representative Agreement, the Mortgage Pandbrieven Holders' Representative may, without the consent or sanction of any of the Pandbrieven Holders or any of the Other Cover Pool Creditors, agree to modifications and waivers under the Mortgage Pandbrieven and the Programme Documents consent if :

- (i) the Mortgage Pandbrieven Holders' Representative is of the opinion that the proposed amendment or waiver will not be materially prejudicial to the interests of any of the Pandbrieven Holders of any Series; or
- (ii) if such proposed amendment or waiver is of a formal, minor or technical nature; or
- (iii) the modification in the opinion of the Mortgage Pandbrieven Holders' Representative is to correct a manifest error or to comply with mandatory provisions of law; or
- (iv) such modification or amendment would cause such Programme Document to better reflect or comply with the provisions and requirements of the Belgian Covered Bond Regulations.

Furthermore, the Conditions contain provisions for calling meetings of Pandbrieven Holders to consider matters affecting their interests generally, including modifications to the Conditions and the Programme Documents. These provisions permit defined majorities to bind all Pandbrieven Holders including Pandbrieven Holders who did not attend and vote at the relevant meeting and Pandbrieven Holders who voted in a manner contrary to the majority.

Capital requirements and/or liquidity associated with a holding of the Mortgage Pandbrieven for certain investors

The Basel III standards issued on 1 June 2011 envisage a substantial strengthening of existing prudential rules, including new requirements intended to reinforce capital standards and to establish minimum liquidity standards and a leverage ratio "backstop" for financial institutions. In particular, the changes include, amongst other things, new requirements for the capital base, measures to strengthen the capital requirements for counterparty credit exposures arising from certain transactions and the introduction of a leverage ratio as well as short-term and longer-term standards for funding liquidity (referred to as the Liquidity Coverage Ratio and the Net Stable Funding Ratio). Member countries are required to implement the new capital standards from January 2013, the new Liquidity Coverage Ratio from January 2015 and the Net Stable Funding Ratio from January 2018. The Basel Committee introduced additional capital requirements for global systemically important banks. The changes approved by the Basel Committee may have an impact on the capital requirements in respect of the Mortgage Pandbrieven and/or on incentives to hold the Mortgage Pandbrieven for investors that are subject to requirements that follow the revised framework and, as a result, they may

affect the liquidity and/or value of the Mortgage Pandbrieven. See also *Risk Factors – Part 2. Basel III* above.

The European authorities support the work of the Basel Committee on the approved changes in general and implemented Basel III through CRD IV (as described above). In general, investors should consult their own advisers as to the regulatory capital requirements in respect of the Mortgage Pandbrieven and as to the consequences for and effect on them of the Basel III framework as implemented in the EU by CRD IV and other relevant implementing measures (including various technical standards). No predictions can be made as to the precise effects of such matters on any investor or otherwise.

Early redemption

The Conditions provide for an early redemption of the Mortgage Pandbrieven in the case of an illegality or tax gross-up. Investors willing to reinvest the funds received in such case may face reinvestment risk in light of the available investment opportunities at such time. Investors may only be able to reinvest in securities with a lower yield than the redeemed Mortgage Pandbrieven.

Moreover, following the opening of winding-up proceedings against the Issuer, the Cover Pool Administrator may in certain circumstances proceed with the liquidation of the Special Estate and early redemption of the Mortgage Pandbrieven (see section “*Realisation of the Special Estate and Sale of Cover Assets*” below). There is a risk that, in such circumstances, the proceeds from the liquidation of the Special Estate will not be sufficient to cover the Early Redemption Amount due under the Mortgage Pandbrieven and that Pandbrieven Holders or the Mortgage Pandbrieven Holders’ Representative on their behalf will have to introduce a contingent unsecured claim against the Issuer’s general bankruptcy estate in order to preserve their recourse against the General Estate. Such claim would rank *pari passu* with all other present and future outstanding unsecured obligations of the Issuer, save for such obligations as may be preferred by law that are both mandatory and of general application (which includes the deposit holders which, in accordance with art. 389 of the Credit Institutions Supervision Law, have a lien on all movable assets in the General Estate).

Mortgage Pandbrieven issued under the Programme will either be fungible with an existing Series of Mortgage Pandbrieven or have different terms to any existing Series of Mortgage Pandbrieven (in which case they will constitute a new Series). All Mortgage Pandbrieven will rank *pari passu* and *pro rata* without any preference or priority among themselves, irrespective of their Series.

Following the occurrence of an Event of Default and service by the Mortgage Pandbrieven Holders’ Representative of a Notice of Default, the Mortgage Pandbrieven of all outstanding Series will become immediately due and payable against the Issuer.

Certain decisions of Pandbrieven Holders need to be taken at Programme level

A resolution to direct the Mortgage Pandbrieven Holders’ Representative to start any enforcement action must be taken by way of an Extraordinary Resolution passed at a single meeting of the holders of all Mortgage Pandbrieven of all Series then outstanding.

Holdings by the Issuer and affiliates

In accordance with Article 12, §1 of Annex III to the Credit Institutions Supervision Law, the Issuer is explicitly allowed to subscribe or acquire its own Mortgage Pandbrieven. Furthermore, there are no restrictions included in the Conditions for affiliates of the Issuer to subscribe or acquire Mortgage Pandbrieven which may therefor hold a position in the Mortgage Pandbrieven. Based on Condition 7.1.3, only the Issuer shall not have any voting rights with respect to the Mortgage Pandbrieven it holds.

ECB's third covered bond purchase programme

On 20 October 2014 the Eurosystem started to buy covered bonds under a third covered bond purchase programme (implemented by a decision of the ECB of 15 October 2014 (ECB/2014/40)). This programme has a sizeable impact on the ECB's balance sheet. The purpose of this purchase programme is to enhance the functioning of the monetary policy transmission mechanism, support financing conditions in the euro area, facilitate credit provision to the real economy and generate positive spillovers to other markets. Additional requirements apply.

ECB's purchase programme may have a negative impact on the liquidity of Mortgage Pandbrieven and may make it more difficult for investors to sell their Mortgage Pandbrieven in the secondary market. ECB's purchase programme pushes down yields on these bonds and this may encourage investors to shift into riskier bonds.

Risks related to specific types of Mortgage Pandbrieven

The Programme allows for the issuance of different types of Mortgage Pandbrieven with a wide variety of distinctive features. Certain features may create particular risk for potential investors. The risk factors below contain a description of the most common of such features:

Mortgage Pandbrieven with an Extended Maturity Date

The Final Terms applicable to a Series of Mortgage Pandbrieven may provide that the obligations of the Issuer to pay the Principal Amount Outstanding due on the relevant Maturity Date (the **Final Redemption Amount**) may be deferred until a later date (such date the **Extended Maturity Date**). To the extent an Extended Maturity Date is applicable in respect of a Series of Mortgage Pandbrieven, the Pandbrieven Holders are subject to an extension risk. The extension of the Maturity Date will occur automatically if the Issuer has failed to pay any amount of the Final Redemption Amount within fourteen Business Days after the applicable Final Maturity Date of such Series (as specified in the applicable Final Terms). Notwithstanding such extension, the Issuer shall be entitled to pay any amount of Final Redemption Amount remaining unpaid on the relevant Maturity Date, on any Interest Payment Date thereafter up to (and including) the Extended Maturity Date. The payment of the Final Redemption Amount shall become due and payable on the Extended Final Maturity Date of the relevant Series, as specified in the applicable Final Terms.

In the event the maturity of the Final Redemption Amount is extended from the applicable Maturity Date until the Extended Maturity Date, the Pandbrieven Holders shall not be entitled to accelerate the Mortgage Pandbrieven or to take any action against the Issuer and the Special Estate. The amount unpaid under the Mortgage Pandbrieven will continue to accrue interest up to the Extended Maturity Date in accordance with the Conditions and the Issuer will make payments of accrued interest on each relevant Interest Payment Date up to (and including) the Extended Maturity Date, until the Final Redemption Amount is paid in full. Unless otherwise set out in the applicable Final Terms of the relevant Series, no other amount is payable as a result of the extension of the Maturity Date being triggered.

It should be noted that an extension of the maturity of a particular Series of Mortgage Pandbrieven will not automatically result in an extension of the maturity date of any other Series. However, any other Series of Mortgage Pandbrieven, the Maturity Date of which falls due for payment within the same calendar month as an Interest Payment Date for a Series of Mortgage Pandbrieven to which an Extended Maturity Date applies, will only be redeemed if and to the extent that the Issuer is able to redeem in full (in such calendar month) the Series to which the Extended Maturity Date applies. If it is unable to do so, or is unable to redeem in full the Series to which an Extended Maturity Date did not apply, then such Series will also (to the extent not redeemed in full within fourteen Business Days of the relevant Maturity Date) become subject to extension of its Maturity Date.

Fixed Rate Mortgage Pandbrieven

Investors in Fixed Rate Mortgage Pandbrieven are exposed to a decrease in value of their investment that could result in case of subsequent increases of market interest rates. If the Final Terms of the Mortgage Pandbrieven provide for frequent interest payment dates, investors are exposed to the reinvestment risk if market interest rates decline, because investors may reinvest the interest income paid to them only at the relevant lower interest rates then prevailing.

Floating Rate Mortgage Pandbrieven

A key difference between Floating Rate Mortgage Pandbrieven and Fixed Rate Mortgage Pandbrieven is that interest income on Floating Rate Mortgage Pandbrieven cannot be anticipated. Due to varying interest income, investors are not able to determine a definite yield of Floating Rate Mortgage Pandbrieven at the time they purchase them, so that their return on investment cannot be compared with that of investments having fixed interest periods. If the Final Terms of the Mortgage Pandbrieven provide for frequent interest payment dates, investors are exposed to the reinvestment risk if market interest rates decline, because investors may reinvest the interest income paid to them only at the relevant lower interest rates then prevailing.

Zero Coupon Mortgage Pandbrieven

Changes in market interest rates have a substantially stronger impact on the prices of Zero Coupon Mortgage Pandbrieven than on the prices of ordinary Mortgage Pandbrieven because the discounted issue prices are substantially below par. If market interest rates increase, Zero Coupon Mortgage Pandbrieven can suffer higher price losses than other Mortgage Pandbrieven having the same maturity and credit rating. Due to their leverage effect, Zero Coupon Mortgage Pandbrieven are a type of investment associated with a particularly high price risk.

Mortgage Pandbrieven where Maximum Rate of Interest applies

Mortgage Pandbrieven where a Maximum Rate of Interest applies, have an interest rate that is subject to a maximum specified rate. The maximum amount of interest payable in respect of these Mortgage Pandbrieven will occur when the sum of the relevant reference rate and the specified margin (if any) equals the maximum specified rate. Investors in such Mortgage Pandbrieven will therefore not benefit from any increase in the relevant reference rate which, when the specified margin is added to such reference rate, would otherwise cause such interest rate to exceed the maximum specified rate. The market value of these Mortgage Pandbrieven would therefore typically fall if the sum of the relevant reference rate and the margin becomes closer to the maximum specified rate.

Mortgage Pandbrieven issued at a substantial discount or premium

The market values of securities issued at a substantial discount (such as Zero Coupon Mortgage Pandbrieven) or premium from their principal amount tend to fluctuate more in relation to general changes in interest rates than prices for conventional interest-bearing securities do. Generally, the longer the remaining term of the securities, the greater the price volatility as compared to conventional interest-bearing securities with comparable maturities.

Mortgage Pandbrieven not contemplated by the Base Prospectus

The Issuer may from time to time issue Mortgage Pandbrieven under the Programme in any form agreed between the Issuer and the relevant Dealer or investor. The issuance of these Mortgage Pandbrieven is subject to compliance with the Special Estate Administration Agreement, which contains certain terms to which all Mortgage Pandbrieven issued under the Programme will be subject. These Mortgage Pandbrieven will furthermore be subject to terms and conditions and final terms which may be agreed with the Issuer at the time of their issuance.

The issuance of these Mortgage Pandbrieven is also subject to the Belgian Covered Bond Regulations (see also “*Summary of the Belgian Covered Bond Legislation*” below). The Pandbrieven Holders should note that all Mortgage Pandbrieven will rank *pari passu* among themselves and that, as a result, the proceeds of the Special Estate will be applied to the satisfaction of amounts due and payable to all Pandbrieven Holders on a pro rata basis.

Mortgage Pandbrieven in dematerialised form

The Mortgage Pandbrieven may be issued in the form of dematerialised securities under the Belgian Company Code and will be represented exclusively by book entries in the records of the Securities Settlement System.

Access to the Securities Settlement System is available through participants in the Securities Settlement System whose membership extends to securities such as the Mortgage Pandbrieven (the **Participants**). Participants include certain Belgian banks, stock brokers (*beursvennootschappen/sociétés de bourse*), Clearstream, Luxembourg, Euroclear, SIX SIS (Switzerland) or Monte Titoli (Italy).

Transfers of interests in the Mortgage Pandbrieven will be effected between the Participants in accordance with the rules and operating procedures of the Securities Settlement System. Transfers between investors will be effected in accordance with the respective rules and operating procedures of the Participants through which they hold their Mortgage Pandbrieven.

The Issuer and the Fiscal Agent will not have any responsibility for the proper performance by the Securities Settlement System or its Participants of their obligations under their respective rules and operating procedures.

Credit ratings of the Mortgage Pandbrieven

If applicable, the expected credit ratings of the Mortgage Pandbrieven are set out in the applicable Final Terms for each Series of Mortgage Pandbrieven. In addition to issuing Mortgage Pandbrieven that are rated, the Issuer may also issue Mortgage Pandbrieven which are unrated. Credit rating agencies may also assign (additional) credit rating to the Mortgage Pandbrieven on an unsolicited basis.

The credit ratings that may be assigned to the Mortgage Pandbrieven (where applicable) address:

- the likelihood of full and timely payment to Pandbrieven Holders of all payments of interest on each Interest Payment Date;
- the likelihood of ultimate payment of principal in relation to Mortgage Pandbrieven on (a) the Maturity Date thereof, or (b) if the Mortgage Pandbrieven are subject to an Extended Maturity Date in accordance with the applicable Final Terms, the Extended Maturity Date thereof; and
- (in relation to Fitch) their probability of default but also incorporate an element of recovery should default occur. Credit ratings assigned by Fitch exclude event risk, such as a change in legislation governing a jurisdiction’s covered bond framework, or the merger of an issuer with another entity.

There is no guarantee that ratings will be assigned or maintained.

If any credit rating assigned to the Mortgage Pandbrieven is lowered or withdrawn, the market value of the Mortgage Pandbrieven may reduce. The credit ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed above, and other factors that may affect the value of the Mortgage Pandbrieven. A credit rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time.

In general, European regulated investors are restricted under the CRA Regulation (as defined on the cover page of this Base Prospectus) from using credit ratings for regulatory purposes, unless such ratings are issued by a credit rating agency established in the EU and registered under the CRA Regulation (and such registration has not been withdrawn or suspended), subject to transitional provisions that apply in certain circumstances whilst the registration application is pending. Such general restriction will also apply in the case of credit ratings issued by non-EU credit rating agencies, unless the relevant credit ratings are endorsed by an EU-registered credit rating agency or the relevant non-EU rating agency is certified in accordance with the CRA Regulation (and such endorsement action or certification, as the case may be, has not been withdrawn or suspended). Certain information with respect to the credit rating agencies and ratings will be disclosed in the applicable Final Terms.

Inflation Risk

The inflation risk is the risk of future money depreciation. The real yield from an investment is reduced by inflation. The higher the rate of inflation, the lower the real yield on a Mortgage Pandbrief. If the inflation rate is equal to or higher than the nominal yield, the real yield is zero or even negative.

Currency Exchange Rate Risk

The Issuer will pay interest and principal on the Mortgage Pandbrieven in the Specified Currency. This presents certain risks relating to currency conversion if the Pandbrieven Holder's financial activities are denominated principally in a currency or currency unit (**Investor's Currency**) other than the Specified Currency. These include the risk exchange rate may significantly change (including changes due to devaluation of the Specified Currency or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may modify exchange controls. An appreciation in the value of the Investor's Currency relative to the Specified Currency would decrease (1) the Investor's Currency's equivalent yield on the Mortgage Pandbrieven, (2) the Investor's Currency equivalent value, and (3) the Investor's Currency equivalent market value of the Mortgage Pandbrieven.

Gouvernement and monetary authorities may impose (as some have done in the past) exchange controls that would adversely affect an applicable exchange rate and/or restrict currency within or outside of a particular jurisdiction which in turn would adversely affect the ability by the Issuer to make payment in respect of the Mortgage Pandbrieven. As a result, investors may receive less interest and principal than expected, or receive it later than expected.

Reference Rates and Benchmark

The London Interbank Offered Rate (**LIBOR**), the Euro Interbank Offered Rate (**EURIBOR**) and other interest rates or other types of rates and indices which are deemed to be "benchmarks" (the **Benchmarks**) are the subject of ongoing national and international regulatory reform. Following the implementation of any such potential reforms, the manner of administration of benchmarks may change, with the result that they may perform differently than in the past, or benchmarks could be eliminated entirely, or there could be other consequences which cannot be predicted. In June 2016, the European Union adopted a Regulation (the **BMR**) on indices (such as LIBOR and EURIBOR) used in the European Union as benchmarks in financial contracts. The BMR became effective as of 1 January 2018. It provides that administrators of benchmarks in the European Union generally must be authorised by or registered with regulators no later than 1 January 2020, and that they must comply with a code of conduct designed primarily to ensure reliability of input data, governing issues such as conflicts of interest, internal controls and benchmark methodologies. Benchmark administrators in the United Kingdom will be required to comply with the BMR so long as the United Kingdom remains part of the European Union (and possibly thereafter, depending on the terms of withdrawal), and will also be required to comply with U.K. national requirements.

In March 2017, the European Money Markets Institute (**EMMI**) published a position paper setting out the legal grounds for certain proposed reforms to EURIBOR. The proposed reforms seek to clarify the EURIBOR specification, to align the current methodology with the BMR, the IOSCO Principles (i.e., nineteen principles which are to apply to Benchmarks used in financial markets as published by the Board of the International Organisation of Securities Commissions in July 2013) and other regulatory

recommendations and to adapt the methodology to better reflect current market conditions. EMMI is more specifically aiming to evolve the current quote based methodology to a transaction based methodology in order to better reflect the underlying interest that it intends to measure and adapt to the prevailing market conditions. In particular, it is contemplated that it will be anchored on actual market transaction input data whenever available, and on other funding sources if transaction data are insufficient. In a statement published in January 2018, EMMI indicated that it aims to launch the hybrid methodology for EURIBOR by the fourth quarter of 2019 at the latest, in accordance with the transitional period provided for by the BMR. On 29 March 2018, EMMI launched its first stakeholder consultation on the hybrid methodology. The consultation closed on 15 May 2018 and is followed by an in-depth testing of the proposed methodology under live conditions from May to August 2018.

In addition, on 27 July 2017, the United Kingdom Financial Conduct Authority (**FCA**) announced that it will no longer persuade or compel banks to submit rates for the calculation of the LIBOR benchmark after 2021. The announcement indicates that the continuation of LIBOR on the current basis cannot and will not be guaranteed after 2021. The potential elimination of the LIBOR benchmark or any other benchmark, or changes in the manner of administration of any benchmark, could require an adjustment to the terms and conditions, or result in other consequences, in respect of any Mortgage Pandbrieven linked to such benchmark (including but not limited to Mortgage Pandbrieven whose interest rates are linked to LIBOR).

The Terms and Conditions of the Mortgage Pandbrieven provide for certain fallback arrangements in the event that a published benchmark, including an inter-bank offered rate such as LIBOR, EURIBOR or other relevant reference rates (including any page on which such benchmark may be published (or any successor service)) becomes unavailable or a Benchmark Event otherwise occurs, including the possibility that the rate of interest could then be set by reference to a successor rate or an alternative reference rate and that such successor rate or alternative reference rate may be adjusted (if required) in order to reduce or eliminate, to the fullest extent reasonably practicable in the circumstances, any economic prejudice or benefit (as applicable) to investors arising out of the replacement of the relevant benchmark, all as determined by the Issuer (acting in good faith and in consultation with an Independent Adviser). In certain circumstances the ultimate fallback for the purposes of calculation of interest for a particular Interest Period may result in the rate of interest for the last preceding Interest Period being used. For example, this may result in the effective application of a fixed rate for Floating Rate Mortgage Pandbrieven based on the rate which was last observed on the Relevant Screen Page. In addition, due to the uncertainty concerning the availability of successor rates and alternative reference rates and the involvement of an Independent Adviser, the relevant fallback provisions may not operate as intended at the relevant time.

Any such consequences could have a material adverse effect on the trading market for, liquidity of, value of and return on the relevant Mortgage Pandbrieven. Moreover, any of the above matters or any other significant change to the setting or existence of any relevant reference rate could affect the ability of the Issuer to meet its obligations under such Mortgage Pandbrieven or could have a material adverse effect on the value or liquidity of, and the amount payable under, or in respect of, such Mortgage Pandbrieven. Investors should consider these matters when making their investment decision with respect to the relevant Mortgage Pandbrieven.

Furthermore, if LIBOR, EURIBOR or any other relevant interest rate benchmark is discontinued, and whether or not Benchmark Amendments are made under Condition 4.7 (d) to change the base rate with respect to the Floating Rate Mortgage Pandbrieven as described in the second paragraph above, there can be no assurance that the applicable fall-back provisions under any swap agreements would operate to allow the transactions under such swap agreements to effectively mitigate interest rate risk in respect of the Mortgage Pandbrieven.

In addition, it should be noted that broadly divergent interest rate calculation methodologies may develop and apply as between the Residential Mortgage Loans and the Mortgage Pandbrieven due to applicable fall-back provisions or other matters and the effects of this are uncertain but could include a reduction in the amounts available to the Issuer to meet its obligations under the Mortgage Pandbrieven.

PART 4 – RISKS RELATING TO THE MORTGAGE PANDBRIEVEN AND THE SPECIAL ESTATE

The risk factors below include a summary description of certain risks relating to the Mortgage Pandbrieven, more specifically in relation to the Special Estate.

Credit risk

An investor in Mortgage Pandbrieven is exposed to the credit risk of the Issuer. In the event the Issuer fails to make any payments of principal or interest, in part or in full, the Pandbrieven Holder will have no recourse against any other person.

This credit risk is to some extent mitigated by the creation of the Special Estate, a segregated pool of assets that exclusively cover the obligation of the Issuer under and in relation to Mortgage Pandbrieven (*bijzonder vermogen/patrimoine spéciale*) (the **Special Estate**). The Pandbrieven Holders and the Other Cover Pool Creditors will have not only have recourse to the General Estate of the Issuer as any other creditor, but also an exclusive recourse against the Special Estate (see section *Summary of the Belgian Covered Bond Regulations – 3. Special Estate* below).

The main asset category of the Special Estate will consist of Residential Mortgage Loans, their Related Security and all monies derived therefrom from time to time in accordance with the Belgian Covered Bond Regulations. In accordance with Article 3, §1, 1° of the Covered Bonds Royal Decree, the value of such Residential Mortgage Loans that are part of the Special Estate must represent at least 85 per cent. of the aggregate Principal Amount Outstanding of all Mortgage Pandbrieven of all Series then outstanding. The Mortgage Pandbrieven are therefore, amongst others, exposed to the credit risk of the Residential Mortgage Loans that are part of the Special Estate.

Liquidity risk

The maturity and amortisation profile of the Cover Assets may not match the repayment profile and maturities of the Mortgage Pandbrieven.

In order to comply with the Covered Bond Regulations the Programme needs to incorporate solutions addressing this liquidity risk. The Liquidity Test set out in Article 7, §1 of the Covered Bonds Royal Decree in particular requires that the Cover Assets of the Special Estate generate sufficient liquidity or contain enough liquid assets in order to allow the Issuer to make all unconditional payments under or in relation to the Mortgage Pandbrieven falling due in the following six (6) month period (including payments of principal, interest and other costs under the Mortgage Pandbrieven). If an Extended Maturity Date is specified in the applicable Final Terms for a Series of Mortgage Pandbrieven, any payments which shall be subject to an extension in accordance with the Conditions shall, however, not be considered as unconditional for the purpose of the Liquidity Test.

Under the Programme, the Issuer may address liquidity risk and ensure compliance with the Liquidity test by entering into a liquidity facility (provided the counterparty is a credit institution outside the group that satisfies certain credit quality requirements) or by holding Cover Assets with a short-term amortisation profile or liquid assets such as cash. The Conditions include an Undertaking of the Issuer with regard to Liquidity of the Special Estate (See Condition 2.6(c)). Under the Conditions, the Issuer furthermore has the option to retain all or part of the Mortgage Pandbrieven for liquidity purposes.

Statutory Tests applicable to Special Estate

The Statutory Tests applicable to the Special Estate are intended to ensure that the Issuer maintains an adequate amount of Cover Assets in the Special Estate to enable the Issuer to meet its obligations under the Mortgage Pandbrieven. Failure to satisfy the Statutory Tests may have an adverse effect on the ability of the Issuer to meet its payment obligations in respect of the Mortgage Pandbrieven. If the Issuer is (and, as applicable, following a grace period, remains) unable to meet the requirements of the Statutory Tests, the Supervisor can revoke the Issuer's license to issue Belgian covered bonds. Furthermore, at any time the Liquidity Test is not complied with, the Issuer shall not be able to issue further Mortgage Pandbrieven.

Characteristics of the Cover Assets in the Special Estate are subject to change

There is no assurance that (i) the characteristics allocated to the Cover Assets in the Special Estate on the Issue Date of a Series of Mortgage Pandbrieven will remain the same on any date thereafter nor (ii) that the Issuer, the Cover Pool Monitor or the Supervisor will at all times be able to fully and continuously monitor such changes. It is expected that the composition of the Special Estate will change frequently as a result of additions, removals and/or substitutions of Cover Assets. Cover Assets will however need to satisfy the requirements of Covered Bond Regulations.

Pandbrieven Holders will not receive detailed information or statistics on the Cover Assets in the Special Estate other than the information included in the Investor Report. The Cover Pool Monitor shall at least once a month verify whether the Statutory Tests and the requirements in relation to the Cover Register are met. The Cover Pool Monitor shall immediately inform the NBB as Supervisor if it establishes that the Issuer no longer satisfies the requirements. At the end of each accounting year of the Issuer, the Cover Pool Monitor shall furthermore deliver a report to the NBB as Supervisor including the result of its monitoring duties and confirming whether the Mortgage Pandbrieven in all material respects comply with the requirement of the Covered Bond Regulations in terms of (i) the qualitative requirements and valuation of the Cover Assets, (ii) compliance with the Statutory Tests, and (iii) the correct registration of Cover Assets in the Cover Register.

Factors that may impact the realisable value of the Cover Assets and the Special Estate

The Pandbrieven Holders together with the Other Cover Pool Creditors will have an exclusive recourse against the Special Estate. The value of the Special Estate may vary over time, as the economic value of the Cover Assets may increase or decrease. The Issuer makes no representation, warranty or guarantee that the value of the Cover Assets will remain at the same level as it was on the date of the origination of the related Residential Mortgage Loan or at any other time. Although the Statutory Tests (and the Issuer's obligations to remedy breaches of the Statutory Tests) are intended to ensure that the value of the Special Estate as determined in accordance with the Belgian Covered Bond Regulations is greater than the Principal Amount Outstanding of the Mortgage Pandbrieven covered by the Special Estate, no assurance can be given that the Issuer will at all times (be able to) do so at the time of realisation and that the Cover Assets could be realised for sufficient value to enable the Issuer to meet its obligations under the Mortgage Pandbrieven.

Below is a description of certain factors that may adversely impact the realisable value of Residential Mortgage Loans registered as Cover Assets and their Related Security comprising part of the Special Estate

Payments on Residential Mortgage Loans are subject to credit, liquidity and interest rate risks

Payments on the Residential Mortgage Loans are subject to credit, liquidity and interest rate risks. This may be due to general economic factors such as market interest rates, inflation, changes in the national or international economic climate, regional economic or housing conditions, changes in tax laws and regulatory changes and developments. Also individual factors related to the Borrower (such as loss of earnings, illness, divorce and other similar factors) and its financial standing may lead to an increase in filings for a collective debt arrangement or bankruptcy proceedings by Borrowers and delinquencies. Each of these factors may have an adverse impact on the ability of Borrowers to repay their Residential Mortgage Loan and could reduce the value of the Residential Mortgage Loans (and potential losses) in case the Special Estate would need to be liquidated. The ultimate effect of this could be to delay or reduce the payments on the Mortgage Pandbrieven.

Risks of losses associated with declining real estate values and geographical concentration of the Residential Mortgage Loans

The value of the Residential Mortgage Loans included as Cover Assets in the Special Estate may be affected by, among other things, a decline in property values of the real estate securing such Residential Mortgage Loans. Certain geographic regions may thereby be subject to weaker regional conditions and housing markets than others. Although borrowers are located throughout Belgium, the Borrowers may be concentrated in certain locations. No assurance can be given that property values will remain at the level at which they were on the date of origination of the relevant Residential Mortgage Loans.

Although the Belgian real estate market has proven to be resilient to the economic shocks of the last years and has been continuously seen by many as a safe-haven investment opportunity, the risks for the future are on the downside. Now that the fiscal environment has significantly deteriorated for households, ING believes their purchasing power will be particularly sensitive to higher interest rates. The progressive upward adjustment in interest rates that will follow the ECB monetary policy normalization in 2018-2020 is therefore the main downside risk for Belgian house prices. In this context, ING does not believe that the price developments of the years 2000 will be repeated any time soon and that several years of declining prices could be registered in the years 2018-2021. However, ING does not think that this constitutes a risk for the collateral coverage of the outstanding portfolio, but that it calls for caution in future production years.

Changes to the origination criteria of the Issuer

The Residential Mortgage Loans are originated in accordance with the Issuer's origination criteria at the time of origination. Such origination criteria will generally consider, *inter alia*, type of property, term of loan, age of applicant, the loan-to-value ratio, status of applicant and credit history. The Issuer retains the right to revise its origination criteria from time to time but it would only do so if such a change would be required in accordance with applicable laws and regulations or acceptable to a reasonable, prudent mortgage lender. If the origination criteria change in a manner that results in the Issuer applying more flexible acceptance criteria for Residential Mortgage Loans, this may lead to increased delinquencies and defaults under the Residential Mortgage Loans and may affect the realisable value of the Special Estate, or part thereof. This may in turn impact on the ability of the Issuer to make payments under the Mortgage Pandbrieven.

Realisation of the Special Estate and Sale of Cover Assets

Realisation of the Special Estate may occur in the following circumstances:

- (i) the Issuer, or upon its appointment by the Supervisor, the Cover Pool Administrator may need to liquidate the Special Estate in whole or in part in order to repay the Pandbrieven Holders upon the occurrence of an Event of Default and the service of a Notice of Default by the Mortgage Pandbrieven Holders' Representative;
- (ii) following the initiation of winding-up proceedings against the Issuer and the appointment of the Cover Pool Administrator by the Supervisor, the Cover Pool Administrator may subject to approval of the Supervisor and after consultation with the Mortgage Pandbrieven Holders' Representative, proceed with the liquidation of the Special Estate in order to repay the Pandbrieven Holders to the extent the Cover Assets are not sufficient or risk not being sufficient to satisfy the obligations under the Mortgage Pandbrieven; or
- (iii) following the initiation of winding-up proceedings against the Issuer and the appointment of the Cover Pool Administrator by the Supervisor, the Cover Pool Administrator may after consultation with the Supervisor and the Mortgage Pandbrieven Holders' Representative, proceed with the liquidation of the Special Estate in whole or in part and the repayment of the Pandbrieven Holders when a decision to that effect has been taken at a meeting of Pandbrieven Holders at which at least two thirds of the principal amount of all Mortgage Pandbrieven of all Series is represented.

There is no assurance that in case of such realisation of the Special Estate, the liquidation proceeds will be sufficient to pay all amounts due to the Pandbrieven Holders and the Other Cover Pool Creditors under and in relation to the Mortgage Pandbrieven and the Programme Documents in accordance with the applicable Priority of Payments (See also “*Factors that may impact the realisable value of the Cover Assets and the Special Estate*” below). The Mortgage Pandbrieven may therefore be repaid sooner or later than expected or not at all.

Following its appointment, the Cover Pool Administrator, or any person appointed by the Cover Pool Administrator, will furthermore be entitled to sell, in whole or in part, the Cover Assets in order to help satisfy the Issuer’s obligations in respect of the Mortgage Pandbrieven. Any such transaction that entails or risks to entail that the Cover Tests, the Liquidity Test or the contractual provisions can no longer be fulfilled, will require the prior approval of the Supervisor and of the Mortgage Pandbrieven Holders’ Representative.

There is no guarantee that the Cover Pool Administrator will be able to sell in whole or in part the Cover Assets as the Cover Pool Administrator may not be able to find a buyer at the time it chooses to sell.

Transfer of the Special Estate in case of winding-up or distress

Under the following circumstances, the Special Estate may also be transferred to another entity:

- (i) following the initiation of winding-up proceedings against the Issuer and the appointment of the Cover Pool Administrator by the Supervisor, the Cover Pool Administrator may, in the interest of the Pandbrieven Holders and subject to approval of the Supervisor, transfer the Special Estate (i.e. all assets and liabilities) and its management to another institution which shall be responsible for the continued performance of the obligations owed to the Pandbrieven Holders in accordance with the originally agreed Conditions (and Final Terms);
- (ii) within the framework of resolution measure taken in accordance with the provisions of the Credit Institutions Supervision Law, the National Resolution Authority may impose a transfer of assets and liabilities of the Issuer to a specially created asset management vehicle in the event (a) that a liquidation of the assets under regular insolvency proceedings could have an adverse effect on one or more financial markets, (b) such transfer is necessary to ensure the proper functioning of the institution under resolution or (c) if such transfer is necessary to maximise liquidation proceeds (Article 265 and the following of the Credit Institutions Supervision Law). Such transfer may include the Special Estate.

Even though the rights of the Pandbrieven Holders against the Special Estate will be maintained and will follow the Special Estate on any such transfer, investors should be aware that in such circumstances, the obligor under the Mortgage Pandbrieven will be the institution to which the Special Estate is transferred.

Other Cover Pool Creditors and subordination

Certain other creditors of the Issuer acting in relation to the issuance of Mortgage Pandbrieven also have, in accordance with the Conditions and the Belgian Covered Bond Regulations, recourse against the Special Estate. These include the Mortgage Pandbrieven Holders’ Representative, the Cover Pool Monitor, any Hedging Counterparty, any Liquidity Facility Provider, the Cover Pool Administrator as well as any of the other Other Cover Pool Creditors (as defined in Condition 1 (*Interpretation*)). In accordance with the Post-Event of Default Priority of Payments and the Early Redemption Priority of Payments (see Condition 9 (*Priorities of Payments*)), the claims of the Pandbrieven Holders may thereby be subordinated to the claims of the Mortgage Pandbrieven Holders’ Representative, the Cover Pool Monitor, the Cover Pool Administrator and the Operational Creditors and will rank *pari passu* with the claims of any Hedging Counterparty and any Liquidity Facility Provider (subject to certain exceptions). As a result, it is possible that none or only part of the proceeds of the Special Estate is available to satisfy amounts due and payable to the Pandbrieven Holders.

This risk is to some extent mitigated by the Statutory Tests (see “*General Description of the Mortgage Pandbrieven*” below).

Acceleration of the Mortgage Pandbrieven by the Pandbrieven Holders

Pandbrieven Holders should be aware that the breach of the Statutory Tests, the non-compliance of the Issuer with the Belgian Covered Bond Regulations and the opening of bankruptcy proceedings with respect to the Issuer will not automatically give them the right to declare the Mortgage Pandbrieven immediately due and payable. Other than pursuant to an Event of Default under Condition 8 (*Events of Default and Enforcement*) or pursuant to Article 11, 7° Annex III to the Credit Institutions Supervision Law (following a winding-up of the Issuer when a decision to that effect has been taken at a meeting of Pandbrieven Holders at which at least two thirds of the principal amount of all Mortgage Pandbrieven of all Series is represented), the Pandbrieven Holders cannot cause an acceleration or early repayment of the Mortgage Pandbrieven.

Recourse on the General Estate and general liens

The Credit Institutions Supervision Law introduced a general lien on movable assets for the benefit of the deposit guarantee fund as well as a general lien on moveable assets for the benefit of natural persons and SMEs for deposits exceeding EUR 100,000. These general liens, which entered into force on the 3rd of March 2015, could have an impact on the recourse that the Special Estate (or any Pandbrieven Holder) would have on the General Estate of the Issuer in the case of an insolvency as the claims which benefit from a general lien will rank ahead of the claim the Special Estate (or any noteholder) against the General Estate in accordance with Article 6, indent 8 of Annex III to the Credit Institutions Supervision Law.

Return of Cover Assets to the General Estate

Any positive balance remaining after the closing of the liquidation of the Special Estate shall by operation of law be part of the General Estate of the Issuer. Cover Assets shall thus in principle only return to the General Estate after all obligations owed under and relation of the Mortgage Pandbrieven have been repaid in full. Following the initiation of winding-up proceedings against the Issuer, the bankruptcy trustee may however require, after consultation with the Supervisor, that the Cover Pool Administrator returns such part of the Cover Assets to the General Estate of which it is certain that they are no longer necessary to serve as Cover Assets. Based on the preparatory works of the Law of 3 August 2012 regarding the implementation of a legal framework for Belgian covered bonds which amended the Credit Institutions Supervision Law, the determination as to whether certain cover assets constitute a surplus that is not necessary for the payment of the covered bond holders must not only take into account the regulatory requirements but also have regard to, as the case may be, the maintenance of the credit ratings assigned by external credit ratings agencies. However, no assurance can be given that such return of Cover Assets to the General Estate will not affect the value of the Mortgage Pandbrieven.

Belgian bankruptcy proceedings

If bankruptcy proceedings were initiated against the Issuer in Belgium, a receiver would be appointed over the Issuer. The initiation of bankruptcy proceedings against the Issuer would not affect the relevant powers of the Cover Pool Administrator to manage the Special Estate to the exclusion of the Issuer and the insolvency administrator. The purpose of such management is to ensure compliance with the obligations under the Mortgage Pandbrieven in accordance with the Conditions.

In addition, bankruptcy proceedings would be limited to the General Estate of the Issuer, since the Special Estate do not form part of the bankruptcy estate of the Issuer. The proceedings do not cause the obligations and debts covered by the Special Estate (such as those resulting from the Mortgage Pandbrieven) to become due and payable.

Pursuant to the Belgian Covered Bonds Regulations, a receiver has a legal obligation to co-operate with the Supervisor and the cover Pool Administrator in order to enable them to manage the Special Estate in accordance with the Belgian Covered Bonds Regulation. There may be certain practical difficulties in this respect, which may cause a delay in the execution of the obligations of the Special Estate towards the Pandbrieven Holders and the Other Cover Pool Creditors.

Whenever a credit institution is subject to a resolution measure in accordance with the provisions of the Credit Institutions Supervision Law (or if all conditions are fulfilled for initiating a resolution measure), no liquidation proceedings (*faillissement / faillite*) can be started without the prior approval of the National Resolution Authority (Article 273 of the Credit Institutions Supervision Law).

The Credit Institutions Supervision Law incorporates private international law principles transposing Directive 2001/24/EC of the European Parliament and the Council of April 2001 on the reorganisation and winding up of credit institutions (as amended or supplemented from time to time, the **Credit Institutions Insolvency Directive**) into Belgian Law. The Credit Institutions Insolvency Directive applies to credit institutions and their branches set up in Member States other than those in which they have their head offices, as defined in Directive 2000/12/EC, subject to the conditions and exemptions laid down in the Credit Institutions Insolvency Directive. Only the administrative or judicial authorities of the home member state which are responsible for winding-up are empowered to decide on the opening of winding-up proceedings.

Commingling Risk

In accordance with Article 3 Annex III to the Credit Institutions Supervision Law, cash amounts held by the Issuer as a result of collections on, or as, Cover Assets will, by operation of law, form part of the Special Estate. In the event of bankruptcy of the Issuer, the ability of the Special Estate to make timely payments on the Mortgage Pandbrieven may in part depend on the availability of such cash amounts. To the extent such amounts are held on bank accounts with the Issuer, the existence of commingling risk in respect of such amounts can, as a practical matter, not be excluded. This risk is however mitigated to some extent by the revindication mechanism provided in Article 3, §2 second indent Annex III to the Credit Institutions Supervision Law pursuant to which the property rights over any amounts that are part of the Special Estate but that cannot be identified as such in the General Estate, are transferred by operation of law to other unencumbered assets in the General Estate selected in accordance with the criteria specified in Condition 12 (*Mortgage Pandbrieven Provisions*). The bankruptcy trustee or liquidator of the General Estate has an obligation to transfer such selected assets to the Cover Pool Administrator upon receipt of a claim therefore.

Set-off risk

The registration of Residential Mortgage Loans as Cover Assets in the Special Estate will, in principle, not be notified to the underlying debtors. Under Belgian law, legal set-off occurs where two persons hold claims against each other, provided, in general, that their debts exist, are fungible, liquid (*vaststaand/liquide*) and due (*opeisbaar/exigible*). As a result, set-off rights may therefore continue to arise in respect of cross-claims between an underlying debtor of a Residential Mortgage Loan and the Issuer, potentially reducing amounts receivable by the Special Estate.

Pursuant to the Mobilisation Law, a Residential Mortgage Loan in the Special Estate will however no longer be subject to set-off risk by the underlying debtor: (a) following notification of the registration/transfer of the relevant loan to the underlying debtor (or acknowledgement thereof by the underlying debtor), to the extent the conditions for set-off are only satisfied after such notification (or acknowledgement); and (b) regardless of any notification or acknowledgement of the registration/transfer, following the start of insolvency proceedings or the occurrence of a situation of concurrence of creditors (*samenloop/concours*) in relation to the Issuer, to the extent the conditions for set-off are only satisfied following or as a result of such insolvency proceedings or concurrence of creditors.

The Residential Mortgage Loans in the Special Estate may nevertheless still be subject to the rights of the underlying debtors of Residential Mortgage Loans to invoke set-off to the extent that the relevant claims against the Issuer arise, or the conditions for set-off against the Issuer are met, prior to the earlier of (i) the notification (or acknowledgement) of the registration of the loan or (ii) the start

of insolvency proceedings or the occurrence of a situation of concurrence of creditors in respect the Issuer. The exercise of set-off rights by underlying debtors may adversely affect the value of the Special Estate, may additionally affect any sale proceeds of the Special Estate and may ultimately affect the ability of the Issuer or the Cover Pool Administrator, as applicable, to make payments under the Mortgage Pandbrieven.

Mortgage mandates

Pursuant to the Belgian Covered Bond Regulations, a Residential Mortgage Loan which is partly secured by a mortgage mandate may be included in the Special Estate. Subject to certain valuation rules (see section “*Summary of the Belgian Covered Bond Regulations – Cover Test – Valuation methodology*” below), the amounts secured by the mortgage mandate may be taken into account for purposes of the Cover Tests.

Investors should be aware that such mortgage mandate does not constitute an actual security which creates a priority right of payment out of the proceeds of a sale of the mortgage property, but would first need to be converted into a mortgage. The mortgage mandate is an irrevocable power of attorney granted by a Borrower or a third party provider of Related Security to certain attorneys enabling them to create a mortgage as security for the Residential Mortgage Loan (or, as the case may be, for other existing or future loans or all other sums owed by the Borrower to the Issuer at any stage). A mortgage will only become enforceable against third parties upon registration of the mortgage at the relevant mortgage registrar. The ranking of the mortgage is based on the date of registration. The registration is dated the day on which the mortgage deed pertaining to the creation of the mortgage and the “registration extracts” (*borderellen/bordereaux*) are registered at the relevant mortgage registrar’s office. Prior to such registration, third parties acting in good faith may register prior-ranking mortgages.

In certain circumstances, exercise of a mandate may no longer be possible or may no longer result in valid and effective security. The following limitations, amongst others, exist in relation to the conversion of mortgage mandates:

- (a) the Borrower or the third party collateral provider that has granted a mortgage mandate, may grant a mortgage to a third party that will rank ahead of the mortgage to be created pursuant to the conversion of the mortgage mandate, although this would generally constitute a contractual breach of the standard loan documentation;
- (b) if a conservatory or an executory seizure of the real property covered by the mortgage mandate has been filed by a third party creditor of the Borrower or, as the case may be, of the third party collateral provider, a mortgage registered pursuant to the exercise of the mortgage mandate after the writ of seizure has been recorded at the mortgage register, will not be enforceable against the seizing creditor;
- (c) if the Borrower or the third party collateral provider is a merchant or commercial entity:
 - (i) the mortgage mandate can no longer be converted following the bankruptcy of the Borrower or, as the case may be, the third party collateral provider and any mortgage registered at the mortgage register after the bankruptcy judgement is void; and
 - (ii) a mortgage registered at the mortgage register pursuant to the exercise of a mortgage mandate during the pre-bankruptcy investigation period (i.e. after the date of cessation of payments that may be fixed by the court) for a pre-existing loan will not be enforceable against the bankrupt estate. Under certain circumstances, the clawback rules are not limited in time, for example where a mortgage has been granted pursuant to a mortgage mandate and in order to “fraudulently prejudice” creditors; and
 - (iii) mortgages registered after the day of cessation of payments of debt can be declared void by the bankruptcy court, if the registration was made more than 15 days after the creation of the mortgage; and
 - (iv) the effect of a judicial reorganisation (*gerechtelijke reorganisatie/réorganisation*)

judiciaire) of a Borrower or of a third party collateral provider on the mortgage mandate is uncertain;

- (d) if the Borrower or the third party collateral provider, as the case may be, is a private person and started collective debt settlement proceedings, a mortgage registered at the mortgage register after the court has declared the request admissible, is not enforceable against the other creditors of the Borrower or of the third party collateral provider;
- (e) besides the possibility that the Borrower or the third party collateral provider may grant a mortgage to another lender discussed above, the mortgage to be created pursuant to a mortgage mandate may also rank behind certain statutory mortgages (such as e.g. the statutory mortgage of the tax and the social security authorities) to the extent these mortgages are registered before the exercise of the mortgage mandate. In this respect, it should be noted that the notary involved in preparing the mortgage deed will need to notify the tax administration, and, as the case may be, the social security administration before finalising the mortgage deed pertaining to the creation of the mortgage;
- (f) if the Borrower or the third party collateral provider, as the case may be, is a private person, certain limitations apply to the conversion of the mortgage mandate into a mortgage if the Borrower or third party collateral provider dies before the conversion; certain limitations also apply in case of a dissolution of the Borrower or third party collateral provider that is a legal person.

Once a mandate is exercised, the ensuing mortgage will rank at the highest level available at the time of registration of such mortgage.

Financial institutions should consult their own legal advisors or the appropriate regulators to determine the appropriate treatment of Mortgage Pandbrieven under any applicable risk-based capital or similar rules.

Reliance on third parties

The Special Estate has entered into agreements with a number of third parties which have agreed to perform services for the Special Estate. The ability of the Special Estate to duly perform its obligations under the Mortgage Pandbrieven will depend to a large extent on the due performance by other third parties of their obligations and duties under the Programme Documents.

Reliance on Hedging Counterparties

In order to provide a hedge against interest rate, currency and/or other risks in respect of amounts received by the Issuer under the Residential Mortgage Loans forming part of the Cover Assets and its obligations under the Mortgage Pandbrieven, the Issuer may enter into one or more Hedging Agreements with a Hedging Counterparty in respect of certain Series of Mortgage Pandbrieven.

A Hedging Counterparty is only obliged to make payments to the Issuer under a Hedging Agreement as long as the Issuer complies with its payment obligations thereunder. If the Hedging Counterparty is not obliged to make payments under the Hedging Agreement or if it defaults itself on its obligations to make payments of amounts in the relevant currency equal to the full amount to be paid to the Issuer on the due date for payment under the relevant Hedging Agreement, the Issuer will be exposed the risks intended to be covered by such Hedging Agreement. As a result, the Issuer may have insufficient funds to make payments under the Mortgage Pandbrieven.

If a Hedging Agreement terminates, then the Issuer may be obliged to make a termination payment to the relevant Hedging Counterparty. There can be no assurance that the Issuer will have sufficient funds available to make a termination payment under the relevant Hedging Agreement, nor can there be any assurance that the Issuer will be able to enter into a replacement hedging agreement, or if one is entered into, that the credit rating of the replacement swap counterparty will be sufficiently high to prevent a downgrade of the then current ratings of the Mortgage Pandbrieven by a Rating Agency.

If the Issuer is obliged to pay a termination payment under any Hedging Agreement, such termination payment will rank *pari passu* with amounts due on the Mortgage Pandbrieven, except where such termination has been caused by the default, or downgrade of, the relevant Hedging Counterparty .

Conflicts of Interest

Time subordination

In circumstances where not all Series of the Mortgage Pandbrieven are immediately due and payable, the Issuer or, as the case may be, the Cover Pool Administrator, will be entitled to apply available funds in order to repay earlier maturing Series of Mortgage Pandbrieven, which may mean that there may be fewer assets available to support later maturing Series of Mortgage Pandbrieven

Potential conflicts of interest between the Issuer acting as Calculation Agent and the Pandbrieven Holders

The Calculation Agent is entitled to carry out a series of determinations which affect the Mortgage Pandbrieven. Such determinations could have an adverse effect on the value of the Mortgage Pandbrieven and on the amounts payable to investors under the Conditions of the Mortgage Pandbrieven, whether in the case of an early redemption event or at maturity, giving rise to a potential conflict of interest in respect of the interests of the Pandbrieven Holders.

Mortgage Pandbrieven Holders' Representative's powers may affect the interests of the Pandbrieven Holders

The Mortgage Pandbrieven Holders' Representative shall, in connection with the exercise of its powers, authorities and discretions (including, without limitation, any modification or determination), have regard to the general interests of the Pandbrieven Holders as a whole, but shall not have regard to any interests arising from circumstances particular to individual Pandbrieven Holders or the consequences of any such exercise for individual Pandbrieven Holders. Accordingly, a conflict of interest may arise to the extent that the interests of particular Pandbrieven Holders are not aligned with those of the Pandbrieven Holders generally.

If, in connection with the exercise of its powers, authorities or discretions, the Mortgage Pandbrieven Holders' Representative is of the opinion that the interests of the holders of the Mortgage Pandbrieven of any one or more Series could or would be materially prejudiced thereby, the Mortgage Pandbrieven Holders' Representative may determine that it will not exercise such power, authority or discretion without the approval of such Pandbrieven Holders by Extraordinary Resolution. Provided that the Mortgage Pandbrieven Holders' Representative acts in good faith, as described in the foregoing, it will not incur any liability to any of the Pandbrieven Holders, any Other Cover Pool Creditor or any other person for so doing.

IMPORTANT INFORMATION

This Base Prospectus comprises a base prospectus in respect of Mortgage Pandbrieven issued under the Programme for the purposes of Article 5.4 of Directive 2003/71/EC as amended (which includes the amendments made by Directive 2010/73/EU to the extent that such amendments have been implemented or applied in a Relevant Member State of the European Economic Area) (the **Prospectus Directive**).

The Issuer accepts responsibility for the information contained in this Base Prospectus. To the best of the knowledge of the Issuer (having taken all reasonable care to ensure that such is the case) the information contained in this Base Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

Market data and other statistical information used in this Base Prospectus has been extracted from a number of sources, including independent industry publications, government publications, reports by market research firms or other independent publications (each an **Independent Source**). The Issuer confirms that such information has been accurately reproduced and that, so far as it is aware, and is able to ascertain from information published by the relevant Independent Source, no facts have been omitted which would render the reproduced information inaccurate or misleading.

This Base Prospectus is to be read in conjunction with all documents which are deemed to be incorporated herein by reference (see "*Documents Incorporated by Reference*"). This Base Prospectus shall be read and construed on the basis that such documents are incorporated and form part of this Base Prospectus.

The requirement to publish a prospectus under the Prospectus Directive only applies to Mortgage Pandbrieven which are to be admitted to trading on a regulated market in the European Economic Area under Article 3.2 of the Prospectus Directive (as implemented in the Relevant Member State(s)). References in this Base Prospectus to **Exempt Mortgage Pandbrieven** are to Mortgage Pandbrieven for which no prospectus is required to be published under the Prospectus Directive. The Issuer may agree with any Dealer that Exempt Mortgage Pandbrieven may be issued in a form not contemplated by the Terms and Conditions of the Mortgage Pandbrieven herein.

Neither the Arranger, nor the Dealers, nor the Mortgage Pandbrieven Holders' Representative (as defined below) have independently verified the information contained herein. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by the Arranger, the Dealers or the Mortgage Pandbrieven Holders' Representative as to the accuracy or completeness of the information contained or incorporated in this Base Prospectus or any other information provided by the Issuer in connection with the Programme. None of the Arranger, the Dealers or the Mortgage Pandbrieven Holders' Representative accepts any liability in relation to the information contained or incorporated by reference in this Base Prospectus or any other information provided by the Issuer in connection with the Programme.

To the fullest extent permitted by law, any Dealer appointed under the Programme from time to time does not accept any responsibility for the contents of this Base Prospectus or for any other statement, made or purported to be made by the Dealer or on its behalf in connection with the Issuer or the issue and offering of the Mortgage Pandbrieven. Each Dealer accordingly disclaims all and any liability whether arising in tort or contract or otherwise (save as referred to in this section) which it might otherwise have in respect of this Base Prospectus or any such statement. The statements made in this paragraph are made without prejudice to the responsibility of the Issuer under the Programme.

No person is or has been authorised by the Issuer or the Mortgage Pandbrieven Holders' Representative to give any information or to make any representation not contained in or not consistent with this Base Prospectus or any other information supplied in connection with the Programme or the Mortgage Pandbrieven and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuer, any of the Dealers or the Mortgage Pandbrieven Holders' Representative.

Neither this Base Prospectus nor any other information supplied in connection with the Programme or any Mortgage Pandbrieven (a) is intended to provide the basis of any credit or other evaluation or (b) should be considered as a recommendation by the Issuer, the Arranger, any of the Dealers or the Mortgage Pandbrieven Holders' Representative that any recipient of this Base Prospectus or any other information supplied in connection with the Programme or any Mortgage Pandbrieven should purchase any Mortgage Pandbrieven. Each investor contemplating purchasing any Mortgage Pandbrieven should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Issuer. Neither this Base Prospectus nor any other information supplied in connection with the Programme or the issue of any Mortgage Pandbrieven constitutes an offer or invitation by or on behalf of the Issuer, the Arranger, any of the Dealers or the Mortgage Pandbrieven Holders' Representative to any person to subscribe for or to purchase any Mortgage Pandbrieven.

Neither the delivery of this Base Prospectus nor the offering, sale or delivery of any Mortgage Pandbrieven shall in any circumstances imply that the information contained herein concerning the Issuer is correct at any time subsequent to the date hereof or that any other information supplied in connection with the Programme is correct as of any time subsequent to the date indicated in the document containing the same. The Dealers and the Mortgage Pandbrieven Holders' Representative expressly do not undertake to review the financial condition or affairs of the Issuer during the life of the Programme or to advise any investor in the Mortgage Pandbrieven of any information coming to their attention. Investors should review, *inter alia*, the documents incorporated herein by reference when deciding whether or not to purchase any Mortgage Pandbrieven.

This Base Prospectus contains certain statements that are forward-looking statements with respect to the Issuer's business strategies, expansion and growth of operations, trends in its business, competitive advantage, and technological and regulatory changes, information on exchange rate risk and generally including all statements preceded by, followed by or that include the words "**believe**", "**expect**", "**project**", "**anticipate**", "**seek**", "**estimate**" or similar expressions. Such forward-looking statements are not guarantees of future performance and involve risk and uncertainties and actual results may differ materially from those in the forward looking statements as a result of various factors. Potential investors are cautioned not to place undue reliance on forward-looking statements, which speak only as of the date hereof.

IMPORTANT INFORMATION RELATING TO THE USE OF THIS BASE PROSPECTUS AND OFFERS OF MORTGAGE PANDBRIEVEN GENERALLY

This Base Prospectus does not constitute an offer to sell or the solicitation of an offer to buy any Mortgage Pandbrieven in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. The distribution of this Base Prospectus and the offer or sale of Mortgage Pandbrieven may be restricted by law in certain jurisdictions. The Issuer, the Dealers and the Mortgage Pandbrieven Holders' Representative do not represent that this Base Prospectus may be lawfully distributed, or that any Mortgage Pandbrieven may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assume any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Issuer, the Dealers or the Mortgage Pandbrieven Holders' Representative which is intended to permit a public offering of any Mortgage Pandbrieven or distribution of this Base Prospectus in any jurisdiction where action for that purpose is required. Accordingly, no Mortgage Pandbrieven may be offered or sold, directly or indirectly, and neither this Base Prospectus nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this Base Prospectus or any Mortgage Pandbrieven may come must inform themselves about, and observe any such restrictions on the distribution of this Base Prospectus and the offering and sale of Mortgage Pandbrieven. In particular, there are restrictions on the distribution of this Base Prospectus and the offer or sale of Mortgage Pandbrieven in the United States, the United Kingdom, the European Economic Area, Japan and Switzerland (see "*Subscription and Sale*" below).

This Base Prospectus has been prepared on a basis that would permit a public offer of Mortgage Pandbrieven with a denomination of at least EUR 100,000 (or a multiple of EUR 100,000) or its equivalent in any other Specified Currency. As a result, any offer of Mortgage Pandbrieven in any Member State of the European Economic Area which has implemented the Prospectus Directive (each, a **Relevant Member State**) must be made pursuant to an exemption under the Prospectus Directive, as implemented in that Relevant Member State, from the requirement to publish a prospectus for offers of Mortgage Pandbrieven. Accordingly any person making or intending to make an offer of Mortgage Pandbrieven in that Relevant Member State may only do so in circumstances in which no obligation arises for the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive, in each case, in relation to such offer. Neither the Issuer nor any Dealer have authorised, nor do they authorise, the making of any offer of Mortgage Pandbrieven in circumstances in which an obligation arises for the Issuer or any Dealer to publish or supplement a prospectus for such offer.

The Mortgage Pandbrieven may not be a suitable investment for all investors. Each potential investor in the Mortgage Pandbrieven must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor may wish to consider, either on its own or with the help of its financial and other professional advisers, whether it:

- has sufficient knowledge and experience to make a meaningful evaluation of the Mortgage Pandbrieven, the merits and risks of investing in the Mortgage Pandbrieven and the information contained or incorporated by reference in this Base Prospectus or any applicable supplement;
- has access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Mortgage Pandbrieven and the impact the Mortgage Pandbrieven will have on investment portfolio;
- has sufficient financial resources and liquidity to bear all of the risks of an investment in the Mortgage Pandbrieven, including Mortgage Pandbrieven where the currency for principal or interest payments is different from the potential investor's currency;
- understands thoroughly the terms of the Mortgage Pandbrieven and is familiar with the behaviour of financial markets; and
- is able to evaluate possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

Legal investment considerations may restrict certain investments. The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (1) Mortgage Pandbrieven are legal investments for it, (2) Mortgage Pandbrieven can be used as collateral for various types of borrowing and (3) other restrictions apply to its purchase or pledge of any Mortgage Pandbrieven. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of Mortgage Pandbrieven under any applicable risk-based capital or similar rules.

The Mortgage Pandbrieven have not been and will not be registered under the United States Securities Act of 1933, as amended from time to time, (the **Securities Act**) and are subject to U.S. tax law requirements. Subject to certain exceptions, Mortgage Pandbrieven may not be offered, sold or delivered within the United States or to, or for the account or benefit of, U.S. persons (see "*Subscription and Sale*").

Prohibition of sales to EEA retail investors - The Mortgage Pandbrieven are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area (**EEA**). For these purposes, a retail investor means a person who is one (or more) of (i) a retail client as defined in point (11) of Article 4(1) of MiFID II; (ii) a customer within the meaning of Directive 2002/92/EC (IMD), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II or (iii) not a qualified investor as defined in the Prospectus Directive. Consequently no key information document required by Regulation (EU) No 1286/2014 (the **PRIIPs Regulation**) for offering or selling the Mortgage Pandbrieven or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Mortgage Pandbrieven or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

Prohibition of sales to consumers in Belgium - The Mortgage Pandbrieven are not intended to be offered, sold or otherwise made available, and will not be offered, sold or otherwise made available, in Belgium to “consumers” within the meaning of the Belgian Code of Economic Law, as amended.

MIFID II product governance / target market – The Final Terms in respect of any Mortgage Pandbrieven will include a legend entitled “MiFID II Product Governance” which will outline the target market assessment in respect of the Mortgage Pandbrieven and which channels for distribution of the Mortgage Pandbrieven are appropriate. Any person subsequently offering, selling or recommending the Mortgage Pandbrieven (a **distributor**) should take into consideration the target market assessment. A distributor subject to MiFID II is, however, responsible for undertaking its own target market assessment in respect of the Mortgage Pandbrieven (by either adopting or refining the target market assessment) and determining appropriate distribution channels.

A determination will be made in relation to each issue about whether, for the purpose of the MiFID Product Governance rules under EU Delegated Directive 2017/593 (the **MiFID Product Governance Rules**), any Dealer subscribing for any Mortgage Pandbrieven is a manufacturer in respect of such Mortgage Pandbrieven, but otherwise neither the Arranger nor the Dealers nor any of their respective affiliates will be a manufacturer for the purpose of the MiFID Product Governance Rules.

Benchmark Regulation – Amounts payable under the Mortgage Pandbrieven may be calculated by reference to the Euro Interbank Offered Rate (**EURIBOR**) which is provided by the European Money Markets Institute (**EMMI**), the London Interbank Offered Rate (**LIBOR**) which is provided by the ICE Benchmark Administration Limited (**ICE**), or any other benchmark, in each case as specified in the applicable Final Terms.

As at the date of this Base Prospectus, EMMI does not appear on the register of administrators and benchmarks established and maintained by the European Securities and Markets Authority (**ESMA**) pursuant to article 36 of the Benchmark Regulation (Regulation (EU) 2016/1011) (the **BMR**).

As far as the Issuer is aware, the transitional provisions in Article 51 of the BMR apply, such that EMMI is not currently required to obtain authorisation or registration (or, if located outside the European Union, recognition, endorsement or equivalence).

If a benchmark (other than EURIBOR or LIBOR) is specified in the applicable Final Terms, the applicable Final Terms will indicate whether or not the benchmark is provided by an administrator included in the register of administrators and benchmarks established and maintained by ESMA pursuant to Article 36 of the BMR.

The registration status of any administrator under the BMR is a matter of public record and, save where required by applicable law, the Issuer does not intend to update the Base Prospectus or any applicable Final Terms to reflect any change in the registration status of the administrator.

STABILISATION

In connection with the issue of any Tranche of Mortgage Pandbrieven, the Dealer or Dealers (if any) named as the Stabilising Manager(s) (or persons acting on behalf of any Stabilising Manager(s)) in the applicable Final Terms may over-allot Mortgage Pandbrieven or effect transactions with a view to supporting the market price of the Mortgage Pandbrieven at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilising Manager(s) (or persons acting on behalf of a Stabilising Manager) will undertake any stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the relevant Tranche of Mortgage Pandbrieven is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the relevant Tranche of Mortgage Pandbrieven and 60 days after the date of the allotment of the relevant Tranche of Mortgage Pandbrieven. Any stabilisation action or over-allotment must be conducted by the relevant Stabilising Manager(s) (or persons acting on behalf of any Stabilising Manager(s)) in accordance with the applicable recommendation of the International Capital Markets Association (ICMA).

PRESENTATION OF INFORMATION

In this Base Prospectus, all references to Euro, EUR and € refer to the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty on the Functioning of the European Union

SUMMARY OF THE BELGIAN COVERED BOND REGULATIONS

The following is a brief summary of certain features of the Belgian Covered Bond Regulations governing the issuance of Belgian covered bonds as at the date of this Base Prospectus. The Belgian Covered Bond Regulations may be supplemented, amended, modified or varied whether by legislative enactment or by way of judicial decisions and administrative pronouncements including, possibly, with retroactive effect.

This summary is a general description of the Belgian Covered Bonds Regulations. It does not purport to be, and is not, a complete description of all aspects of the Belgian legislative and regulatory framework pertaining to Belgian covered bonds. Prospective Pandbrievens Holders should also read the detailed information set out elsewhere in this Base Prospectus.

The original and official languages of the Belgian Covered Bond Regulations are Dutch and French. The following summary is provided in English only for the sake of convenience. In the event of any doubt, the original Dutch or French language version of the Belgian Covered Bond Regulations should be consulted.

1. INTRODUCTION – OVERVIEW OF THE BELGIAN COVERED BOND REGULATIONS

- 1.1 On 3 August 2012, Belgian parliament voted into law a legal framework for the issuance of Belgian Covered Bonds. The new legal framework was set up to allow Belgian credit institutions to issue a debt instrument as referred to under article 52, paragraph 4 of Directive 2009/65 of the European Parliament and of the Council of 13 July 2009 on the coordination of the law, regulations and administrative provisions relating to undertakings for collective investments in transferable securities (as amended from time to time, the **UCITS Directive**). To this effect, the Belgian Act of 3 August 2012 establishing a legal framework for Belgian covered bonds (the **Covered Bond Law**) amended the Belgian Act of 22 March 1993 regarding the status of and supervision on credit institutions, introducing the concepts of a “Belgian covered bond” (*Belgische covered bond/covered bond belge*) and a “Belgian pandbrief” (*Belgische pandbrief/lettre de gage belge*). The Belgian Act of 22 March 1993 regarding the status of and supervision on credit institutions was amended and restated by the Act of 25 April 2014 regarding the status of and supervision on credit institutions, published in the Belgian Official Journal on 7 May 2014 (the **Credit Institutions Supervision Law**).
- 1.2 A **Belgian Covered Bond** is a debt instrument that satisfies the following criteria (art. 1, 1° Annex III to the Credit Institutions Supervision Law):
- (a) it is issued by a Belgian credit institution that is registered on a list, held by the Supervisor, of credit institutions that have been granted a General Authorisation by the Supervisor to issue Belgian covered bonds;
 - (b) it is, or is issued under a programme that is, registered on a list, held by the Supervisor (per issuer), of issues or issuance programmes for which the Supervisor has granted a Specific Authorisation in accordance with the provisions of the Credit Institutions Supervision Law; and
 - (c) is a debt instrument in relation to which a special estate (*bijzonder vermogen/patrimoine spéciale*) is created in accordance with the provisions of the Credit Institutions Supervision Law.
- 1.3 The Belgian legislator made the following fundamental choices in respect of the Belgian covered bond framework:
- (a) the Covered Bond Law does not foresee in the creation of a new type of specialized credit institution. Belgian Covered Bonds can be issued by a regular Belgian credit institution. However, in order to be entitled to issued Belgian Covered Bonds, the issuing credit institution needs to obtain two authorisations from the Supervisor as Supervisor (*dual authorisation*):

- (i) a General Authorisation to issue Belgian Covered Bonds; and
 - (ii) a Specific Authorisation in relation to each issue or issuance programme of Belgian Covered Bonds;
- (b) the holders of the Belgian Covered Bonds (and certain other creditors that can be established on the basis of the terms and conditions of the relevant Belgian Covered Bond) benefit from an exclusive right of recourse to a segregated pool of cover assets (*dekkingswaarden/actifs de couverture*). For the segregation of this pool of cover assets, the Belgian legal framework has opted for a technique whereby the cover assets are segregated on the balance sheet of the issuer by the creation of one or more special estates (*bijzonder vermogen/patrimoine spéciale*). The right of recourse to the segregated special estate comes in addition to a general right of recourse to the remaining assets (not allocated to a special estate) on the balance of the issuing credit institution – the general estate (*algemeen vermogen/patrimoine générale*). This way, the holder of the Belgian Covered Bonds (and the other related creditor) obtain a *dual recourse*. The Belgian legislator has thus followed the approach of certain well established covered bond jurisdictions, such as Germany, which provides for an on balance sheet segregation of cover assets rather than a segregation of assets into a special purpose vehicle.
- 1.4 A **Belgian Pandbrief** (art. 1, 3° and 2, § 1 Annex III to the Credit Institutions Supervision Law) is a Belgian Covered Bond whereby the composition and valuation of the Cover Assets must satisfy the specific requirements to obtain an advantageous risk weight under the Belgian own fund regulations transposing the Capital Requirements Directive IV. The criteria to determine whether a Belgian Covered Bond satisfies such specific requirements, may be established or clarified by royal decree (art. 81 of the Credit Institutions Supervision Law).
- 1.5 On 11 October 2012, two royal decrees were adopted further implementing the provisions of the Covered Bond Law:
- (a) the royal decree regarding the issuance of Belgian Covered Bonds by Belgian law credit institutions (the **Covered Bonds Royal Decree**). The Covered Bonds Royal Decree provides for implementing regulations in order to allow for the issuance of Belgian Pandbrieven;
 - (b) the royal decree regarding the cover pool administrator in the framework of the issuance of Belgian Covered Bonds by a Belgian credit institution (the **Cover Pool Administrator Royal Decree**). Under the Covered Bond Law, an important role has been created for a cover pool administrator (*portefeuillebeheerder/gestionnaire de portefeuille*) that will or may be appointed by the Supervisor under certain circumstances in order to take over the management of the special estate (art. 8, §1 Annex III to the Credit Institutions Supervision Law). The Cover Pool Administrator Royal Decree sets forth further rules regarding required qualifications and powers of the Cover Pool Administrator (art. 9 Annex III to the Credit Institutions Supervision Law).
- 1.6 In accordance with the Covered Bonds Royal Decree, the NBB was also mandated to establish technical rules implementing certain provisions of the Covered Bonds Royal Decree. On 29 October 2012, the NBB issued two regulations:
- (a) the regulation (NBB_2012_12) regarding practical rules for the application of the law of 3 August 2012 establishing a legal framework for Belgian covered bonds (*circulaire over de praktische regels voor de toepassing van de wet van 3 augustus 2012 tot invoering van een wettelijke regeling voor covered bonds/circulaire sur les modalités pratiques d'application de la loi du 3 août 2012 instaurant le régime pour les covered bonds*)(the **NBB Covered Bonds Regulation**);

- (b) the regulation (NBB_2012_13) addressed to portfolio monitors at Belgian credit institutions that issue Belgian covered bonds (*circulaire aan portefeuillesurveillanten bij kredietinstellingen naar Belgisch recht die Belgische covered bonds uitgeven/circulaire aux surveillants de portefeuille auprès d'établissements de crédit de droit belge qui émettent des covered bonds belges*)(the **NBB Cover Pool Monitor Regulations**).

1.7 Whereas the creation of Belgian Covered Bonds depends on the effectiveness of the segregation of Cover Assets in a Special Estate on balance of the issuing credit institution, the Belgian legislator also had to ensure that this segregation would not be open to challenge or recharacterisation on the basis of insolvency rules. Therefore, a second law was voted by Belgian Parliament on 3 August 2012 regarding diverse measures to facilitate the mobilisation of claims in the financial sector (*wet betreffende diverse maatregelen ter vergemakkelijkijng van de mobilisering van schuldvorderingen in de financiële sector/loi relative à des mesures pour faciliter la mobilisation de créances dans le secteur financier*)(the **Mobilisation Law**).

1.8 The Belgian Credit Institutions Supervision Law, the Mobilisation Law, the Cover Bonds Royal Decree, the Cover Pool Administrator Royal Decree, the NBB Covered Bonds Regulation and the NBB Cover Pool Monitor Regulations, together constitute the **Belgian Covered Bond Regulations**.

1.9 The Mortgage Pandbrieven issued under the Programme described in this Base Prospectus will be issued pursuant to the Belgian Covered Bonds Regulations.

2. DUAL AUTHORISATION

2.1 Belgian Covered Bonds may only be issued by a Belgian credit institution following the receipt of two authorisations by the Supervisor (art. 79 of the Credit Institutions Supervision Law):

- (a) a general authorisation to be requested in accordance with art. 80, §1 of the Credit Institutions Supervision Law, that relates to the organizational capacity of a credit institutions to issue and monitor Belgian Covered Bonds (the **General Authorisation**); and
- (b) a specific authorisation to be requested in accordance with art. 80, §2 of the Credit Institutions Supervision Law prior to each issue (that does not take place within the context of an issuance programme) or each issuance programme, that relates to the compliance of a specific issue or issuance programme with the provisions of the Belgian Covered Bond Regulations (the **Specific Authorisation**).

A. General Authorisation

2.2 In order to obtain a General Authorisation, the credit institution that intends to issue Belgian Covered Bonds needs to submit a file with the Supervisor describing how it will organize the proposed transactions. This file needs to include, *inter alia*, the following information:

- (a) a description of the financial position of the issuer, showing it is sufficiently solvent to safeguard also the interest of creditors other than the covered bondholders;
- (b) a description of the long-term strategy of the issuer, in particular as to liquidity and the role of the Belgian Covered Bonds in this strategy;
- (c) a description of the tasks and responsibilities within the organisation of issuing credit institution in relation to the issuance of Belgian Covered Bonds;
- (d) a description of the risk management policy of the issuing institution in relation to Belgian Covered Bonds, in particular in respect of interest rate risk, currency exchange risk, credit and counterparty risk, liquidity risk and operational risk;
- (e) a description of the involvement of internal audit in the procedures for the issuance of Belgian Covered Bonds, including the frequency of the audits and applicable audit procedures;

- (f) a description of the decision and reporting procedures in relation to the issuance Belgian Covered Bonds; and
 - (g) a description of the necessary IT systems in relation to the issuance of Belgian Covered Bonds.
- 2.3 The Supervisor will grant the General Authorisation to the extent, on the basis of the information in the file submitted by the credit institution, on-site inspections and further information it may obtain from the institution or third parties, it is convinced that:
- (a) the administrative and accounting organisation of the credit institution allow it to comply with the requirements of the Belgian Covered Bond Regulations, in particular in terms of segregation of the Cover Assets; and
 - (b) the financial position of the credit institution, in particular its solvency, is sufficient to safeguard also the interest of creditors other than the covered bondholders.
- 2.4 Prior to granting the General Authorisation, the Supervisor will request the auditor of the credit institution to submit a report on the organisational capacity of the credit institution to comply with its obligations under the Belgian Covered Bond Regulations (art. 80, §1, of the Credit Institutions Supervision Law).
- 2.5 The Issuer obtained the General Authorisation from the NBB, as Supervisor, in relation to its organisational capacity to issue Belgian Covered Bonds on 5 November 2013.

B. Specific Authorisation

- 2.6 In order to obtain the Specific Authorisation, the credit institution that intends to issue Belgian Covered Bonds needs to submit a file with the Supervisor including, *inter alia*, the following information:
- (a) the impact of the envisaged issuance or issuance programme on the liquidity position of the credit institution;
 - (b) the quality of the Cover Assets, in particular on the type of creditors of the Cover Assets, the collateral, guarantees or privileges securing the Cover Assets, the diversification of the Cover Assets and their maturity dates;
 - (c) the matching of maturity dates of the Belgian Covered Bonds and the Cover Assets; and
 - (d) elements showing that the requirements to obtain the General Authorisation are still satisfied.
- 2.7 The Supervisor will grant the Specific Authorisation to the extent, on the basis of the information in the file submitted by the credit institutions and further information it may request from the institution, it is convinced that:
- (a) the institution has obtained the General Authorisation; and
 - (b) in respect of the envisaged issuance or issuance programme, the institution complies with the Belgian Covered Bond Regulations, in particular as far as the nature and minimum requirements of the Cover Assets is concerned (see below *under 4. Cover Assets and Tests*).
- 2.8 The Issuer obtained the Specific Authorisation from the NBB, as Supervisor, in relation to the Programme on 5 November 2013.

C. Limitation on the issuance of Belgian Covered Bonds

- 2.9 Based on art. 10 of the Covered Bond Royal Decree, a credit institution shall in principle not be able to issue additional Belgian Covered Bonds to the extent the amount of all Cover Assets allocated to the Special Estate(s) related to all Belgian Covered Bonds issued by the credit institution (as reflected in its financial accounts) is higher than 8% of the aggregate amount of all its assets (balance sheet total).
- 2.10 In case exceptional circumstances on the financial markets justify an increased utilisation of Belgian Covered Bonds as a funding tool, the Supervisor may temporarily allow a more flexible limitation.
- 2.11 The Supervisor may also impose a more stringent limit, on a case by case basis, in order to protect the interest of other creditors than the holders of Belgian Covered Bonds. The Supervisor will in particular assess the impact of an envisaged issuance on the level of encumbered assets. To this end, the Supervisor expects that in the file to obtain the General Authorisation, the credit institution describes its policy towards liquidity and sets further internal limits that ensure:
- (a) an adequate diversification between secured and unsecured funding sources;
 - (b) the availability of sufficient unencumbered assets to provide a cushion in the event of crisis on the market for unsecured funding; and
 - (c) the availability of sufficient unencumbered assets that can be allocated as Cover Assets in order to substitute matured or defaulted Cover Assets.

D. Publication of Authorisations

- 2.12 The Supervisor keeps a list of:
- (a) credit institutions that have obtained a General Authorisation, which is published on the Supervisor's website, which, at the date of this Base Prospectus, is: www.nbb.be financial supervision – prudential supervision – areas of responsibility – credit institutions – lists – credit institutions authorised to issue Belgian covered bonds; and
 - (b) covered bonds issuance programmes and issuances for which the credit institution has obtained a Specific Authorisation, which is published on the Supervisor's website, which, at the date of this Base Prospectus, is www.nbb.be – financial supervision - prudential supervision – areas of responsibility – credit institutions – lists – covered bond issuances carried out by the credit institutions (information only available in French or Dutch).
- 2.13 Both lists and amendments thereto are communicated by the Supervisor to the European Commission in application of art. 52, §4 of the UCITS Directive.
- 2.14 The Issuer is on the Supervisor's list of credit institutions that have obtained General Authorisation. The Programme is on the Supervisor's list of Belgian covered bonds in respect of which a Specific Authorisation has been granted.

3. SPECIAL ESTATE

- 3.1 A key characteristic of covered bonds is the existence of a segregated pool of assets providing an additional and exclusive right of recourse to the holders of the Belgian Covered Bonds.

A. Creation of one or more Special Estates

- 3.2 In order to segregate a pool of Cover Assets, the Covered Bonds Law introduces a technique to separate one or more Special Estates within the estate of a credit institution that issues Belgian Covered Bonds.

- 3.3 Art. 3, §1 Annex III to the Credit Institutions Supervision Law confirms that the estate of a credit institution that issues Belgian Covered Bonds consist, by operation of law, of a general estate (*algemeen vermogen/patrimoine général*)(the **General Estate**) and one or more special estates (*bijzondere vermogen/patrimoine spécial*)(the **Special Estate(s)**).
- 3.3 The most important part of the Cover Assets in respect of an issuance or issuance programme of Belgian Covered Bonds is segregated into a Special Estate by the registration of such Cover Assets in a Cover Register that is kept by the issuing credit institution in relation to one or more specific issuances of Belgian Covered Bonds or, as the case may be, in relation to all Belgian Covered Bonds under an issuance programme (art. 15, §2 Annex III to the Credit Institutions Supervision Law). See below under 5.1.(a) - *special obligations of the issuer in respect of administration of the Belgian Covered Bonds*.
- 3.4 In accordance with art. 3, §2 Annex III to the Credit Institutions Supervision Law, a Special Estate is, by operation of law, composed of:
- (a) all assets registered in a Cover Register in accordance with art. 15, §2 Annex III to the Credit Institutions Supervision Law;
 - (b) all collateral – cash and financial instruments – received in relation to any hedging instruments that have been registered as Cover Assets;
 - (c) all security interest (*in rem* and personal), guarantees of privileges issued in relation to the Cover Asset, including all rights under insurance policies or other agreements relating to the Cover Assets or the management of the Special Estate;
 - (d) all amounts held as collections in relation to Cover Assets or a result of the exercise of the rights referred to under (a) to (c) above (hereafter, the “**Collections**”); and
 - (e) any mandatory reserves that would be held at the NBB in relation to the Special Estate.
- 3.5 The preparatory works to the Covered Bond Law clarify that the technique to segregate Cover Assets into a Special Estate does not result into the creation of a separate legal entity and hence does not trigger specific corporate law obligations or tax consequences.

B. Purpose of the Special Estate - exclusive right of recourse

- 3.6 Based on art. 6 Annex III to the Credit Institutions Supervision Law, a Special Estate provides an exclusive right of recourse to:
- (a) the holders of the related Belgian Covered Bonds; and
 - (b) the creditors of a claim that is or may be established on the basis of the terms and condition applicable to the related Belgian Covered Bonds.

As a result, no other creditor will be entitled to exercise any rights, including rights of attachment (*beslag/saisie*) against the Cover Assets in the Special Estate. Collateral that is posted in relation to a hedging instrument that constitutes a Cover Asset, may only be used to satisfy the obligations of the counterparty under such hedging instrument (or be returned to the collateral provider). In respect of the Mortgage Pandbrieven issued under the Programme, only the Pandbrieven Holders and the Other Cover Pool Creditors will thus have an exclusive right of recourse to the Special Estate.

- 3.7 A priority of payments between the claims of the holder of Belgian Covered Bonds (and any other creditors of claims related to the Belgian Covered Bonds issuance) may be determined in the terms and conditions and the agreement entered into in respect of the issuance of Belgian Cover Bonds or the related issuance programme (art. 6, 4th paragraph Annex III to the Credit Institutions Supervision Law). See *Condition 9 (Priority of Payments) in the Section Terms and Conditions of the Mortgage Pandbrieven*.
- 3.8 Art. 6, 5th to 7th paragraph Annex III to the Credit Institutions Supervision Law provide for three exceptions to the exclusive right of recourse:
- (a) in order to improve the liquidity of the Special Estate, additional obligations may be entered into in relation to the Special Estate (such as a liquidity line). The terms and conditions of the Belgian Covered Bonds may determine whether such additional obligations will be paid in priority or will be subordinated (in the absence of any determination, such obligations will rank *pari passu* and *pro rata*);
 - (b) a Cover Pool Administrator (see below under 7.A – Cover Pool Administrator) may, unless otherwise agreed, withhold its remuneration, costs and expenses from the Special Estate; and
 - (c) following liquidation of the Special Estate, a remaining (positive) balance will, by operation of law, form part of the General Estate.
- 3.9 Notwithstanding this exclusive right of recourse to the Special Estate, the holders of the Belgian Covered Bonds and the other creditors related to the Belgian Covered Bonds retain a right of recourse to the General Estate (that ranks *pari passu* with the claims of all other unsubordinated creditors of the issuing institution) so that they can exercise a dual right of recourse (art. 6, 8th indent Annex III to the Credit Institutions Supervision Law).

C. Management of the Special Estate

- 3.10 In first instance, the issuing credit institution remains responsible for the management of the Special Estate(s). The rights and obligations in respect of transactions between the issuing credit institution and a Special Estate need to be agreed upon in writing as if the Special Estate were a separate legal entity (art. 7 Annex III to the Credit Institutions Supervision Law).
- 3.11 In accordance with art. 8, §1 Annex III to the Credit Institutions Supervision Law, the Supervisor will appoint a cover pool administrator (*portefeuillebeheerder/surveillant de portefeuille*) (a **Cover Pool Administrator**) for each Special Estate:
- (a) in case a recovery measure as provided for under article 236 of the Credit Institutions Supervision Law is taken in respect of the issuing credit institution that, in the opinion of the Supervisor, may have a negative impact on the related Belgian Covered Bonds;
 - (b) in case of a resolution procedure is initiated against the issuing credit institution; or
 - (c) if, in the opinion of the Supervisor, the position of the issuing credit institution seriously jeopardizes the interest of the holders of the relevant Belgian Covered Bonds.
- 3.12 Upon the appointment of a Cover Pool Administrator by the Supervisor, the Cover Pool Administrator will assume the management of the Special Estate (art. 8, §2 Annex III to the Credit Institutions Supervision Law). The Cover Pool Administrator manages the Special Estate with a view to ensure further compliance with the terms and conditions applicable to the relevant Belgian Covered Bonds. To this end, the Cover Pool Administrator is granted all necessary and useful powers to manage the Special Estate, including the power to dispose of Cover Assets. Any acts relating to the Special Estate that are performed in the name of the issuing credit institutions by any person other than the Cover Pool Administrator following its appointment, are null and void, unless such acts are ratified by the Cover Pool Administrator (See also see below under 7.A – Cover Pool Administrator).

D. Impact of reorganization and liquidation procedures

- 3.13 In the event liquidation procedures are started against the issuing credit institution (art. 11 Annex III to the Credit Institutions Supervision Law):
- (a) such procedures will only affect the General Estate. The Special Estate(s) and the debts and liabilities covered by the Special Estate(s) will not be part of the bankrupt estate. The Special Estate will be managed separately from the bankruptcy procedure applicable to the General Estate of the issuing credit institution (i.e., on a bankruptcy remote basis);
 - (b) the bankruptcy trustee (*curator/curateur*) has a legal obligation to cooperate with the Supervisor and the Cover Pool Administrator so that they can manage the Special Estate(s) in accordance with the Belgian Covered Bond Regulations;
 - (c) the Belgian Covered Bonds and the other debts and liabilities covered by the Special Estate(s) will not be accelerated. They (can) remain outstanding until their stated maturity, regardless of the opening of liquidation procedures against the issuing credit institution;
 - (d) the holder of Belgian Covered Bonds and any other creditors of claims related to the Belgian Covered Bonds issuance, will retain their rights in the liquidation procedure;
 - (e) the Cover Pool Administrator may, in the interest of the holders of the relevant Belgian Covered Bonds, following consultation with the representative of the holders of the relevant Belgian Covered Bonds and subject to consent of the Supervisor, transfer the Special Estate and the debts and liabilities related thereto to another institution that will assume the performance of the obligations in accordance with the initial terms and conditions;
 - (f) the Cover Pool Administrator may, following consultation with the representative of the holders of the relevant Belgian Covered Bonds and subject to the consent of the Supervisor, proceed with the liquidation of a Special Estate and the early redemption of the relevant Belgian Covered Bonds if the Cover Assets are no longer sufficient, or risk to be no longer sufficient, to satisfy the obligations in respect of the Belgian Covered Bonds;
 - (g) the Cover Pool Administrator will, following consultation with the Supervisor and the representative of the holders of the Belgian Covered Bonds, proceed with the entire liquidation, in part or in full, of the Special Estate and the early redemption of the Belgian Covered Bonds if the holders of the Belgian Covered Bonds have approved such liquidation and early redemption by simple majority at a meeting of bondholders at which a quorum of at least two thirds of the outstanding principal amount of the Belgian Covered Bonds is present;
 - (h) the bankruptcy trustee has the right, following consultation with the Supervisor, to require the Cover Pool Administrator to return those assets to the General Estate in respect of which it is clear they are no longer required as Cover Assets. The preparatory works to the Covered Bonds Law clarify that, when determining whether assets are no longer required as Cover Assets, one must not only take into account the regulatory requirement in view of the Cover Tests (see below 4.c. *Statutory Tests – Cover Tests*), but also the retention of ratings by external credit rating agencies.
- 3.14 Whenever, by way of a resolution measure provided for under Book II, Title VII of the Credit Institutions Supervision Law), a transfer occurs that involves the Special Estate, the rights of the holders of the Belgian Covered Bonds (and of any other creditors of claims related to the Belgian Covered Bonds issuance) are automatically transferred together with the Cover Assets and assumed as obligations by the transferee (art. 10 Annex III to the Credit Institutions Supervision Law).

- 3.15 The start of liquidation procedures against the issuing credit institution, notwithstanding article 233 of the Credit Institutions Supervision Law, or the revocation of its license as a credit institution does not prevent the issuing credit institution to further perform activities that are necessary or useful to assist the Cover Pool Administrator with its management in order to safeguard the interest of the covered bondholders in respect of the Special Estate. The issuing credit institution may only perform such activities until all obligations in relation to the Special Estate have been satisfied or are extinguished (art. 12, §2 Annex III to the Credit Institutions Supervision Law).

E. Special protection of the Special Estate against commingling risk

- 3.16 The Special Estate benefits from specific protections against commingling risk:

- (a) if amounts held by the issuing credit institution as Collections, cannot be identified within the General Estate at the time a request is made to allocate such amounts to the Special Estate, the Special Estate will benefit from a special *revindication* right allowing it to exercise a claim on other unencumbered assets within the General Estate. Such assets are identified following consultation between the representative of the Special Estate (either the Cover Pool Administrator or, in absence thereof, the Cover Pool Monitor) and the issuing credit institution (or its liquidator or bankruptcy trustee) on the basis of criteria determined in the terms and conditions of the Belgian Covered Bonds (art. 3, §2, second paragraph Annex III to the Credit Institutions Supervision Law).

With respect to the Programme, these criteria are specified in Condition 12 (Mortgage Pandbrieven Provisions).

- (b) in the event of a resolution procedure against the issuing credit institution or the transferring credit institution under Article 4 Annex III to the Credit Institutions Supervision Law, all amounts and payments relating to Cover Assets that are received by or on behalf of the Special Estate are automatically excluded from the bankrupt estate and exclusively allocated to the Special Estate. The bankruptcy trustee or liquidator will have to account for such amounts and remit them to the credit institution to which the assets are transferred in accordance with Article 4 Annex III to the Credit Institutions Supervision Law or, if applicable, to the Cover Pool Administrator (art. 5 Annex III to the Credit Institutions Supervision Law).

4. COVER ASSETS AND TESTS

A. Categories of Cover Assets

- 4.1 In order to obtain the Specific Authorisation in respect of an issuance or an issuance programme for Belgian Cover Bonds, the issuing credit institution may only include the following types of assets may as Cover Assets in the Special Estate (art. 80, §3 of the Credit Institutions Supervision Law):

- (a) claims secured by a mortgage;
- (b) claims against or guaranteed by (i) a central, regional or local government of an OECD member state or (ii) a central banks of those states or (iii) a public entity of those states or (iv) a multilateral development bank or international organisation;
- (c) participations in securitization vehicles that mainly securitize claims as set out under (a) and/or (b);
- (d) claims against a credit institution, including amounts deposited with such institution or amounts held by the issuing credit institution;
- (e) positions resulting from hedging instruments entered into in relation to the Cover Assets or the relevant Belgian Covered Bonds.

B. Further qualitative requirements for Cover Assets relating to Belgian Pandbrieven

4.2 The Covered Bonds Royal Decree has further implemented the qualitative requirements for Cover Assets that may be included in a Special Estate related to Belgian Pandbrieven.

4.3 Article 3 of the Covered Bonds Royal Decree identifies five categories of qualifying cover assets:

- (a) **category 1:** claims secured by (at least) a first ranking mortgage on residential real estate situated in an EEA member state (**Residential Mortgage Loans** or certain asset-backed securities backed by such claims (RMBS).

Claims secured by a mortgage on residential real estate under construction (construction loans) may compose up to 15% of the aggregate amount of claims secured by residential real estate that are included as Cover Assets.

Residential real estate is real property that is destined for housing or for renting (*huur/location*) as housing by the owner.

- (b) **category 2:** claims secured by (at least) a first ranking mortgage on commercial real estate situated in an EEA member state (**Commercial Mortgage Loans**) or certain asset-backed securities backed by such claims (CMBS). Claims secured by commercial real estate under construction are not eligible.

Commercial real estate is real property that is primarily used for industrial or commercial purposes or other professional activities, such as offices or other spaces used for the exercise of commercial activities or the rendering of services.

- (c) **category 3:** claims against or guaranteed or insured by (a) a central government or central bank of a member state of the Organisation for Economic Co-operation and Development (**OECD**), or by a regional or local government of those member states, (b) a public entity of an OECD member states, or (c) a multilateral development bank or international organisation that obtains a 0% risk weight in accordance with article 117.2 of the CRR, and certain asset-backed securities backed by such claims (ABS).

- (d) **category 4:** claims against a EEA credit institution, including amounts deposited with such credit institution or held by the issuing credit institution.

- (e) **category 5:** positions resulting from hedging instruments entered into in relation to Cover Assets or the relevant Belgian Covered Bonds and whereby the counterparty is an OECD credit institution.

In order for hedging instruments to qualify as eligible Cover Assets (art. 4 Covered Bonds Royal Decree):

- (i) the start of reorganisation or liquidation procedures against the issuing credit institution may not result in an automatic early termination (close-out) of the relevant hedging instrument and may not provide the counterparty with a right to invoke early termination (close-out) of the instrument;
- (ii) the issuing credit institution may not include the hedging instrument in netting or novation agreements;
- (iii) the issuing credit institution must be able to show that counterparty risk is minimal; and
- (iv) in case the counterparty is an entity which is part of the consolidation circle of the same group as the issuing credit institution, it needs be an EEA credit institution falling in credit quality category 1 as referred to article 120 of the CRR and the counterparty exposure needs to be covered by eligible collateral or financial instruments as referred to in article 197 of the CRR.

- 4.4 Collections paid in respect of the abovementioned categories of Cover Assets, may be applied as Cover Assets of the same category until such time such Collections are used for other purposes.
- 4.5 At the time an asset is registered as a Cover Asset in the Cover Register, such asset may not be subject to a payment default. A payment default is deemed to exist as soon as the debtor is in arrears with interest or principal payments. In case payments are 90 days in arrears, such payment default becomes definitive. A payment default is also deemed to exist in case the issuing credit institution deems it unlikely that the debtor will fully satisfy its obligations towards the credit institution without further action being taken (such as enforcement of collateral)(art. 3, §6 of the Covered Bonds Royal Decree).

C. Statutory Tests - Cover Tests

- 4.6 In accordance with Article 2, §2 Annex III to the Credit Institutions Supervision Law, the Cover Assets comprising the Special estate must, for the duration of the Belgian Covered Bonds, provide sufficient cover:
- (a) for the payment of principal and interest on the Belgian Covered Bonds;
 - (b) for the obligations towards the other creditors of claims related to the Belgian Covered Bonds issuance; and
 - (c) for the management of the Special Estate.

To this end the value of the Cover Assets need to show an excess compared to the principal amount outstanding of the Belgian Covered Bonds. The cover provided by the Cover Assets and the excess needs to be tested periodically and, if required to provide adequate cover, the issuing credit institution needs to further modify the portfolio of Cover Assets. To this end, the issuing credit institution has the legal obligation to maintain an active collateral management policy. Accordingly, the composition of the Cover Assets included in the Special Estate is dynamic.

- 4.7 In respect of Belgian Pandbrieven, this rule has been further implemented in article 5 of the Covered Bonds Royal Decree which provides for:
- (a) a general requirement that, with respect to the Special Estate, the sum of interest, principal and all other revenues generated by the Cover Assets must be sufficient to cover the sum of all interest, principal and charges linked to the Belgian Pandbrieven (the **Cover Asset Adequacy Test**); and
 - (b) the following two specific tests in relation to the minimum cover to be provided by the Cover Assets. At the time of the issuance and as long as any Belgian Pandbrieven remain outstanding:
 - (i) the value of the Cover Assets that belong to one of the first three categories, determined in accordance with the valuation rules set out in the Covered Bonds Royal Decree, must represent at least 85% of the aggregate principal amount outstanding of the Belgian Pandbrieven then in issue (the **85% Asset Coverage Test**);
 - (ii) the value of the Cover Assets, determined in accordance with the valuation rules set out in the Covered Bonds Royal Decree, must represent at least 105% of the aggregate principal amount outstanding of Belgian Pandbrieven then in issue (the **Over-Collateralisation Test**).

For the valuation rules, see below *E. Valuation of Cover Assets for the Cover Tests*.

- 4.8 The Cover Asset Adequacy Test, the 85% Asset Coverage Test and the Over-Collateralisation Test are herein jointly referred to as the **Cover Tests**.

D. Statutory Tests – Liquidity Test

- 4.9 In accordance with art. 13 Annex III to the Credit Institutions Supervision Law, the terms and conditions applicable to Belgian Covered Bonds need to include mechanics to ensure that the Belgian Covered Bonds are repaid within the contractually agreed term.
- 4.10 In respect of Belgian Pandbrieven, art. 7 of the Covered Bonds Royal Decree has implemented this rule by imposing that with respect to the Special Estate, the Cover Assets must, at any time, be able to generate sufficient liquidity or include enough liquid assets to enable the Issuer to make all unconditional payments on the Belgian Pandbrieven (including principal, interest and other costs) falling due during the following 6 months (the **Liquidity Test**). The NBB Covered Bonds Regulation further specifies the conditions to be satisfied in order for an asset to be considered a liquid asset.
- 4.11 In order to satisfy the Liquidity Test, the issuing credit institution may enter into a liquidity facility with another EEA credit institution that, in accordance with article 120 of the CRR, falls within credit quality category 1 and that is not part of the consolidation circle of the group to which the issuing credit institution belongs.
- 4.12 In relation to the Mortgage Pandbrieven issued under the Programme, if an Extended Maturity Date is specified in the applicable Final Terms for a Series of Mortgage Pandbrieven, payments of amounts due on the Maturity Date will not be considered as unconditional for the purpose of the Liquidity Test.

E. Valuation of Cover Assets for the Cover Tests

- 4.13 For the purposes of the Cover Tests, art. 6 of the Cover Bonds Royal Decree specifies further valuation rules for the Cover Assets in the Special Estate:
- (a) for Cover Assets of category 1 (claims secured by a residential mortgage), the value will be equal to the lowest of (i) the amount of the claim, (ii) 80% of the sales value of the mortgaged real estate and (iii) the value of the mortgage,
- whereby*, the value of the mortgage, is determined as follows:
- (i) if the real estate is located in Belgium and is not secured by mortgage mandate, the amount of the mortgage registered in first rank *plus*, as the case may be, the amount of any subsequent ranks (provided no other creditors have registered before such subsequent rank(s));
- (ii) if the real estate is located in Belgium and in addition to the mortgage, also a mortgage mandate has been granted to secure the claim, the value of the mortgage is the lowest of the following two amounts:
- (1) the amount of the mortgage registered in first rank *plus*, as the case may be, the amount of any subsequent ranks (provided no other creditors have registered before such subsequent rank(s)) *plus* the amount for which the mortgage mandate has been granted; and
- (2) the amount of the mortgage registered in first rank *plus*, as the case may be, the amount of any subsequent ranks (provided no other creditors have registered before such subsequent rank(s)) *divided by* 0.6.
- (iii) if the real estate is not situated in Belgium, the amount of the mortgage registered in first rank *plus*, as the case may be, the amount of any subsequent ranks (provided no other creditors have registered before such subsequent rank(s)).

Residential real estate may only be taken into account for the valuation calculations of the Cover Assets if the requirements of article 208 and the valuation rules of article 229.1 of the CRR are satisfied. This does however not prevent to take into account the value of mortgage mandates as set out above. The valuation of residential real estate is subject to periodic review.

- (b) for Cover Assets of category 2 (claims secured by commercial mortgages), the value will be equal to the lowest of (i) the amount of the claim, (ii) 60% of the sales value of the mortgaged real estate and (iii) the value of the mortgage, *whereby*, the value of the mortgage is equal to the amount of the mortgage registered in first rank *plus*, as the case may be, the amount of any subsequent ranks (provided no other creditors have registered before such subsequent rank(s)). The value of any mortgage mandates is not taken into account.

Commercial real estate may only be taken into account for the valuation calculations of the Cover Assets if the requirements of article 208 of the CRR and the valuation rules of article 229.1 of the CRR are satisfied. The valuation of commercial real estate is subject to periodic review.

- (c) for Cover Assets of category 3 (public sector claims), the value is equal to the amount of such assets as reflected in the financial accounts of the issuing credit institution. If the assets is only guaranteed or insured by an entity as described in category 3, the value of the Cover Asset will be limited to the guaranteed or insured part. Furthermore, in case the relevant entity is not a member of the European Union, the value of the claim is zero, unless:

- (i) such entity falls under credit quality category 1 as referred to in article 116 of the CRR, or
- (ii) such entity falls under credit quality category 2 as set out in the CRR and the claims do not represent more than 20% of the amount of the relevant Belgian Pandbrieven.

- (d) the Cover Assets of category 4 are not taken into account for the 85% Asset Coverage Test. They may not be taken into account for the Over-Collateralisation Test either, unless:

- (i) they fall within credit quality category 1 as referred to in article 120 of the CRR and, to the extent these assets take the form of deposits, their maturity date falls not later than 12 months following the date of registration in the Cover Register, or
- (ii) they fall within credit quality step 2 as referred to in article 120 of the CRR and their maturity date falls not later than 100 days following the date of registration in the Cover Register.

The value of these Cover Assets is equal to the amount of such assets as reflected in the financial accounts of the issuing credit institution.

- (e) the Cover Assets of category 5 are not taken into account for the calculation of the Cover Tests.
- (f) the Cover Assets for which there is a payment default, the value is equal to zero. As soon as an asset is more than 30 days in arrears, it can only be taken into account for 50% of its value as determined in accordance with the above valuation rules.
- (g) in case a mortgage secures multiple claims and not all claims are included in the Special Estate, the value of the mortgage and of the real estate are allocated to the Cover Assets in the Special Estate based on the priority rules that can be established in the terms and conditions of the Belgian Pandbrieven.

- 4.14 In the event an asset included in the Special Estate (or collateral securing such asset) is governed by foreign law, such asset will only be taken into account for compliance with the Statutory Tests if such foreign law does not prevent that such assets will provide an exclusive right of recourse to the holders of the Belgian Pandbrieven (or the other creditors of claims related to the Belgian Covered Bonds issuance) (art. 3, §7 of the Covered Bonds Royal Decree).

5. SPECIAL OBLIGATIONS OF THE ISSUER IN RESPECT OF ADMINISTRATION OF THE BELGIAN COVERED BONDS

- 5.1 In accordance with art. 15, §1 Annex III to the Credit Institutions Supervision Law, a credit institution that has issued Belgian Covered Bonds has the following special obligations in terms of follow-up and administration of the Belgian Covered Bonds:

- (a) in relation to each Special Estate, it needs to organise a special administration for the relevant Belgian Covered Bonds and the Cover Assets. This special administration entails, amongst others, the obligation to keep a register for each issue of Belgian Covered Bonds or, as the case may be, for all issues under an issuance programme in which all Cover Assets are registered (the **Cover Register**).

In accordance with art. 9 of the Covered Bonds Royal Decree, the Cover Register includes at least information in respect of (i) the characteristics (nominal amount, maturity, interest rate) of the Belgian Covered Bonds, (ii) the characteristic of the Cover Assets (category, type of contract, currency, issuance and maturity date of the asset, identification of the counterparty, information on amortization, interest rate, guarantees and valuation).

The issuing credit institution shall as soon as possible (and at least on a daily basis) register any transaction in respect of the Cover Assets in the Cover Register and shall as soon as possible update any characteristics in respect of the Cover Assets in the Cover Register. The segregation of an asset as a Cover Asset is valid and effective against third parties upon its registration in the Cover Register. Once an asset is deleted from the Cover Register, it is no longer part of the Special Estate. Only authorised staff is entitled to update the Cover Register. The issuing credit institutions needs to take safety measures to prevent that the Cover Register is changed by unauthorised persons, damaged or destroyed. An up-to-date back-up shall be made on a monthly basis and be kept for 5 years at another location than the original Cover Register. All information in the Cover Register needs to be verifiable by the Cover Pool Monitor.

- (b) it needs to comply with reporting obligations specified by the Supervisor in accordance with the NBB Covered Bonds Regulations. These regulations provide for quarterly reporting on the Cover Assets and their valuation, yield and maturity, the results of the Liquidity Tests and the hedging of currency and interest rate risk;
- (c) it needs to cooperate with its auditor, any Cover Pool Administrator and the Cover Pool Monitor in order to allow such parties to complete their tasks as set out in the Belgian Covered Bonds Regulations, the terms and conditions of the Belgian Covered Bonds and the contractual agreements;
- (d) it needs to provide evidence to the Supervisor, periodically, that the Belgian Covered Bonds still comply with the Belgian Covered Bond Regulations, by providing a report on the special administration, the Cover Assets and their valuation, and the Liquidity Test;
- (e) it needs to provide evidence to the Supervisor that the Belgian Covered Bonds still comply with the requirement to obtain the Specific Authorisation, each time a significant change occurs in relation to the Belgian Covered Bonds, the issuance programme or the related legal documentation;

- (f) it needs to take measures to reduce interest rate and currency risk. To this effect, the issuing credit institutions must establish a risk policy in order to ensure that in the event of brutal interest rate or currency exchange rate movements (as further specified in art. 8 of the NBB Cover Bonds Regulations), the liquidity flows generated by the Cover Assets are sufficient to satisfy the Cover Tests and the Liquidity Test, or sufficient other liquid assets are available.

6. SPECIFIC SUPERVISION

A. Cover Pool Monitor

- 6.1 As soon as Belgian Covered Bonds are issued, the issuing credit institution has to appoint, following the advice of the Supervisor, a cover pool monitor (*portefeuillesurveillant/surveillant de portefeuille*) (the **Cover Pool Monitor**) for each issuance of, or for an issuance programme of, Belgian Covered Bonds (art. 16, §1 Annex III to the Credit Institutions Supervision Law and art. 11 of the Covered Bonds Royal Decree).
- 6.2 The Cover Pool Monitor will report on the compliance of the issuing credit institution with the Belgian Covered Bond Regulations:
 - (a) prior to an issuance of Belgian Covered Bonds, the Cover Pool Monitor reports to the NBB as Supervisor as to whether the credit institution is able to comply with the qualitative requirements of the Cover Assets, the limitations in respect of the Cover Assets, the level of cover and the available liquidity, and the requirements in respect of correct registration in the Cover Register;
 - (b) following the issuance of Belgian Covered Bonds, these verifications are performed on an annual basis;
 - (c) the compliance with the Cover Tests, the Liquidity Test and the registration in the Cover Register are however verified on a monthly basis.
- 6.3 Once a year, the Cover Pool Monitor reports to the NBB as Supervisor on the results of its activities. As soon as the Cover Pool Monitor finds that the credit institution does not longer comply with the above requirements or the other requirements under the Belgian Cover Bond Regulations, it will immediately inform the NBB as Supervisor and the credit institution. The content and format of its reports are further set out in the NBB Cover Pool Monitor Regulations.
- 6.4 The NBB as Supervisor can also request that the cover pool monitor performs other tasks and verifications.
- 6.5 The Cover Pool Monitor needs to be a recognized auditor of credit institutions other than the actual auditor of the issuing credit institution. Prior to terminating the appointment of the Cover Pool Monitor, the credit institution needs to obtain the advice of the NBB as Supervisor. In case the Cover Pool Monitor wants to resign, it will first need to inform the NBB as Supervisor.
- 6.6 The fees and cost of the cover pool monitor must be borne by the issuing credit institution.
- 6.7 Deloitte Bedrijfsrevisoren BCBVA has been appointed as Cover Pool Monitor in relation to the Special Estate pursuant to article 11 Annex III to the Credit Institutions Supervision Law by the Issuer pursuant to the Cover Pool Monitor Appointment Agreement. The appointment of Deloitte Bedrijfsrevisoren BCBVA as Cover Pool Monitor was approved by the NBB, as Supervisor, on 15 October 2013.

B. Supervisor

- 6.8 The NBB, or as from the date of the actual transfer of competence to the ECB in view of the establishment of the Single Supervision Mechanism (**SSM**), the ECB, is the competent Supervisor in respect of Belgian Covered Bonds in accordance with the SSM-Regulation. In case the Supervisor becomes aware that a specific category of debt instruments does no longer comply with the Belgian Covered Bonds Regulations or if the issuer does not longer comply with its specific obligations as issuer, the Supervisor will grant a remedy period. If the situation is not remedied within the remedy period, the Supervisor may revoke the General Authorisation and delete the issuer from the relevant list of credit institutions authorised to issue Belgian Covered Bonds. In extremely urgent situations, the Supervisor may proceed with a deregistration without remedy period.
- 6.9 A deregistration will be notified by the Supervisor to the European Commission. As a result of this deregistration, the issuer will no longer be entitled to issue Belgian Cover Bonds. In case it wishes to issue new Belgian Covered Bonds, the Issuer will again have to comply with all requirements in order to be registered. A deregistration does not affect the holders of outstanding Belgian Covered Bonds.
- 6.10 The Supervisor can also publish warnings/statements indicating that a credit institution has failed to comply with the Supervisor's requests to meet the requirements of the Belgian Covered Bond Regulations within a specified grace period. In addition, as part of its general supervisory function under the Credit Institutions Supervision Law, the Supervisor can – after hearing or inviting the issuing credit institution for a hearing – impose a fine of maximum EUR 2,500,000 per breach or EUR 50,000 per day of non-compliance.
- 6.11 The Supervisor has the power to impose administrative penalties on issuing credit institutions. Such administrative penalties may range from EUR 2,500 to EUR 2,500,000.

7. OTHER PARTIES

A. Cover Pool Administrator

- 7.1 Under certain circumstances, the Supervisor may or will appoint a Cover Pool Administrator to take over management of the Special Estate (see above *3.C Management of the Special Estate*).
- 7.2 The required qualifications and powers of a Cover Pool Administrator are further specified in the Cover Pool Administrator Royal Decree.
- 7.3 The Cover Pool Administrator may not be the same entity as the liquidator of the issuing credit institution. Before the appointment of a party as Cover Pool Administrator, the Supervisor will assess whether such party has the required expertise and appropriate experience in order to manage the Cover Assets comprised in the Special Estate, is professionally reliable and has an appropriate organisation for the activities that it will have to perform as Cover Pool Administrator. An EEA credit institution that (i) has issued covered bonds relating to similar cover assets, or (ii) manages portfolios of assets that would qualify as Cover Assets, is deemed to satisfy the requirements of the Cover Pool Administrator Royal Decree (art. 3).
- 7.4 In order to comply with the obligations set out in the terms and conditions of the Belgian Cover Bonds, the Cover Pool Administrator has, *inter alia*, the power to take the following actions:
- (a) to make interest and principal payments in respect of the Belgian Covered Bonds deriving from Collections received or, as the case may be, available liquidity lines;
 - (b) to organise the receipt of Collections (including the enforcement of payments in arrears due on Cover Assets);
 - (c) to sell Cover Assets;

- (d) to invest Collections until these are paid out (in assets that would be eligible as Cover Assets);
- (e) to renegotiate the terms of Cover Assets in arrears;
- (f) to enter into hedging instruments;
- (g) to enter into liquidity lines to ensure compliance with the contractual terms of the relevant Belgian Covered Bonds; and
- (h) to perform administrative task of the issuing credit institutions in relation to the issued Belgian Covered Bonds.

7.5 The Cover Pool Administrator will perform the Statutory Test, report on such tests to the Supervisor and the representative of the holders of the Belgian Covered Bonds on a quarterly basis and ensure the reporting as prescribed by the Covered Bonds Royal Decree and the NBB Covered Bonds Regulations.

7.6 For each transaction (in particular a sale of Cover Assets) that entails the risk that the Statutory Tests or the conditions of the Belgian Covered Bonds will no longer be complied with, the Cover Pool Administrator needs to obtain the approval of the Supervisor and the Representative of the Bondholder.

B. Representative of the holder of the Belgian Covered Bonds

7.7 For the holders of Belgian Covered Bonds of a specific issue or of the same issuance programme, one or more representatives can be appointed *either* by the issuing credit institution prior to the issuance of the Belgian Covered Bonds *or* by the general meeting of bondholders after the issuance (art 14, §2 Annex III to the Credit Institutions Supervision Law).

7.8 The powers of the representative of the holders of the Belgian Covered Bonds are determined *either* in the terms and conditions of the Belgian Covered Bonds *or* by the general meeting of bondholders. The general meeting of bondholders may at all times revoke the appointment of such Representative of the Bondholders provided at the same time one or more substitute representative are appointed.

7.9 The representative of the holders of the Belgian Covered Bonds may also represent other creditors of claims related to the Belgian Covered Bonds issuance provided it is mandated by such creditors.

7.10 Stichting ING Belgium Mortgage Pandbrieven Holders' Representative has been appointed by the Issuer as representative of the Pandbrieven Holders in relation to the Programme pursuant to Article art 14, §2 Annex III to the Credit Institutions Supervision Law by the Issuer in accordance with the terms of the Mortgage Pandbrieven Holders' Representative Appointment Agreement. The tasks and duties of Stichting ING Mortgage Pandbrieven Holders' Representative as representative of the Pandbrieven Holders (the **Mortgage Pandbrieven Holders' Representative**) are further described in the Belgian Covered Bond Regulations, the Conditions and the Mortgage Pandbrieven Holder Representative Agreement.

8. MOBILISATION LAW

8.1 In accordance with the provisions of the Covered Bonds Law and the Covered Bonds Royal Decree, Cover Assets that are registered into the Cover Register will form part of the Special Estate providing an exclusive recourse to the holders of Belgian Covered Bonds and the other creditors of claims related to the Belgian Covered Bonds issuance. The Mobilisation Law that was adopted on the same date as the Covered Bond Law provides for certain additional protections in respect of the segregation of Cover Assets in the Special Estate. These include, inter alia, the following:

- (a) the registration of Cover Assets in a Cover Register is valid and effective in case the registration:
- (i) precedes the start of insolvency proceedings, an attachment or a situation of concurrence of creditors, or
 - (ii) occurs on the date of the opening of such proceedings, provided that the credit institution was rightfully ignorant (*gewettigde onwetendheid/ignorance légitime*) of the start of such proceedings.

In such case, the registration cannot be challenged on the basis of claw-back rules set out in the Belgian Bankruptcy Code of 8 August 1997, unless in the event of fraud (art. 8, §2 of the Mobilisation Law);

- (b) the debtor of a bank claim that is registered as a Cover Asset in the Cover Register, will, subject to some limited exceptions, no longer be entitled to invoke set-off rights (legal and contractual) or suspend payments on the basis of an exception of non-performance in respect of such claim, following a notification of the registration of such claim in the Cover Register or following the start of insolvency proceedings against the issuing credit institutions, if the conditions for set-off or the exception of non-performance (including the requirement that the claims to be set-off or on the basis of which the defense is invoked, are payable) are only satisfied following such notification or start of the insolvency proceedings (art. 6, §§2 to 5 of the Mobilisation Law);
- (c) in the event a claim, secured by a mortgage that is an All Sums Mortgage, is registered into a Special Estate, then such claim will in respect of such mortgage be paid (i) in priority to all other claims secured by the same mortgage that came into existence after the date of this registration and (ii) *pari passu* and *pro rata* with the other claims that existed on the date of registration, unless otherwise agreed between the Special Estate and the General Estate, pursuant to article 81quinquies of the Law of 16 December 1851 on mortgage (the **Mortgage Act**) as introduced by article 13 of the Mobilisation Law;
- (d) a Mortgage Mandate is, by operation of law, deemed to be granted for the benefit of any transferee of the secured claim and is transferred automatically together with the secured claim (including in case of a registration into a Special Estate).

DESCRIPTION OF PRINCIPAL DOCUMENTS

1 Introduction

- 1.1 The Issuer may from time to time issue Mortgage Pandbrieven under the Programme. The aggregate principal amount of outstanding Mortgage Pandbrieven in Euro (or its equivalent in any other relevant Specified Currency) shall not at any time exceed EUR 10,000,000,000. All Mortgage Pandbrieven issued under the Programme and the Other Cover Pool Creditors will benefit from (i) a right of recourse against the General Estate of the Issuer and (ii) an exclusive right of recourse against the Special Estate of the Issuer established in respect of the Programme. All Mortgage Pandbrieven outstanding from time to time shall be included in a list which can be consulted on the website of the Supervisor, which at the date of this Base Prospectus, is at www.nbb.be (Financial Supervision - Prudential Supervision - Areas of Responsibility - Credit Institutions - Lists – Current Issues of Belgian covered bonds).
- 1.2 Under the Programme, the Issuer may issue Mortgage Pandbrieven subject to the Conditions (and applicable Final Terms) set out in this Base Prospectus, but may also from time to time issue Mortgage Pandbrieven subject to terms not contemplated by this Base Prospectus.
- 1.3 The Mortgage Pandbrieven will be issued pursuant to the terms of the Programme Agreement (together with each Subscription Agreement, if applicable) and the Pandbrieven Holders will be represented by the Mortgage Pandbrieven Holders' Representative pursuant to the Mortgage Pandbrieven Holder Representative Agreement which has the powers and rights conferred on it by the applicable Conditions and the Mortgage Pandbrieven Holder Representative Agreement. The Mortgage Pandbrieven also have the benefit of an Agency Agreement, pursuant to which the Fiscal Agent, other Paying Agents, Listing Agent, Registrar (if applicable) and (together with the Calculation Agency Agreement, if applicable) the Calculation Agent shall be appointed. The Mortgage Pandbrieven have the benefit of the Special Estate Administration Agreement.
- 1.4 Furthermore, the Issuer has entered into a Cover Pool Monitor Agreement to appoint a Cover Pool Monitor in accordance with the Belgian Covered Bond Regulations, and has entered into a Clearing Services Agreement with the NBB in relation to the Mortgage Pandbrieven represented by a book-entry in the records of the Securities Settlement System.
- 1.5 The Programme Agreement, the Mortgage Pandbrieven Holder Representative Agreement, the Agency Agreement, the Cover Pool Monitor Agreement, the Clearing Services Agreement, the Special Estate Administration Agreement, any Calculation Agency Agreement, any Subscription Agreement, each of the Final Terms, any Hedging Agreement, any Liquidity Facility Agreement and any additional document entered into in respect of the Mortgage Pandbrieven and/or the Special Estate and designated as a Programme Document by the Issuer and the Mortgage Pandbrieven Holders' Representative (as the same may be amended, supplemented, replaced and/or restated from time to time) are together referred to as the Programme Documents (the **Programme Documents**).
- 1.6 Pursuant to the terms of the Programme Documents, the Issuer is entitled to vary, approve or terminate the appointment of any agent or party thereto and/or appoint any additional or substitute agent or party in relation to the issue of any Mortgage Pandbrieven. The Issuer may also enter into any other agreement or document as it may from time to time deem necessary or appropriate in relation to the Programme or issuance of any Mortgage Pandbrieven. Each of the Programme Documents shall further contain specific provisions for the amendment, supplement, replacement and/or restatement of such agreement and a reference to any Programme Document shall be deemed a reference to such agreement as the same may from time to time be amended, supplemented, replaced and/or restated.

2 Programme Agreement

- 2.1 The Issuer, Arranger and the Dealers entered into the Programme Agreement initially dated 23 November 2013 (as amended and/or restated from time to time). The Programme Agreement includes the arrangements under which Mortgage Pandbrieven may from time to time be agreed to be issued by the Issuer to, and subscribed by, the Dealers. The Programme Agreement, *inter alia*, makes provision for the form and terms and conditions of the relevant Mortgage Pandbrieven, the price at which such Mortgage Pandbrieven will be subscribed by the Dealers and the commissions or other agreed deductibles (if any) payable or allowable by the Issuer in respect of such subscription.
- 2.2 The Programme Agreement makes provision for the resignation or termination of appointment of existing Dealers and for the appointment of additional or other Dealers either generally in respect of the Programme or in relation to a particular Series of Mortgage Pandbrieven.

3 Mortgage Pandbrieven Holder Representative Agreement

3.1 Introduction

- (a) Pursuant to the terms of the Mortgage Pandbrieven Holder Representative Agreement concluded on or around the date of this Base Prospectus, Stichting ING Belgium Mortgage Pandbrieven Holders' Representative has been appointed as the Mortgage Pandbrieven Holders' Representative of the Pandbrieven Holders (the **Mortgage Pandbrieven Holders' Representative**).
- (b) The Mortgage Pandbrieven Holders' Representative has been appointed by the Issuer as representative of the Pandbrieven Holders in accordance with Article 14, §2 Annex III to the Credit Institutions Supervision Law upon the terms and conditions set out in the Mortgage Pandbrieven Holder Representative Agreement and the section "*Meeting Rules of the Pandbrieven Holders*" of this Base Prospectus.
- (c) The Mortgage Pandbrieven Holders' Representative can also be appointed to represent Other Cover Pool Creditors provided that those Other Cover Pool Creditors agree with such representation.

3.2 Powers, authorities and duties

The powers, authorities and duties of the Mortgage Pandbrieven Holders' Representative are specified under Part 2 "*Mortgage Pandbrieven Holders' Representative*" of the section "*Meeting Rules of the Pandbrieven Holders*" of this Base Prospectus.

3.3 Retirement and removal

The provisions for the retirement or removal of the Mortgage Pandbrieven Holders' Representative are set out in Part 2 "*Mortgage Pandbrieven Holders' Representative*" of the section "*Meeting Rules of the Pandbrieven Holders*" of this Base Prospectus.

3.4 Liability, exoneration and indemnity of the Mortgage Pandbrieven Holders' Representative

See Part 2 "*Mortgage Pandbrieven Holders' Representative*" of the section "*Meeting Rules of the Pandbrieven Holders*" of this Base Prospectus for a summary of the provisions relating to the liability, relief from liability and entitlement to indemnity of the Mortgage Pandbrieven Holders' Representative.

3.5 Amendments

- (a) The Mortgage Pandbrieven Holders' Representative may upon the request of the Issuer on behalf of the Pandbrieven Holders and without the consent or sanction of any of the Pandbrieven Holders of any Series or the Other Cover Pool Creditors it represents at any time and from time to time, concur with the Issuer or any other person in making:
 - (i) any modification (other than in respect of a Basic Term Change) of the terms and conditions applying to the Mortgage Pandbrieven of one or more Series (including the Conditions) or any Programme Document provided that in the sole opinion of the Mortgage Pandbrieven Holders' Representative such modification is not materially prejudicial to the interests of any of the Pandbrieven Holders of such Series; or
 - (ii) any modification of the terms and conditions applying to Mortgage Pandbrieven of any one or more Series (including the Conditions) or any Programme Document which is in the sole opinion of the Mortgage Pandbrieven Holders' Representative of a formal, minor or technical nature or is to correct a manifest error or to comply with the mandatory statutory provisions or would cause such Mortgage Pandbrieven or such Programme Documents to better reflect or comply with the provisions and requirements of the Belgian Covered Bonds Regulations;.
- (b) Any such modification shall be binding on the Pandbrieven Holders.
- (c) In no event may such modification be a Basic Term Change. Reference is made to section "*Meeting Rules of the Pandbrieven Holders*" of this Base Prospectus for further details in this respect.

3.6 Waivers

The Mortgage Pandbrieven Holders' Representative may in its sole discretion, without the consent of the Pandbrieven Holders and without prejudice to its rights in respect of any further or other breach, condition, event or act from time to time and at any time, but only if and in so far as in its opinion the interests of the Pandbrieven Holders will not be materially prejudiced thereby, (i) authorise or waive, on such terms and conditions (if any) as shall seem expedient to it, any proposed or actual breach of any of the covenants or provisions contained in or arising pursuant to the Mortgage Pandbrieven Holder Representative Agreement, the Mortgage Pandbrieven or any of the Programme Documents, or (ii) determine that any breach shall not be, or shall not be subject to specified conditions, treated as such. Any such authorisation, waiver or determination pursuant to this clause shall be binding on the Pandbrieven Holders and notice thereof shall be given by the Issuer (or the Cover Pool Administrator, as applicable) to the Pandbrieven Holders and the Rating Agencies.

3.7 Conflicts of interest

- (a) In exercising any of the powers, authorities and discretions vested in it, the Mortgage Pandbrieven Holders' Representative shall have regard to the overall interests of the Pandbrieven Holders of all Series taken together and of the Other Cover Pool Creditors that have agreed to be represented by the Mortgage Pandbrieven Holders' Representative. The Mortgage Pandbrieven Holders' Representative shall not be obliged to have regard to any interests arising from circumstances particular to individual Pandbrieven Holders or such Other Cover Pool Creditors.

- (b) The Mortgage Pandbrieven Holders' Representative shall, as regards the powers, authorities and discretions vested in it, except where expressly provided otherwise, have regard to the interests of both the Pandbrieven Holders of all Series and the Other Cover Pool Creditors that have agreed to be represented by the Mortgage Pandbrieven Holders' Representative but, if, in the opinion of the Mortgage Pandbrieven Holders' Representative, there is a conflict between the interests the Pandbrieven Holders and those Other Cover Pool Creditors, the Mortgage Pandbrieven Holders' Representative will have regard solely to the interest of the Pandbrieven Holders, but, for the avoidance of doubt, without prejudice to the applicable priority of payments.

4 Agency Agreement

- 4.1 Under the Agency Agreement initially entered into on 23 November 2013 (as amended and/or restated), the Fiscal Agent and the Paying Agent have undertaken to ensure the payment of the sums due on the Mortgage Pandbrieven and perform all other obligations and duties imposed on it by the Conditions and the Agency Agreement.
- 4.2 In addition, the Fiscal Agent will perform the tasks described in the Clearing Services Agreement dated on 22 November 2013, which comprise inter alia providing the NBB as operator the Securities Settlement System with information relating to the issue of the Mortgage Pandbrieven, the Base Prospectus and other documents required by law.
- 4.3 The Listing Agent will cause an application to be made to Euronext Brussels for the admission to trading of the Mortgage Pandbrieven.
- 4.4 The Registrar maintains a register for the Registration of Registered Mortgage Pandbrieven which shall show the principal amount of Registered Mortgage Pandbrieven (as well as their date of issue and the Special Estate relating to such Registered Mortgage Pandbrief). The Register is available for inspecting by the Issuer, Fiscal Agent or any person authorised by any of them. The Registrar will cancel any redeemed Mortgage Pandbrieven.
- 4.5 The Issuer shall pay or procure the payment of such commissions in respect of the services of the Fiscal Agent, the Paying Agents and the Listing Agent under the Agency Agreement as shall be agreed between the Issuer and the Fiscal Agent. The Issuer shall not be concerned with the apportionment of payment among the Agents.
- 4.6 The Issuer and each Agent may at any time, subject to prior written notice, terminate the appointment of a relevant Agent under the Agency Agreement. In addition, in certain events, the Issuer may terminate the appointment of an Agent forthwith. The termination of the appointment of an Agent (whether by the Issuer or by the resignation of the Agent) shall not be effective unless upon the expiry of the relevant notice there is:
 - (a) a Fiscal Agent and a Principal Paying Agent (which may be the same entity) that will at all times be a participant in the Securities Settlement System;
 - (b) so long as the Mortgage Pandbrieven are listed on any stock exchange or admitted to listing by any other relevant authority, a Paying Agent (which may be the Fiscal Agent) that has its specified office in such place as may be required by the rules and regulations of such stock exchange or other relevant authority (which, so long as the Mortgage Pandbrieven are listed on Euronext Brussels, shall be Brussels);
 - (c) a Paying Agent in a Member State of the European Union that is not obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC (as amended, supplemented and/or replaced from time to time) or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26th-27th November, 2000 or any law implementing or complying with, or introduced in order to conform to, such Directives or pursuant to FATCA;
 - (d) so long as there are Registered Mortgage Pandbrieven, a Registrar (which may be the Issuer itself); and

- (e) in the case of Floating Rate Mortgage Pandbrieven, a Calculation Agent (which may be the Issuer itself).

4.7 The Agency Agreement provides for the appointment from time to time of a Calculation Agent to determine the interest rate in relation to any Floating Rate Mortgage Pandbrieven. Such Calculation Agent may be appointed pursuant to a Calculation Agency Agreement which supplements the arrangements in the Agency Agreement.

5 Cover Pool Monitor Agreement

5.1 Introduction

- (a) Pursuant to the terms of the Cover Pool Monitor Agreement initially entered into on 23 November 2013 (as amended and/or restated), Deloitte Bedrijfsrevisoren BCVBA has been appointed as cover pool monitor pursuant to 16, §1 Annex III to the Credit Institutions Supervision Law. The appointment of Deloitte Bedrijfsrevisoren BCVBA as Cover Pool Monitor was approved by the NBB, as Supervisor, on 15 October 2013.
- (b) Deloitte Bedrijfsrevisoren BCVBA is a recognized auditor (*revisor/réviseur*) other than the statutory auditor of the Issuer (art. 11 §3 of the Covered Bonds Royal Decree). During the term of the appointment of Cover Pool Monitor, Deloitte Bedrijfsrevisoren BCVBA shall not act as statutory auditor of the Issuer.

5.2 Tests and Reporting

- (a) The Cover Pool Monitor has agreed to perform the tasks and services entrusted to a cover pool monitor under the Belgian Covered Bond Regulations in relation to the Issuer as issuer of Belgian covered bonds and the Special Estate. These tasks include, *inter alia*:
 - (i) the issue of periodic reports to the NBB as Supervisor on compliance by the Issuer with the legal and regulatory framework in relation to Belgian covered bonds, including (among other things) the qualitative requirements in relation to the cover assets, the requirements for the cover register and the Statutory Tests; and
 - (ii) such other tasks and verifications as may be requested by the NBB as Supervisor.
- (b) Prior to the first issuance of Mortgage Pandbrieven, the Cover Pool Monitor among other things:
 - (i) verified that all requirements applicable to the Cover Assets were fulfilled;
 - (ii) became familiar with the Issuer's assessment of its organisational capacity to issue Mortgage Pandbrieven, including the Issuer's risk management policies to mitigate interest rate and currency exchange risks and report its findings to the Supervisor; and
 - (iii) performed the procedures set out in the annex to the NBB Cover Pool Monitor Regulation and such other procedures as it deems necessary to assess the Issuer's organisational suitability.
- (c) Following the issuance of Mortgage Pandbrieven, the Cover Pool Monitor will among other things:
 - (i) verify at least once a year whether all requirements applicable to the Cover Assets are fulfilled;
 - (ii) verify at least once a month whether the Statutory Tests and the requirements in relation to the Cover Register are met; and

- (iii) verify at least once a year that the Special Estate does not include commercial mortgage loans (whereby such verification is performed by the Cover Pool Monitor on a statistically significant sample randomly selected loans included as Cover Assets in the Special Estate; the size of the sample has been determined on the basis of a confidence level of 95% and an accepted error rate of 1%) and verify at least once a month that the Special Estate does not include residential mortgage backed securities, commercial mortgage backed securities or any other asset backed securities.
- (d) If the Issuer does not comply with such requirements (other than as set out in (c)(iii)), the Cover Pool Monitor must immediately inform the NBB as Supervisor and the Issuer.
- (e) The Cover Pool Monitor shall perform its tasks in accordance with the provisions of the Belgian Covered Bond Regulations and in particular the NBB Cover Pool Monitor Regulation.

5.3 Termination of appointment

- (a) The Issuer may terminate the appointment of the Cover Pool Monitor on 30 days' prior written notice provided that it has the prior consent of the NBB as Supervisor.
- (b) The Cover Pool Monitor has agreed to provide its services under the Cover Pool Monitor Agreement during an initial period expiring on 31 December 2018 (the **Initial Term**), which will thereafter be tacitly renewed for an additional one calendar year period (each a **Renewal Period**) provided that the Cover Pool Monitor may resign from its appointment under the Cover Pool Monitor Agreement upon providing the Issuer, the Mortgage Pandbrieven Holders' Representative and the NBB as Supervisor with at least 3 calendar months' prior written notice before the end of the Initial Term or the end of the additional Renewal Period. Notwithstanding the foregoing, the Cover Pool Monitor may with the prior consent of the NBB as Supervisor resign from its appointment immediately by giving written notice to the Issuer and the NBB as Supervisor in the event a professional conflict of interest for the Cover Pool Monitor is caused by an action of the Issuer (or its shareholders) or the Mortgage Pandbrieven Holders' Representative or in the event the performance of its services would become illegal following a change of law. The Cover Pool Monitor is required to resign if it becomes the statutory auditor of the Issuer or otherwise becomes ineligible to act as a Cover Pool Monitor pursuant to the Belgian Covered Bond Regulations.
- (c) Upon the Cover Pool Monitor giving written notice of resignation, the Issuer shall immediately use all reasonable endeavours to appoint a replacement (such replacement to be approved by the NBB as Supervisor which agrees to perform the duties of the Cover Pool Monitor set out in the Belgian Covered Bond Regulations and in the Cover Pool Monitor Agreement.)

5.4 Costs

Pursuant to the terms of the Cover Pool Monitor Appointment Agreement, the fees and cost of the Cover Pool Monitor will be borne by the Issuer.

6 Subscription Agreement

The Programme Agreement will be supplemented on or around the date of each issuance by a subscription agreement, which will set out, *inter alia*, the relevant underwriting commitments (such agreement, the **Subscription Agreement**).

7 Special Estate Administration Agreement

- 7.1 The Special Estate Administration Agreement initially entered into on 23 November 2013 (as amended and/or restated) provides that all Mortgage Pandbrieven issued under the Programme shall be subject to and have the benefit of certain common terms (the Special Estate Administration Terms) regardless of whether the Mortgage Pandbrieven are issued under the Base Prospectus or not. These Special Estate Administration Terms specify that all Pandbrieven Holders will be represented by the Mortgage Pandbrieven Holders' Representative and will benefit from recourse to the same Special Estate. Such recourse shall only extend to the Pandbrieven Holders and the Other Cover Pool Creditors under the Programme.
- 7.2 The other Special Estate Administration Terms provided for in the Special Estate Administration Agreement are:
- (a) the establishment and maintenance of the Cover Register in accordance with the requirements of the Belgian Covered Bond Regulations;
 - (b) compliance of the Special Estate with the Statutory Tests;
 - (c) the exclusion of commercial mortgage loans, Residential Mortgage Backed Securities, Commercial Mortgage Backed Securities and any other Asset Backed Securities from the Special Estate;
 - (d) the provision of the Investor Report;
 - (e) the events of default to apply to all Series of Mortgage Pandbrieven (which are the same as those set out in Condition 8.1 (*Events of Default*));
 - (f) the priorities of payment to apply following an Event of Default or an early repayment of the Mortgage Pandbrieven (which are the same as those set out in Condition 9 (*Priorities of Payment*));
 - (g) the types of assets which are to be used by the Issuer to comply with its revindication obligations should Cover Assets become commingled with the General Estate of the Issuer (which are the same as those set out in Condition 12.1 (*Criteria for the transfer of assets by the General Estate to the Special Estate*));
 - (h) the priority of application for recoveries from security which secures both Cover Assets (to which such recoveries shall first be applied until such Cover Assets have been satisfied in full) and assets forming part of the General Estate (which shall only receive such recoveries when the relevant Cover Assets have been repaid in full);
 - (i) that collateral provided under Hedging Agreements which are Cover Assets shall only be used for obligations in relation to the Special Estate and in accordance with the relevant Hedging Agreement; and
 - (j) the appointment and maintenance of the appointment of the Cover Pool Monitor.
- 7.3 The Special Estate Administration Agreement may only be amended by a Programme Resolution (as defined in the Mortgage Pandbrieven Holder Representative Agreement). However, the Special Estate Administration Agreement may be amended in writing between the Issuer, the Mortgage Pandbrieven Holders' Representative and the Cover Pool Monitor, without the agreement or consent of the Pandbrieven Holders if:
- (a) the Mortgage Pandbrieven Holders' Representative is of the opinion that the amendment will not materially prejudice the interests of the Pandbrieven Holders; or

- (b) the Mortgage Pandbrieven Holders' Representative is of the opinion that the amendment is of a formal, minor or technical nature; or
- (c) the Mortgage Pandbrieven Holders' Representative is of the opinion that the amendment is to correct a manifest error or to comply with mandatory statutory provisions; or
- (d) to better reflect the requirements and provisions of the Belgian Covered Bond Regulations.

7.4 Upon the Issuer's request, the Mortgage Pandbrieven Holders' Representative shall, without the consent or sanction of any of the Pandbrieven Holders, concur with the Issuer in making any modifications to the Conditions, to the Meeting Rules or to the Special Estate Administration Terms (together with any requisite or consequential modifications to the Programme Documents) that the Issuer may decide in its discretion to request in order to comply with mandatory provisions of law or with any criteria of a Rating Agency which may be published after the signing of the initial agreement(s) for the issuance of and subscription for the Mortgage Pandbrieven and which the Issuer certifies to the Mortgage Pandbrieven Holders' Representative in writing it reasonably believes are necessary to avoid a downgrade, withdrawal or suspension of the then current ratings assigned by a Rating Agency to any Series of Mortgage Pandbrieven, provided that the Mortgage Pandbrieven Holders' Representative shall not be obliged to agree to any modifications which, in the sole opinion of the Mortgage Pandbrieven Holders' Representative, as applicable, would have effect of (i) exposing the Mortgage Pandbrieven Holders' Representative, as applicable, to any liability against which it has not been indemnified and/or secured and/or prefunded to its satisfaction; or (ii) increasing the obligations or duties, or decreasing the protections, of the Mortgage Pandbrieven Holders' Representative, as applicable in the Meeting Rules or the Conditions. For avoidance of doubt, such modification may include, without limitation, modifications which would allow any hedge counterparty and/or liquidity facility provider not to post collateral in circumstances where it previously would have been obliged to do so.

Notwithstanding the foregoing, upon the Issuer's request, the Mortgage Pandbrieven Holders' Representative shall, without the consent or sanction of any of the Pandbrieven Holders, concur with the Issuer in making any modifications to the Special Estate Administration Terms (together with any requisite or consequential modifications to the Programme Documents) that the Issuer may decide in its own discretion in relation to future issues of Mortgage Pandbrieven under the Programme provided that (a) such modifications will not affect the then current ratings assigned by a Rating Agency to any Series of Mortgage Pandbrieven issued under the Programme and (b) the Issuer certifies to the Mortgage Pandbrieven Holders' Representative in writing that these modifications will not affect the rights of Mortgage Pandbrieven already issued under the Programme, provided that the Mortgage Pandbrieven Holders' Representative shall not be obliged to agree to any modification which, in the sole opinion of the Mortgage Pandbrieven Holders' Representative, as applicable, would have effect of (i) exposing the Mortgage Pandbrieven Holders' Representative, as applicable, to any liability against which it has not been indemnified and/or secured and/or prefunded to its satisfaction; or (ii) increasing the obligations or duties, or increasing the protections, of the Mortgage Pandbrieven Holders' Representative, as applicable in the Meeting Rules or the Conditions. For avoidance of doubt, such modification may include, without limitation, modifications which would allow any hedge counterparty and/or liquidity facility provider not to post collateral in circumstances where it previously would have been obliged to do so.

8 Clearing Services Agreement

Pursuant to the Clearing Services Agreement concluded on 22 November 2013, the NBB as operator of the Securities Settlement System will provide clearing services for the Issuer.

9 Hedging Agreements

- 9.1 The Issuer or, upon its appointment by the Supervisor, the Cover Pool Administrator may, from time to time during the Programme, enter into interest rate swap agreements, currency swap agreements and other relevant swap or hedging agreements (together the **Hedging Agreements**) with one or more hedging counterparties (the **Hedging Counterparties**) for the purpose of, *inter alia*, protecting itself against certain risks (including, but not limited to, interest rate, liquidity and credit) related to the Cover Assets and/or the Mortgage Pandbrievens.
- 9.2 The distribution or priority rules between the obligations towards Pandbrievens Holders and the Hedging Counterparties are determined in the Conditions. Reference is made to Condition 9 (*Priority of Payments*) in this respect.

10 Liquidity Facility Agreements

- 10.1 The Issuer or, upon its appointment by the Supervisor, the Cover Pool Administrator may, from time to time during the Programme, enter into liquidity facility agreements (the **Liquidity Facility Agreements**) in relation to the Special Estate with one or more liquidity facility providers (the **Liquidity Facility Providers**) in order to improve the liquidity of the Special Estate.
- 10.2 The distribution or priority rules between the obligations towards Pandbrievens Holders and the Liquidity Facility Providers are determined in the Conditions. Reference is made to Condition 9 (*Priority of Payments*) in this respect.

COVER ASSETS

The Belgian Covered Bond Regulations identify five categories of assets that may be included as cover assets in a special estate in relation to an issuance of mortgage pandbrieven (see “*Summary of the Belgian Covered Bond Regulations*” – section “*4.B. Further qualitative requirements for Cover Assets relating to Belgian Pandbrieven*” above). In accordance with the undertakings included in the Conditions (see Condition 2.6) and the Programme Documents, the Issuer will further limit the types of assets that will be eligible as Cover Assets for the Special Estate as described below.

1 Eligible Assets - Types

The following types of assets may be included as Cover Assets in the Special Estate:

- (a) Residential Mortgage Loans (category 1): mortgage receivables secured by a mortgage on residential real estate located in the European Economic Area (**EEA**). With respect to residential mortgage loans, the Issuer must be the beneficiary of a first ranking mortgage. Mortgage receivables relating to residential real estate under construction or in development can only be included in the Special Estate if they do not represent more than 15% of all the residential mortgage loans included in the Special Estate.

Residential real estate is defined as real property that is destined for housing or for rent (*huur/location*) as housing by the owner.

- (b) Exposures to public sector entities (category 3): receivables on or guaranteed or insured by (i) central, regional or local authorities of EEA Member States that are member of the organisation for Economic Co-operation and Development (**OECD**), (ii) central banks of these member states, (iii) public sector entities of these member states or (iv) multilateral development banks or international organisations that qualify for a 0% risk weighing as set out in article 117.2 of the CRR, but excluding in each case, public sector asset backed securities (**ABS**).
- (c) Exposures to credit institutions (category 4): claims against credit institutions that have the status of credit institution under the law of a member state of the OECD and cash held on account with these credit institutions, as well as sums held by the issuing credit institution.
- (d) Hedging Agreements (category 5): positions resulting from one or more Hedging Agreements linked to one or more Cover Assets or Mortgage Pandbrieven concerned, as well as sums paid under these positions may also qualify as Cover Assets. The counterparty of these instruments must have the status of a credit institution under an OECD member state.

The Hedging Agreements may only cover interest rate risk, currency exchange risk or other risks linked to the Cover Assets or the Mortgage Pandbrieven.

The Hedging Agreements may only be included in the Special Estate if reorganisation measures or winding-up proceedings opened against the Issuer do not automatically result in the early termination (close-out) of these Hedging Agreements and if the Hedging Counterparty cannot invoke such procedures in order to claim the termination (close-out) of these Hedging Agreements. The Issuer institution may not include the derivatives in one of the novation or netting agreements to which it is a party.

The Issuer must be able to demonstrate that the default risk of the Hedging Counterparty is limited. This can be established if the counterparty qualifies for:

- (i) Credit quality step 1 or 2 according to Article 120 CRR for Belgian covered bonds that qualify for credit quality step 1; or

- (ii) Credit quality steps 1, 2 or 3 according to Article 120 CRR for Belgian covered bonds that qualify for credit quality step 2 or lower.

Hedging Agreements registered in the cover register are part of the special estate.

When the counterparty is a group-related entity of the Issuer, it must have the status of credit institution in an EEA Member State and must benefit from the credit quality step 1 (as defined in article 120 of the CRR). Moreover, the net risk positions arising from these hedging instruments towards these counterparties have to be covered by financial instruments or values as contemplated in Article 197 CRR.

Amounts paid as reimbursement, collection or payment of interest on claims or assets included in the Special Estate as part of the relevant categories, may be taken into account as Cover Assets that are a part of their respective category.

In accordance with the undertaking of the Issuer included in Condition 2.6, none of the Cover Assets may comprise Residential Mortgage Backed Securities (**RMBS**), commercial mortgage loans or Commercial Mortgage Backed Securities (**CMBS**) or any other ABS.

The Issuer refers to the Summary of the Belgian Covered Bond Regulations for a description of the valuation criteria and the Statutory Tests.

2 **Main category of Cover Asset – Residential Mortgage Loans**

The Special Estate may be composed of assets of each of the following categories (residential mortgage loans (but excluding RMBS) (category 1), public exposures (but excluding Public Asset Backed Securities) (category 3), exposures to credit institutions (category 4) and Hedging Agreements (category 5)).

The main asset category of the Special Estate will consist of Category 1 i.e. Residential Mortgage Loans (excluding RMBS).

The value of Cover Assets out of this Category 1 (Residential Mortgage Loans, but excluding RMBS) as determined in accordance with the valuation rules set out in the Article 6 of the Covered Bonds Royal Decree must represent at least 85% of the aggregate Principal Amount Outstanding of all Mortgage Pandbrieven of all Series outstanding (the 85% Asset Coverage Test). In exceptional circumstances the Supervisor may decrease the minimum percentage of 85 % of the 85% Asset Coverage Test.

3 **Description of the Residential Mortgage Loans**

(a) Interest Rates

The Residential Mortgage Loans comprising Cover Assets bear:

- (i) a fixed rate interest for the entire term of the Residential Mortgage Loan; or
- (ii) an interest rate which is subject to a reset from time to time, with the period between to reset dates being no less than one year and no more than ten years.

The actual amount of interest paid under the Residential Mortgage Loans will vary during the life of the Mortgage Pandbrieven as a result of the level of delinquencies, defaults, repurchases, repayments and prepayments in respect of the Residential Mortgage Loans.

(b) Prepayment Penalties

In accordance with applicable law, the Residential Mortgage Loan agreements allow for prepayment penalties equal to three months interest on the prepaid amount, calculated at the interest rate then applicable to the prepaid Residential Mortgage Loan (except in the case of: (a) death of a Borrower if the Residential Mortgage Loan is repaid from the proceeds of life insurance taken out in relation to the Residential Mortgage Loans; or (b) in case of destruction of or damage to the property because of hazard, to the extent that the prepayment occurs with funds paid pursuant to a hazard insurance policy relating to the Residential Mortgage Loan).

(c) Default Interest

In respect of arrears on the Residential Mortgage Loans, default interest (*nalatighedsinterest/intérêt moratoire*) at a rate of up to 0.5 per cent per annum is charged/applied in addition to the interest rate then applicable to the Residential Mortgage Loan.

(d) Types of Residential Mortgage Loans

The Residential Mortgage Loans comprising Cover Assets are of the following repayment terms:

- (i) **Linear Residential Mortgage Loan** means a mortgage loan under which the Borrower has to make a periodical repayment of principal which remains the same for the duration of the loan, so that the debt gradually decreases. Due to the decreasing outstanding balance, the interest payment decreases proportionally. As a result, the gross mortgage costs (interest plus repayment of principal) decreases over time;
- (ii) **Annuity Residential Mortgage Loan** means a mortgage loan under which the Borrower has to make a periodical repayment which remains the same for the duration of the loan consisting partly of interest and partly of principal, whereby the interest payments decrease and the repayments of principal increase;
- (iii) **Bullet Residential Mortgage Loan** means a mortgage loan under which the Borrower does not have to reimburse principal amount until maturity of such loan, but only makes interest payments during the lifetime of the loan. The interest payment can be monthly, quarterly, semi-annually, or annually; and
- (iv) **Contractual Residential Mortgage Loan** means a mortgage loan whereby the amount of principal repayments determined at the start of the Contractual Residential Mortgage Loan can, by upfront decision of the Borrower, be changed up to 4 times during the lifetime of the Contractual Residential Mortgage Loan. The interest is calculated on the outstanding balance and therefore decreases over time. The Borrower decides the payment frequency of the interest, which does not necessarily have to correspond with that for the capital repayments.

(e) Loan Security

The Residential Mortgage Loans are secured by (1) a first ranking mortgage, and, as the case may be, (2) a lower ranking mortgage provided that the Issuer also has the benefit of all higher ranking mortgages on the same real estate and, as the case may be, a mandate to create mortgages.

(i) Mortgage

A mortgage creates a priority right to payment out of the mortgaged assets, subject to mandatory statutory priorities (including beneficiaries of prior ranking mortgages).

The Residential Mortgage Loans constitute term advances under facilities which have the form of a revolving facility (*kredietopening/ouverture de crédit*). The mortgage that is granted as security for this type of loans is used to secure all advances (*voorschotten/avances*) made available under such revolving facility and any other debt owed by the Borrower to the Issuer from the time which the Issuer decides to include (*imputatie/imputation*) in the revolving facility and this under the cover of the mortgage.

Pursuant to article 81^{quinquies} of the Mortgage Act, a receivable secured by a mortgage securing all debts that can arise over an indefinite period of time (an **All Sums Mortgage**) which is registered in the Cover Register shall, in respect of such mortgage, (i) rank in priority to any receivable which arises after the date of the registration and (ii) have equal ranking with loans or debts which existed at the time of the registration, unless stipulated otherwise in the issue conditions.

Pursuant to article 81^{quater}, §2 of the Mortgage Act, an advance granted under a revolving facility secured by a mortgage can be registered in the Cover Register. Such advance will benefit from the privileges and mortgages securing the revolving facility. The advance registered in the Cover Register shall, in respect of the mortgage securing the revolving facility, (i) rank in priority to further advances that are granted after the date of registration and (ii) have equal ranking with other advances which existed at the time of the registration, unless stipulated otherwise in the issue conditions.

Condition 12.3 (*Priority Rules regarding security interest securing both Cover Assets and assets in the General Estate*) of the Conditions provides that if a security interest (including any mortgage and mortgage mandate) secures both Cover Assets and assets in the General Estate, all sums received out of the enforcement of the security interest will be applied in priority to satisfy the obligations in relation to the Cover Assets. Any proceeds of enforcement of such security interest can only be applied in satisfaction of the obligations of the relevant assets in the General Estate once all sums owed to the Special Estate in respect of the relevant Cover Assets are irrevocably repaid in full.

(ii) Mortgage Mandate

A mortgage mandate is often used in addition to a mortgage to limit registration duties payable by the Borrower.

A mortgage mandate does not create an actual security interest and does not therefore create an actual priority right of payment out of the proceeds of a sale of the mortgaged assets. The mortgage mandate is an irrevocable mandate granted by a Borrower or a third party collateral provider to certain attorneys to create a mortgage as security for the Residential Mortgage Loan and all other amounts which the Borrower owes or in the future may owe to the Issuer. Only after creation of the mortgage, the beneficiary of the mortgage will have a priority right to payment out of the proceeds of a sale of the mortgaged assets. See further *Risk Factors – Mortgage Loans – Mortgage Mandates*.

- (iii) as the case may be, life insurance policies and hazard insurance policies;
- (iv) as the case may be, an assignment of salary by the Borrower; and/or
- (v) as the case may be, any pledge, set-off or unicity of account rights of the Issuer pursuant to its applicable general banking terms and conditions.

Pursuant to Article 3, §2, 3° Annex III to the Credit Institutions Supervision Law (and, as far as Mortgage Mandates are concerned, Articles 81^{sexies} and 81^{decies} of the Belgian Mortgage Act) all security interests and sureties, guarantees or privileges under whichever form that have been granted in relation to Cover Assets as well as rights

under insurance policies and other contracts in relation to the Cover Assets or the management of the Special Estate are automatically part of the Special Estate.

4 Underwriting and Servicing of the Loans

(a) Credit applications and reviews

The bank extends a limited number of simple, low risk and transparent products to financially sound clients.

Target customers:

- Private individuals;
- Self-employed; and
- Professionals.

The mortgage loans are only sold through the bank's branches, franchised (232) and statutory (499). The underwriting policy and the processing for mortgage loans are the same for both kinds of branches.

Financing policy is detailed in policy papers and is published on the bank's intranet accessible for both relationship and risk management.

(b) Origination process

The credit application is initiated in BTM/TPK 503. This is a straight-through processing system in which all activities on a certain application are tracked. Application is scored by the system, giving advice to the approver and to the branch.

The granting of a mortgage loan is based on several criteria of which the following are the most important:

- Positive and negative Belgian credit database (via Belgian National Bank);
- Available internal credit history and internal credit behaviour (if any); and
- Approval can be automatically based on the credit risk based on certain drivers like behavioural score, internal and external databases, debt to available income, known credit behaviour etc.

(c) Approval process

Credit decisions amounts are either automatically approved or are manually underwritten. These are predefined for each approver based on experience and seniority and on the internal rating assigned to a credit application. All credit decisions in excess of EUR 1 million are taken by 2 mandate levels within 48 hours.

(d) Collateral

Collateral in a transaction is an important item in the credit decision. All mortgage loans are collateralised and any received collateral typically consists of one or more of the following types:

- Inscriptions/Mortgages (i.e. liens on specified residential properties); and
- Mortgage mandates.

For the avoidance of doubt, the Residential Mortgage Loans will only be eligible as Cover Assets if they are secured by, at least, a first ranking Mortgage.

(e) Internal Credit Risk Rating System

The Issuer uses internal risk ratings for managing applications and ongoing credits. The assigned internal risk rating represents the Issuer's assessment of the expected default probability of a given Borrower not taking collateral into account. It is the result of an evaluation of several inputs and internal behavioural data, using statistically based scorecard analyses. The application score could affect the outcome (in combination with other factors like credit record at Supervisor) of the credit decision, but it also determines the level of decision-making authority required to take the decision.

All behavioural scores are delivered on a monthly basis to ING Group, which uses a set of internal risk ratings throughout all its different international units.

Currently the ING Internal Risk Rating scale consists of 22 risk ratings that fall into 3 larger classes of risk:

1. "Investment Grade": 01 to 10;
2. "Speculative Grade"; 11 to 17;
3. "Substandard/Problem Loan Grade"; 18 to 22.

(f) Credit restructuring process

Risk management continuously monitors the credit quality of the processes and observes developments related to the borrowers, the sector it operates in (which developments could affect the Borrower in the future whilst its current credit profile does not yet reflect these) or in the acceptance criteria.

Credit exposures which have been in arrear for more than 70 days will be managed by the regularisation department. As soon as a file is transferred to the regularisation department, that department takes over the main responsibility of the relationship with the client.

The regularisation department manages a file with the aim to improve the client's credit standing and the bank's position so that normal relationship management and risk management can take over again. If the restructuring department decides that a file should be terminated (and the bank repaid) the file is transferred to the recovery department.

In the "**Recovery**" department any collateral is liquidated by third parties. If there is still any exposure left following the work-out in "Recovery", they will proceed the writes-off and (if possible) attempt to collect the remaining balance.

5 Initial selection of Residential Mortgage Loans as Cover Assets for the Special Estate

The Issuer may, from time to time, apply additional criteria in order to select the Residential Mortgage Loans that will be allocated as Cover Assets to the Special Estate from its available pool of Residential Mortgage Loans.

For the selection of an initial pool of Residential Mortgage Loans that can be allocated to the Special Estate in relation to the Mortgage Pandbrievgen under the Programme, the Issuer has applied, *inter alia*, the following selection criteria:

- the underlying residential real estate is located in Belgium;

- the underlying residential real estate is at origination owner-occupied (hence not used for renting); and
- the current loan to indexed market value (whereby the market value is determined on the basis of the agreed price for the property in the underlying sale agreement or on the basis of the most recently available valuation report by an external valuer, as indexed on the basis of the Stadim index) of the Residential Mortgage Loan is not higher than 115%.

Provided that the Residential Mortgage Loans allocated to the Special Estate satisfy the requirements of the Belgian Covered Bonds, including, in particular, the Statutory Tests, the Issuer may change from time to time change its selection policy and thereby no longer apply the abovementioned criteria or apply additional and/or different criteria.

DOCUMENTS INCORPORATED BY REFERENCE

In respect of any issuance of a new Tranche increasing a Series issued under a previous Base Prospectus, the present Base Prospectus should be read and construed in conjunction with the Conditions (set out in *Terms and Conditions of the Mortgage Pandbrieven*) of the relevant Base Prospectus, which are incorporated by reference in the present Base Prospectus.

Copies of documents incorporated by reference in this Base Prospectus can be obtained from the registered office of the Issuer, on its website (www.ing.be/investor-relations) and the website of Euronext Brussels (www.euronext.com).

The Issuer will, in the event of any significant new factor, material mistake or inaccuracy relating to the information included in this Base Prospectus which is capable of affecting the assessment of any Mortgage Pandbrieven or any change in the condition of the Issuer which is material in the context of the Programme or the issue of any Mortgage Pandbrieven, prepare and publish a supplement to this Base Prospectus or publish a new base prospectus for use in connection with any subsequent issue of Mortgage Pandbrieven to be admitted to trading on an EU Regulated Market. Furthermore, in connection with the listing of the Mortgage Pandbrieven on Euronext Brussels, so long as any Mortgage Pandbrief remains outstanding and listed on such exchange, in the event of any material adverse change in the financial condition of the Issuer which is not reflected in this Base Prospectus, the Issuer will prepare a further supplement to this Base Prospectus or publish a new base prospectus for use in connection with any subsequent issue of the Mortgage Pandbrieven to be listed on Euronext Brussels.

If the terms of the Programme are modified or amended in a manner which would make this Base Prospectus, as supplemented, inaccurate or misleading, a new base prospectus will be prepared.

GENERAL DESCRIPTION OF THE MORTGAGE PANDBRIEVEN

Under the Programme, the Issuer may from time to time issue Mortgage Pandbrieven, subject as set out herein. The applicable terms of any Mortgage Pandbrieven will be agreed between the Issuer and the relevant Dealer(s) prior to the issue of the Mortgage Pandbrieven and will be set out in the Conditions of the relevant Mortgage Pandbrieven, as completed by the applicable Final Terms. The Issuer may also issue from time to time Mortgage Pandbrieven under the Programme which shall be subject to terms and conditions and/or final terms not contemplated by this Base Prospectus. In such circumstances, the relevant forms of terms of such Mortgage Pandbrieven will be set out in the relevant Final Terms.

This Base Prospectus and any supplement will only be valid for issuing Mortgage Pandbrieven in an aggregate nominal amount which, when added to the aggregate nominal amount then outstanding of all Mortgage Pandbrieven previously or simultaneously issued under the Programme, does not exceed EUR 10,000,000,000, subject to increase as described herein.

FORM OF THE MORTGAGE PANDBRIEVEN

Form

The Mortgage Pandbrieven can be issued in dematerialised form (**Dematerialised Mortgage Pandbrieven**), in registered form (**Registered Mortgage Pandbrieven**) or in such other form as may be specified in the applicable Final Terms.

Registered Mortgage Pandbrieven will be registered in a register maintained by the Issuer or by a registrar on behalf of the Issuer (the **Registrar**) in accordance with Article 462 et seq. of the Belgian Company Code.

The Dematerialised Mortgage Pandbrieven will be issued in dematerialised form in accordance with Articles 468 et seq. of the Belgian Company Code.

The Dematerialised Mortgage Pandbrieven will be represented by a book entry in the records of the clearing system operated by the National Bank of Belgium (the **NBB**) or any successor thereto (the **Securities Settlement System**). The Dematerialised Mortgage Pandbrieven can be held by their holders through the participants in the Securities Settlement System, including Euroclear Bank SA/NV (**Euroclear**), Clearstream Banking *société anonyme* (**Clearstream, Luxembourg**), SIX SIS (Switzerland) or Monte Titoli (Italy), and through other financial intermediaries which in turn hold the Dematerialised Mortgage Pandbrieven through Euroclear, Clearstream, Luxembourg, SIX SIS (Switzerland) or Monte Titoli (Italy) or other participants in the Securities Settlement System.

The Dematerialised Mortgage Pandbrieven will be accepted for clearance (settlement) through the Securities Settlement System and will accordingly be subject to the Securities System Regulations. Holders of Dematerialised Mortgage Pandbrieven are entitled to exercise the rights they have, including exercising their voting rights and other associative rights (as defined for the purposes of Article 474 of the Belgian Company Code) against the Issuer in accordance with the Conditions and without prejudice to the powers of the Mortgage Pandbrieven Holders' Representative upon submission of an affidavit drawn up by the NBB, Euroclear, Clearstream, Luxembourg, SIX SIS (Switzerland) or Monte Titoli (Italy) or any other participant duly licensed in Belgium to keep dematerialised securities accounts showing their position in the Dematerialised Mortgage Pandbrieven (or the position held by the financial institution through which their Mortgage Pandbrieven are held with the NBB, Euroclear, Clearstream, Luxembourg, SIX SIS (Switzerland) or Monte Titoli (Italy) or such other participant, in which case an affidavit drawn up by that financial institution will also be required). References to the Securities Settlement System, Euroclear and/or Clearstream, Luxembourg shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system specified in the applicable Final Terms or as may otherwise be approved by the Issuer and the Fiscal Agent.

The Issuer and the Fiscal Agent will not have any responsibility for the proper performance by the Securities Settlement System or its Participants of their obligations under their respective rules and operating procedures.

The Dematerialised Mortgage Pandbrieven and the Registered Mortgage Pandbrieven may not be exchanged for Mortgage Pandbrieven in bearer form. Registered Mortgage Pandbrieven may not be exchanged for Dematerialised Mortgage Pandbrieven.

Title and Transfer

Title to and transfer of Dematerialised Mortgage Pandbrieven will be evidenced only by records maintained by the Securities Settlement System, Euroclear and Clearstream, Luxembourg, SIX SIS (Switzerland), Monte Titoli (Italy) or other Securities Settlement System participants and in accordance with the applicable rules and procedures for the time being of the Securities Settlement System, Euroclear and Clearstream, Luxembourg, SIX SIS (Switzerland), Monte Titoli (Italy) or other Securities Settlement System participants, as the case may be.

Title to and transfer of Registered Mortgage Pandbrieven shall pass by registration of the transfer by the Issuer or by the Registrar in a register in accordance with Article 462 et seq. of the Belgian Company Code.

Except as ordered by a court of competent jurisdiction or as required by law, the holder of any Mortgage Pandbrieven shall be deemed to be and may be treated as its absolute owner for all purposes, whether or not it is overdue and regardless of any notice of ownership, trust or an interest in it, any writing on it or its theft or loss and no person shall be liable for so treating the holder.

Payments

All payments of principal or interest owing under the Dematerialised Mortgage Pandbrieven shall be made through the Fiscal Agent and the Securities Settlement System in accordance with the Settlement System Regulations and the Clearing Services Agreement. The Issuer will validly discharge its payment obligations towards the Dematerialised Pandbrieven Holders by payment to the Securities Settlement System through the intervention of the Fiscal Agent.

The Securities Settlement System will not be involved in the payment of interest or principal payable on or in respect of the Dematerialised Mortgage Pandbrieven expressed in any currency other than Euro. Such amounts will be settled outside the Securities Settlement System and paid through the intervention of the Fiscal Agent or the Paying Agents to participants holding positions in the Dematerialised Mortgage Pandbrieven via Euroclear and Clearstream, Luxembourg. Payments of principal and interest in respect of Registered Mortgage Pandbrieven shall be paid to the person shown on the register of the Registered Mortgage Pandbrieven at the close of business on the 15th calendar day before the due date for payment thereof.

TERMS AND CONDITIONS OF THE MORTGAGE PANDBRIEVEN

The following are the Terms and Conditions (the **Conditions**) of the Mortgage Pandbrieven which, as completed by the applicable Final Terms in relation to any Tranche of Mortgage Pandbrieven, will apply to the Mortgage Pandbrieven. Reference should be made to "Form of the Final Terms" for a description of the content of Final Terms which will specify which of such terms are to apply in relation to the relevant Tranche of Mortgage Pandbrieven.

The applicable Final Terms in relation to any Tranche of Mortgage Pandbrieven may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with the following Conditions, replace or modify the following Conditions for the purpose of such particular Tranche of Mortgage Pandbrieven, in the case of any Mortgage Pandbrieven which are neither to be admitted to trading on a regulated market within the European Economic Area nor offered to the public in an EEA State in circumstances which require the publication of a prospectus under the Prospectus Directive (**Exempt Mortgage Pandbrieven**).

The Issuer may also issue from time to time Mortgage Pandbrieven under the Programme which shall be subject to terms and conditions and/or final terms not contemplated by this Base Prospectus. In such circumstances, the relevant forms of terms of such Mortgage Pandbrieven will be set out in a schedule to the Agency Agreement.

ING Belgium SA/NV (**ING** or the **Issuer**) has established a Residential Mortgage Pandbrieven Programme (the **Programme**) for the issuance of Belgian *pandbrieven/lettres de gage* governed by the Law of 3 August 2012 on the legal framework of Belgian covered bonds (*Wet van 3 augustus 2012 tot invoering van een wettelijke regeling voor Belgische covered bonds/Loi du 3 août 2012 instaurant un régime légal pour les covered bonds belges*) (as implemented in articles 79 to 84 of the Credit Institutions Supervision Law and Annex III to the Credit Institutions Supervision Law) as subsequently amended and/or supplemented (hereinafter the **Mortgage Pandbrieven**).

The National Bank of Belgium (*Nationale Bank van België/Banque Nationale de Belgique*) (the **NBB**), as Supervisor, has admitted the Issuer to the list of credit institutions that have obtained the authorisation to issue Belgian covered bonds pursuant to Article 80, §1 of the Credit Institutions Supervision Law on 5 November 2013. The Programme has been admitted by the NBB, as Supervisor, to the list of authorised programmes for issue of Belgian covered bonds pursuant to Article 80, §2 of the Credit Institutions Supervision Law on 5 November 2013. Upon so being notified by the Issuer, the Supervisor shall regularly update such list with the Mortgage Pandbrieven issued under the Programme and shall indicate that the Mortgage Pandbrieven constitute Belgian *pandbrieven/lettres de gage* under the Belgian Covered Bond Regulations.

As used herein, **Tranche** means Mortgage Pandbrieven which are identical in all respects (including as to listing and admission to trading) and Series means a Tranche of Mortgage Pandbrieven together with any further Tranche or Tranches of Mortgage Pandbrieven which are (a) expressed to be consolidated and form a single series and (b) identical in all respects (including as to listing and admission to trading) except for their respective Issue Dates, Interest Commencement Dates and/or Issue Prices.

Each Tranche is the subject of Final Terms (hereinafter the **Final Terms**) which completes these terms and conditions (hereinafter the **Conditions**). The terms and conditions applicable to any particular Tranche of Mortgage Pandbrieven are these Conditions as completed by the applicable Final Terms, save to the extent that such Final Terms replace or modify such Conditions.

All subsequent references in these Conditions to **Mortgage Pandbrieven** are, unless the context otherwise requires, to the Mortgage Pandbrieven of the relevant Series.

The relationship between the Issuer and ING as fiscal agent, paying agent and listing agent (hereinafter the **Fiscal Agent**, the **Paying Agent** and the **Listing Agent** which expression includes any successor agent appointed from time to time in connection with the Mortgage Pandbrieven), any entity from time to time appointed as registrar (hereinafter the **Registrar**, which expression includes any successor registrar appointed from time to time in connection with the Mortgage Pandbrieven) and the other paying agents appointed from time to time under the agency agreement (together with

the Fiscal Agent, the Paying Agent, the Listing Agent and the Registrar, the **Agents**, which expression includes any successor agent appointed from time to time in connection with the Mortgage Pandbrieven) is determined in accordance with an agency agreement initially concluded on 22 November 2013 between the Issuer, ING and the Mortgage Pandbrieven Holders' Representative (such agency agreement as modified and/or supplemented and/or restated from time to time, the **Agency Agreement**).

The Mortgage Pandbrieven Holders' Representative acts as representative of the Pandbrieven Holders within the meaning of article 1, 4° Annex III to the Credit Institutions Supervision Law in accordance with the provisions of the Mortgage Pandbrieven Holder Representative Agreement (such Mortgage Pandbrieven Holder Representative Agreement as modified and/or supplemented and/or restated from time to time, the **Mortgage Pandbrieven Holder Representative Agreement**) initially concluded on 22 November 2013 between the Issuer and Stichting ING Belgium Mortgage Pandbrieven Holders' Representative as representative (in such capacity the **Mortgage Pandbrieven Holders' Representative**, which expression shall include any successor Mortgage Pandbrieven Holders' Representative) and with the Belgian Covered Bond Regulations.

The Cover Pool Monitor has been appointed as cover pool monitor in relation to the Special Estate (as defined below) pursuant to article 16, §1 Annex III to the Credit Institutions Supervision Law and the Belgian Covered Bond Regulations.

Pursuant to a special estate administration agreement entered into between the Issuer, the Mortgage Pandbrieven Holders' Representative and the Cover Pool Monitor (such special estate administration agreement as modified and/or supplemented and/or restated from time to time, the **Special Estate Administration Agreement**) initially concluded on 22 November 2013, all Mortgage Pandbrieven issued under the Programme shall be subject to and have the benefit of certain common terms (the **Special Estate Administration Terms**) regardless of whether the Mortgage Pandbrieven are issued under the Base Prospectus or not.

The relationship between the Issuer and the NBB as operator of the Securities Settlement System (as hereinafter defined) in relation to the clearing of the Dematerialised Mortgage Pandbrieven is governed by a clearing services agreement (such clearing services agreement as modified and/or supplemented and/or restated from time to time, the **Clearing Services Agreement**) entered into between the Issuer, the Fiscal Agent and the NBB on 22 November 2013 and the Settlement System Regulations (as hereinafter defined).

The Issuer may, from time to time during the Programme, enter into interest rate swap agreements, currency swap agreements and other relevant swap or hedging agreements (together the **Hedging Agreements**) with one or more hedging counterparties (the **Hedging Counterparties**) for the purpose of, *inter alia*, protecting itself against certain risks (including, but not limited to, interest rate, currency exchange, liquidity and credit) related to the Cover Assets (as defined below) and/or the Mortgage Pandbrieven.

The Issuer may, from time to time during the Programme, enter into liquidity facility agreements (the **Liquidity Facility Agreements**) in relation to the Special Estate with one or more liquidity facility providers (the **Liquidity Facility Providers**) in order to improve the liquidity of the Special Estate.

The statements in these Conditions include summaries of, and are subject to, the detailed provisions of:

- (a) the Agency Agreement;
- (b) the Mortgage Pandbrieven Holder Representative Agreement;
- (c) the Programme Agreement;
- (d) the Special Estate Administration Agreement; and
- (e) the Clearing Services Agreement.

The Agency Agreement, the Mortgage Pandbrieven Holder Representative Agreement, the Programme Agreement, the Cover Pool Monitor Agreement, the Clearing Services Agreement, the Special Estate Administration Agreement, any Subscription Agreement, each of the Final Terms, any Hedging Agreement, any Liquidity Facility Agreement, any Calculation Agency Agreement and any additional document entered into in respect of the Mortgage Pandbrieven and/or the Special Estate and designated as a Programme Document by the Issuer and the Mortgage Pandbrieven Holders' Representative, are together referred to as the **Programme Documents**.

Copies of the Programme Documents are available for inspection during normal business hours at the registered office of the Issuer and at the Specified Office of the Fiscal Agent and copies may be obtained from those offices save that, if the relevant Mortgage Pandbrief is an Exempt Mortgage Pandbrief, the applicable Final Terms will only be obtainable by a Pandbrieven Holder holding one or more Mortgage Pandbrieven and such Pandbrieven Holder must produce evidence satisfactory to the Issuer and the Fiscal Agent as to its holding of such Mortgage Pandbrieven and identity. The Pandbrieven Holders are deemed to have notice of, and are entitled to the benefit of, all the provisions of the Agency Agreement and the applicable Final Terms which are applicable to them. By subscribing for or otherwise acquiring the Mortgage Pandbrieven, the Pandbrieven Holders will also be deemed to have knowledge of, accept and be bound by all the provisions of, the other Programme Documents.

1 Interpretation

Definitions

In these Conditions the following expressions have the following meanings:

85% Asset Coverage Test means the requirement set out in the Belgian Covered Bond Regulations that the Asset Coverage Percentage must be at least 85% at all times.

Accrual Yield has, in relation to a Zero Coupon Mortgage Pandbrieven, the meaning given in the applicable Final Terms.

Adjustment Spread means either a spread (which may be positive or negative), or the formula or methodology for calculating a spread, which the Issuer, following consultation with the Independent Adviser (if any) and acting in good faith, determines is required to be applied to the Successor Rate or the Alternative Rate (as applicable) in order to reduce or eliminate, to the extent reasonably practicable in the relevant circumstances, any economic prejudice or benefit (as applicable) to the Pandbrieven Holders as a result of the replacement of the Original Reference Rate with the Successor Rate or the Alternative Rate (as the case may be) and is the spread, formula or methodology which:

- (a) in the case of a Successor Rate, is formally recommended in relation to the replacement of the Original Reference Rate with the Successor Rate by any Relevant Nominating Body; or (if no such recommendation has been made, or in the case of an Alternative Rate);
- (b) the Issuer determines, following consultation with the Independent Adviser and acting in good faith, is recognised or acknowledged as being the industry standard for over-the-counter derivative transactions which reference the Original Reference Rate, where such rate has been replaced by the Successor Rate or the Alternative Rate (as the case may be); or (if the Issuer determines that no such industry standard is recognised or acknowledged);
- (c) the Issuer, in its discretion, following consultation with the Independent Adviser and acting in good faith, determines to be appropriate.

Asset Coverage Percentage means the proportion, expressed as a percentage, that the aggregate value of the Residential Mortgage Loans registered as Cover Assets in the Special Estate and determined in accordance with the valuation rules set out in the Covered Bonds

Royal Decree bears to the aggregate Principal Amount Outstanding of the Mortgage Pandbrieven.

Alternative Rate means an alternative benchmark or screen rate which the Issuer determines in accordance with Condition 4.7(b) and which has replaced the Original Reference Rate in customary market usage in the international debt capital markets for the purposes of determining rates of interest (or the relevant component part thereof) for the same interest period and in the same Specified Currency as the Mortgage Pandbrieven.

Applicable Banking Regulation means at any time, the laws, regulations, rules, guidelines and policies of the Lead Regulator, or of the European Parliament and Council then in effect in Belgium, relating to capital adequacy and applicable to the Issuer at such time (for the avoidance of doubt, including as at the Issue Date the rules contained in, or implementing, CRR and CRD IV).

Base Prospectus means the base prospectus in relation to the Programme dated 17 July 2018, as amended from time to time.

Belgian Company Code means the Belgian *Wetboek van Vennootschappen/Code des Sociétés* of 7 May 1999, as amended, supplemented and/or replaced from time to time.

Belgian Covered Bond Regulations means the Credit Institutions Supervision Law, the Mobilisation Law, the Covered Bonds Royal Decree, the Cover Pool Administrator Royal Decree, the NBB Covered Bonds Regulation, the NBB Cover Pool Monitor Regulations and any other law, royal decree, regulation or order that may be passed or taken in relation to Belgian covered bonds.

Benchmark Amendments has the meaning given to it in Condition 4.7(d).

Benchmark Event means:

- (a) the Original Reference Rate ceasing to be published for a period of at least five Business Days or ceasing to exist; or
- (b) a public statement by the administrator of the Original Reference Rate stating that it will, by a specified date within the following six months, cease to publish the Original Reference Rate permanently or indefinitely (in circumstances where no successor administrator has been appointed that will continue publication of the relevant Reference Original Rate); or
- (c) a public statement by the supervisor of the administrator of Original Reference Rate stating that the Original Reference Rate has been or will be, by a specified date within the following six months, permanently or indefinitely discontinued; or
- (d) a public statement by the supervisor of the administrator of the Original Reference Rate that means the Original Reference Rate will be prohibited from being used or that its use will be subject to restrictions or adverse consequences, in each case within the following six months; or
- (e) it has become unlawful for any Paying Agent, Calculation Agent, the Issuer or any other party to the Agency Agreement to calculate any payments due to be made to any Pandbrieven Holder using the Original Reference Rate.

Business Day means a day which is both:

- (a) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in Brussels and in each Additional Business Centre specified in the applicable Final Terms; and

- (b) a day on which the TransEuropean Automated Real-Time Gross Settlement Express Transfer (TARGET2) System (the TARGET2 System) is open.

Calculation Agency Agreement means any calculation agency agreement that may be entered into by the Issuer with a third party in relation to the Mortgage Pandbrieven.

Calculation Agent means the Issuer or any other calculation agent appointed by the Issuer pursuant to a Calculation Agency Agreement, as specified in the applicable Final Terms.

Cover Assets means Residential Mortgage Loans and any other loans, securities, accounts, contracts or other assets which comply with the requirements of the Belgian Covered Bond Regulations and that are registered in the Cover Register, and all other assets listed in Article 80, §3, 2° of the Credit Institutions Supervision Law that are included in the Special Estate pursuant to Article 3 Annex III to the Credit Institutions Supervision Law.

Cover Asset Adequacy Test means the requirement set out in Article 5 of the Covered Bonds Royal Decree that, with respect to the Special Estate, the sum of interest principal and all other revenues generated by the Cover Assets must be sufficient to cover the sum of all interest, principal and charges linked to the Mortgage Pandbrieven.

Cover Pool Administrator means any person or persons appointed (and any additional or replacement person or persons appointed or substituted) as a cover pool administrator (*portefeuillebeheerder/gestionnaire de portefeuille*) by the Supervisor pursuant to Article 8, §1 Annex III to the Credit Institutions Supervision Law.

Cover Pool Administrator Royal Decree means the Royal Decree of 11 October 2012 on the cover pool administrator in the context of the issue of Belgian covered bonds by a Belgian credit institution (*Koninklijk Besluit van 11 oktober 2012 betreffende de portefeuillebeheerder in het kader van de uitgifte van Belgische covered bonds door kredietinstellingen naar Belgisch recht/Arrêté Royal du 11 octobre 2012 relatif au gestionnaire de portefeuille dans le cadre de l'émission de covered bonds belges par un établissement de crédit de droit belge*) as subsequently amended and/or supplemented and/or re-issued.

Cover Pool Creditors means the Pandbrieven Holders and the Other Cover Pool Creditors.

Cover Pool Monitor means a cover pool monitor (*portefeuillesurveillant/surveillant de portefeuille*) appointed in accordance with Article 16, §1 Annex III to the Credit Institutions Supervision Law and its representative (as approved by the Supervisor in accordance with the Belgian Covered Bond Regulations).

Cover Register means the Cover Register established by the Issuer for the Mortgage Pandbrieven issued under the Programme in accordance with Article 15, §2 Annex III to the Credit Institutions Supervision Law.

Cover Tests means the Cover Asset Adequacy Test, the 85% Asset Coverage Test and the Over-Collateralisation Test.

Covered Bonds Royal Decree means the Royal Decree of 11 October 2012 on the issue of Belgian covered bonds by Belgian credit institutions (*Koninklijk Besluit van 11 oktober 2012 betreffende de uitgifte van Belgische covered bonds door kredietinstellingen naar Belgisch recht/Arrêté Royal du 11 octobre 2012 relatif a l'émission de covered bonds belges par des établissements de crédit de droit belge*) as subsequently amended and/or supplemented and/or re-issued.

Credit Institutions Supervision Law means the Act of 25 April 2014 regarding the status of and supervision on credit institutions and stockbroking firms, published in the Belgian Official Journal on 7 May 2014, as amended and/or supplemented and/or re-enacted from time to time.

Day Count Fraction means, in respect of the calculation of an amount of interest for any Interest Period in accordance with Condition 4.2 (*Interest on Floating Rate Mortgage Pandbrieven*):

- (a) if **Actual/Actual** or **Actual/Actual (ISDA)** is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365 (or, if any portion of that Interest Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Interest Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Interest Period falling in a non-leap year divided by 365);
- (b) if **Actual/365 (Fixed)** is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365;
- (c) If **Actual/360** is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 360;
- (d) if **30/360,360/360** or **Bond Basis** is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"Y₁" is the year, expressed as a number, in which the first day of the Interest Period falls;

"Y₂" is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"M₁" is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

"M₂" is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"D₁" is the first calendar day, expressed as a number, of the Interest Period, unless such number would be 31, in which case D₂ will be 30; and

"D₂" is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless such number would be 31 and D₂ is greater than 29, in which case D₂ will be 30;

- (e) if **30E/360** or **Eurobond Basis** is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"Y₁" is the year, expressed as a number, in which the first day of the Interest Period falls;

"Y₂" is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"M₁" is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

"M₂" is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"D₁" is the first calendar day, expressed as a number, of the Interest Period, unless such number would be 31, in which case D₁ will be 30; and

"D₂" is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless such number would be 31, in which case D₂ will be 30;

- (f) if **30E/360 (ISDA)** is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"Y₁" is the year, expressed as a number, in which the first day of the Interest Period falls;

"Y₂" is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"M₁" is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

"M₂" is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"D₁" is the first calendar day, expressed as a number, of the Interest Period, unless

(x) that day is the last day of February or (y) such number would be 31, in which case D₁ will be 30; and

"D₂" is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless (x) that day is the last day of February but not the Maturity Date or (y) such number would be 31, in which case D₂ will be 30; and

- (g) if **1/1** is specified in the applicable Final Terms, 1.

Dematerialised Mortgage Pandbrieven has the meaning given in Condition 2.2 (*Form*).

Determination Date has the meaning given in the applicable Final Terms.

Determination Period means the period from (and including) a Determination Date to (but excluding) the next Determination Date (including where either the Interest Commencement Date or the final Interest Period End Date is not a Determination Date, the period commencing on the first Determination Date prior to, and ending on the first Determination Date falling after, such date).

Early Redemption Amount means the amount calculated in accordance with Condition 6.4 (*Early Redemption Amounts*).

ECB Eligible means debt claims (other than those of the Issuer or any of its group companies) that are, at the relevant time, included on the list of assets eligible to be used as collateral for monetary policy operations published by the European Central Bank on its website www.ecb.europa.eu;

Eligible Investor means a person who is entitled to hold securities through a so-called "X-account" (being an account exempted from withholding tax) in a settlement system in accordance with Article 4 of the Belgian Royal Decree of 26 May 1994 on the collection and refund of withholding tax (as amended or replaced from time to time).

Euro means the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty, as amended.

Event of Default has the meaning given in Condition 8.1 (*Events of Default*).

Excess Swap Collateral means an amount equal to the value of any collateral transferred to the Issuer by a Hedging Counterparty under a Hedging Agreement: (A) in respect of which the terms of such Hedging Agreement do not, at the relevant time, provide for such collateral to be applied in satisfaction of the Hedging Counterparty's obligations to the Issuer; or (B) that is in excess of the Hedging Counterparty's liability to the Issuer thereunder (i) as at the termination date of the transaction entered into under such Hedging Agreement or (ii) as at any other date of valuation in accordance with the terms of the Hedging Agreement.

Exempt Investor has the meaning given in Condition 7 (*Taxation*).

Extraordinary Resolution has the meaning given in the Meeting Rules.

Final Redemption Amount has the meaning given in the applicable Final Terms.

Fixed Day Count Fraction means, in respect of the calculation of an amount of interest in accordance with Condition 4.1 (*Interest on Fixed Rate Mortgage Pandbrieven*):

- (a) if **Actual/Actual (ICMA)** is specified in the applicable Final Terms:
 - (i) in the case of Mortgage Pandbrieven where the number of days in the relevant period from (and including) the most recent Interest Period End Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date (the **Accrual Period**) is equal to or shorter than the Determination Period during which the Accrual Period ends, the number of days in such Accrual Period divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Dates (as specified in the applicable Final Terms) that would occur in one calendar year;
 - (ii) in the case of Mortgage Pandbrieven where the Accrual Period is longer than the Determination Period during which the Accrual Period ends, the sum of:
 - (A) the number of days in such Accrual Period falling in the Determination Period in which the Accrual Period begins divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates (as specified in the applicable Final Terms) that would occur in one calendar year; and
 - (B) the number of days in such Accrual Period falling in the next Determination Period divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates that would occur in one calendar year;
- (b) if **Actual/Actual** or **Actual/Actual (ISDA)** is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365 (or, if any portion of that Interest Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Interest Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Interest Period falling in a non-leap year divided by 365);

- (c) if **Actual/365 (Fixed)** is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365;
- (d) if **Actual/360** is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 360;
- (e) if **30/360,360/360** or **Bond Basis** is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{Fixed Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"Y₁" is the year, expressed as a number, in which the first day of the Interest Period falls;

"Y₂" is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"M₁" is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

"M₂" is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"D₁" is the first calendar day, expressed as a number, of the Interest Period, unless such number would be 31, in which case D₁ will be 30; and

"D₂" is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless such number would be 31 and D₂ is greater than 29, in which case D₂ will be 30;

- (f) if **30E/360** or **Eurobond Basis** is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{Fixed Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"Y₁" is the year, expressed as a number, in which the first day of the Interest Period falls;

"Y₂" is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"M₁" is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

"M₂" is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"D₁" is the first calendar day, expressed as a number, of the Interest Period, unless such number would be 31, in which case D₁ will be 30; and

"D₂" is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless such number would be 31, in which case D₂ will be 30;

- (g) if **30E/360 (ISDA)** is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{Fixed Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"Y₁" is the year, expressed as a number, in which the first day of the Interest Period falls;

"Y₂" is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"M₁" is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

"M₂" is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"D₁" is the first calendar day, expressed as a number, of the Interest Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case D₁, will be 30;

"D₂" is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless (i) that day is the last day of February but not the Maturity Date or (ii) such number would be 31, in which case D₂ will be 30; and

- (h) if **1/1** is specified in the applicable Final Terms, 1.

General Estate means the assets of the Issuer that at such time do not form part of a special estate(s) of the Issuer constituted pursuant to Article 3 Annex III to the Credit Institutions Supervision Law.

IA Determination Cut-Off Date means no later than five Business Days prior to the relevant Interest Determination Date relating to the next succeeding Interest Period.

Independent Adviser means an independent financial institution of international repute or an independent financial adviser with appropriate expertise appointed by the Issuer under Condition 4.7(a).

Interest Commencement Date means, in the case of interest-bearing Mortgage Pandbrieven, the date specified in the applicable Final Terms from (and including) which the relevant Mortgage Pandbrieven will accrue interest.

Interest Determination Date has the meaning specified in the applicable Final Terms.

Interest Payment Date means, in the case of interest-bearing Mortgage Pandbrieven, the Interest Payment Date(s) in each year specified in the applicable Final Terms.

Interest Period means, in the case of interest-bearing Mortgage Pandbrieven, the period from (and including) an Interest Period End Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Period End Date.

Interest Period End Date means, in the case of interest-bearing Mortgage Pandbrieven, the Interest Period End Date(s) in each year specified in the applicable Final Terms.

Issue Date has the meaning given in the applicable Final Terms.

Lead Regulator means the NBB, ECB or any successor entity primarily responsible for the prudential supervision of the Issuer.

Liquidity Test means the requirement set out in the Belgian Covered Bond Regulations that the Cover Assets must, at any time, be able to generate sufficient liquidity or include enough liquid assets to enable the Issuer to make all unconditional payments on the Mortgage Pandbrieven (including principal, interest and other costs) falling due during the following 6 months. If an Extended Maturity Date is specified in the applicable Final Terms for a Series of Mortgage Pandbrieven, payments of amounts of principal due on the Maturity Date in respect of such Series of Mortgage Pandbrieven will not be considered as unconditional for the purpose of the Liquidity Test.

Margin has the meaning given in the applicable Final Terms.

Maximum Rate of Interest means, in the case of Floating Rate Mortgage Pandbrieven, the Rate of Interest (if any) specified as such in the applicable Final Terms.

Meeting Rules has the meaning assigned to it in Condition 13 (*Meeting Rules of Pandbrieven Holders*).

Minimum Rate of Interest means, in the case of Floating Rate Mortgage Pandbrieven, the Rate of Interest (if any) specified as such in the applicable Final Terms.

Mobilisation Law means the Law of 3 August 2012 on various measures to facilitate the mobilisation of receivables in the financial sector (*Wet van 3 augustus 2012 betreffende diverse maatregelen ter vergemakkelijking van de mobiliseritng van schuldvorderingen in de financiële sector/Loi du 3 août 2012 relative à des mesures diverses pour faciliter la mobilisation de créances dans le secteur financier*) as subsequently amended and/or supplemented and/or re-enacted.

NBB Cover Pool Monitor Regulations means the Regulation of the NBB addressed to the cover pool monitors of Belgian credit institutions that issue Belgian covered bonds dated 29 October 2012 (*Circulaire aan de portefeuillesurveillanten bij kredietinstellingen naar Belgisch recht die Belgische covered bonds uitgeven/Circulaire aux surveillants de portefeuille auprès d'établissements de crédit de droit belge qui émettent des covered bonds belges*) as subsequently amended and/or supplemented and/or re-issued.

NBB Covered Bonds Regulation means the Regulation of the NBB concerning the practical modalities for the application of the law of 3 August 2012 that establishes a legal regime for Belgian Covered Bonds dated 29 October 2012 (*Circulaire over de praktische regels voor de toepassing van de wet van 3 augustus 2012 tot invoering van een wettelijke regeling voor Belgische covered bonds/Circulaire sur les modalités pratiques d'application de la loi du 3 août 2012 instaurant un régime legal pour les covered bonds*) as subsequently amended and/or supplemented and/or re-issued.

Notice of Default has the meaning given to it in Condition 8 (*Events of Default and Enforcement*).

Operational Creditors means (1) any servicer appointed to service the Cover Assets, (2) any account bank appointed to hold accounts of the Issuer in relation to the Special Estate, (3) any stock exchange on which the Mortgage Pandbrieven are listed and/or admitted to trading, (4) any auditor, legal counsel and tax advisor of the Issuer in relation to the Special Estate or the Programme, (5) any custodian of Cover Assets or assets in the Special Estate, (6) any rating agency appointed by the Issuer to rate the Programme or the Mortgage Pandbrieven, (7) any agent or party appointed in accordance with the Programme Documents, (8) any other creditor of amounts due in connection with the management or administration of the Special Estate, and (9) any other creditor of the Issuer pursuant to any services provided or any transaction entered into in connection with the Special Estate or the Programme, and notified to the Mortgage Pandbrieven Holders' Representative or as may from time to time be specified in the Conditions of any Mortgage Pandbrieven issued under the Programme.

Ordinary Resolution has the meaning given in the Meeting Rules.

Original Reference Rate means the originally-specified benchmark or screen rate (as applicable) used to determine the Rate of Interest (or any component part thereof) on the Mortgage Pandbrieven.

Other Cover Pool Creditors means the Mortgage Pandbrieven Holders' Representative, any Cover Pool Administrator, the Cover Pool Monitor, the Agents, the Registrar, the Hedging Counterparties (if any), any Liquidity Facility Providers (if any) and any Operational Creditors.

Over-Collateralisation Test means the requirement set out in the Belgian Covered Bond Regulations that the value of the Cover Assets determined in accordance with the valuation rules set out in the Covered Bonds Royal Decree must represent at least 105% of the Principal Amount Outstanding of Mortgage Pandbrieven.

Pandbrieven Holders or **holders of Mortgage Pandbrieven** means the persons in whose name a Registered Mortgage Pandbrief is registered or, as the case may be, the holders from time to time of Dematerialised Mortgage Pandbrieven as determined by reference to the records of the relevant clearing systems or financial intermediaries and the affidavits referred to in Condition 2 (*Type, Form, Denomination and Title*).

Principal Amount Outstanding means, in respect of a Mortgage Pandbrief on any day, the principal amount of that Mortgage Pandbrief on the Issue Date thereof less principal amounts received by the relevant Pandbrief Holder in respect thereof on or prior to that day, provided that the Principal Amount Outstanding in respect of a Mortgage Pandbrief that has been purchased and cancelled by the Issuer shall be zero.

Programme Resolution has the meaning given in the Meeting Rules.

Rate of Interest means, in the case of interest-bearing Mortgage Pandbrieven, the rate of interest payable from time to time as described in Condition 4 (*Interest*).

Rating Agency means any rating agency (or its successor) who, at the request of the Issuer, assigns and for as long as it assigns, one or more ratings to the Mortgage Pandbrieven under the Programme from time to time, which may include Moody's and Fitch.

Record Date has the meaning given in Condition 5.1(b) (*Payments in relation to Registered Mortgage Pandbrieven*).

Reference Banks means the principal Eurozone office of four major banks in the Eurozone interbank market, in each case selected by the Calculation Agent in its sole discretion.

Reference Price has, in respect of a Zero Coupon Mortgage Pandbrieven, the meaning given in the applicable Final Terms.

Reference Rate has the meaning given in the applicable Final Terms.

Registered Mortgage Pandbrieven has the meaning given in Condition 2.2 (*Form*).

Related Security means all security interests and sureties, guarantees or privileges under whichever form that have been granted in relation to Cover Assets as well as rights under insurance policies and other contracts in relation to the Cover Assets or the management of the Special Estate.

Relevant Nominating Body means, in respect of a benchmark or screen rate (as applicable):

- (a) the central bank for the currency to which the benchmark or screen rate (as applicable) relates, or any central bank or other supervisory authority which is responsible for supervising the administrator of the benchmark or screen rate (as applicable); or
- (b) any working group or committee sponsored by, chaired or co-chaired by or constituted at the request of (a) the central bank for the currency to which the benchmark or screen rate (as applicable) relates, (b) any central bank or other supervisory authority which is responsible for supervising the administrator of the benchmark or screen rate (as applicable), (c) a group of the aforementioned central banks or other supervisory authorities or (d) the Financial Stability Board or any part thereof.

Resolution means an Ordinary Resolution, an Extraordinary Resolution or a Programme Resolution.

Residential Mortgage Loans means loans that are secured by a mortgage on residential real estate as defined in article 2, 6° of the Covered Bonds Royal Decree.

Screen Rate Determination means, if specified as applicable in the applicable Final Terms, the manner in which the Rate of Interest on Floating Rate Mortgage Pandbrieven is to be determined in accordance with Condition 4.2 (*Interest on Floating Rate Mortgage Pandbrieven*).

Securities Settlement System has the meaning given in Condition 2.2 (*Form*).

Series Principal Amount Outstanding means, in respect of a Series of Mortgage Pandbrieven on any day, the aggregate of the Principal Amount Outstanding of each of the Mortgage Pandbrieven comprised in that Series.

Settlement System Regulations means Belgian clearing regulations, including the Belgian law of 6 August 1993 on transactions in certain securities, its implementing Belgian Royal Decrees of 26 May 1994, 14 June 1994, 31 May 2017 and the rules of the Securities Settlement System and its annexes, as issued or modified by the NBB from time to time.

Special Estate means the special estate (*bijzonder vermogen/patrimoine spécial*) of the Issuer constituted pursuant to Article 3 Annex III to the Credit Institutions Supervision Law in relation to the Programme.

Specified Currency means Euro or such other currency as may be specified in the applicable Final Terms.

Specified Office means 1000 Brussels, Avenue Marnix 24, Belgium or such office as notified to the Pandbrieven Holders by the Fiscal Agent in accordance with Condition 19 (*Notices*).

Specified Time means 11.00 a.m. (Brussels time) in the case of **EURIBOR**.

Statutory Tests means the Cover Tests and the Liquidity Test.

Subordinated Termination Payment means any termination payments due and payable to any Hedging Counterparty under a Hedging Agreement where such termination results from (a) an Additional Termination Event relating to the credit rating or credit worthiness of the Hedging Counterparty as specified in the schedule to the relevant Hedging Agreement, (b) the bankruptcy of the relevant Hedging Counterparty, or (c) any default and/or failure to perform by such Hedging Counterparty under the relevant Hedging Agreement, other than, in the event of (a) or (b) above, the amount of any termination payment due and payable to such Hedging Counterparty in relation to the termination of such transaction to the extent of any premium received by the Issuer from a replacement hedging counterparty.

Sub-unit with respect to Euro, means, one cent.

Successor Rate means a successor to or replacement of the Original Reference Rate which is formally recommended by any Relevant Nominating Body.

Treaty means the Treaty establishing the European Community, as amended.

VAT means:

- (c) any tax chargeable under or pursuant to the Council Directive of 28 November 2006 on the common system of value added tax (**EC Directive 2006/112**) or any legislation implemented by any member state of the European Union by virtue of EC Directive 2006/112; and
- (d) any other tax of a similar nature, whether chargeable in a member state of the European Union or elsewhere.

Winding-up Proceedings means winding-up proceedings (*liquidatieprocedures/procedures de liquidation*) within the meaning of article 242, 1° of the Credit Institutions Supervision Law.

2 Type, Form, Denomination and Title

2.1 Residential Mortgage Pandbrieven

The Mortgage Pandbrieven under the Programme are issued as Belgian pandbrieven (*Belgische pandbrieven/lettres de gage Belges*) in accordance with the Belgian Covered Bond Regulations. The Mortgage Pandbrieven will be covered in accordance with the Belgian Covered Bond Regulations by the same Special Estate of which the main asset category will consist of Residential Mortgage Loans, their Related Security and all monies derived therefrom from time to time in accordance with the Belgian Covered Bond Regulations.

2.2 Form

The Mortgage Pandbrieven can be issued in dematerialised form in accordance with Article 468 *et seq.* of the Belgian Company Code (**Dematerialised Mortgage Pandbrieven**) or in registered form in accordance with Article 462 *et seq.* of the Belgian Company Code (**Registered Mortgage Pandbrieven**).

Registered Mortgage Pandbrieven will be registered in a register maintained by the Issuer or by the Registrar on behalf of the Issuer in accordance with Article 462 *et seq.* of the Belgian Company Code. Holders of Registered Mortgage Pandbrieven can obtain a certificate demonstrating the registration of the Registered Mortgage Pandbrieven in the register.

The Dematerialised Mortgage Pandbrieven are issued in dematerialised form in accordance with Articles 468 *et seq.* of the Belgian Company Code. The Dematerialised Mortgage Pandbrieven will be represented by a book entry in the records of the clearing system operated by the NBB or any successor thereto (the **Securities Settlement System**). The Dematerialised Mortgage Pandbrieven can be held by their holders through the participants in the Securities Settlement System, including Euroclear Bank SA/NV (**Euroclear**), Clearstream Banking *société anonyme* Luxembourg (**Clearstream, Luxembourg**), SIX SIS Ltd. Switzerland (**SIX SIS (Switzerland)**), Monte Titoli S.p.A. Italy (**Monte Titoli (Italy)**) and any other national or international NBB investors central securities depository (**NBB investor (I)CSDs**) and through other financial intermediaries which in turn hold the Dematerialised Mortgage Pandbrieven through Euroclear, Clearstream, Luxembourg, SIX SIS (Switzerland), Monte Titoli (Italy) or other participants in the Securities Settlement System. Payments of principal, interest and other sums due under the Dematerialised Mortgage Pandbrieven will be made in accordance with the rules of the Securities Settlement System through the NBB. Holders of Dematerialised Mortgage Pandbrieven are entitled to exercise the rights they have, including exercising their voting rights and other associative rights (as defined for the purposes of Article 474 of the Belgian Company Code) against the Issuer in accordance with the Conditions and without prejudice to the powers of the Mortgage Pandbrieven Holders' Representative, upon

submission of an affidavit drawn up by the NBB, Euroclear, Clearstream, Luxembourg, SIX SIS (Switzerland), Monte Titoli (Italy) and any other NBB investor (I)CSDs, or any other participant duly licensed in Belgium to keep dematerialised securities accounts showing their position in the Dematerialised Mortgage Pandbrieven (or the position held by the financial institution through which their Dematerialised Mortgage Pandbrieven are held with the NBB, Euroclear, Clearstream, Luxembourg, SIX SIS (Switzerland), Monte Titoli (Italy) or such other participant, in which case an affidavit drawn up by that financial institution will also be required).

References to the Securities Settlement System, Euroclear and/or Clearstream, Luxembourg, SIX SIS, Switzerland, Monte Titoli, Italy and any other NBB investor (I)CSDs shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system specified in the applicable Final Terms or as may otherwise be approved by the Issuer and the Fiscal Agent.

The Dematerialised Mortgage Pandbrieven and the Registered Mortgage Pandbrieven may not be exchanged for Mortgage Pandbrieven in bearer form. Registered Mortgage Pandbrieven may not be exchanged for Dematerialised Mortgage Pandbrieven.

2.3 Title and transfer

(a) Title

Title to and transfer of Dematerialised Mortgage Pandbrieven will be evidenced only by records maintained by the Securities Settlement System, Euroclear, Clearstream, Luxembourg, SIX SIS (Switzerland), Monte Titoli (Italy) or other Securities Settlement System participants and in accordance with the applicable rules and procedures for the time being of the Securities Settlement System, Euroclear, Clearstream, Luxembourg, SIX SIS (Switzerland), Monte Titoli (Italy) and any other NBB investor (I)CSDs, or other Securities Settlement System participants, as the case may be.

Title to and transfer of Registered Mortgage Pandbrieven shall pass by registration of the transfer by the Issuer or by the Registrar in a register in accordance with Article 462 et seq. of the Belgian Company Code.

Except as ordered by a court of competent jurisdiction or as required by law, the holder of any Mortgage Pandbrieven shall be deemed to be and may be treated as its absolute owner for all purposes, whether or not it is overdue and regardless of any notice of ownership, trust or an interest in it, or its theft or loss and no person shall be liable for so treating the holder.

(b) Transfer

(i) Transfer free of charge

Transfer of Mortgage Pandbrieven on registration, transfer, partial redemption or exercise of an option shall be effected without charge by or on behalf of the Issuer and/or the Registrar, but upon payment of any tax or other governmental charges that may be imposed in relation to it (or the giving of such indemnity as the Registrar may require).

(ii) Transfer documents and certificates

Upon a sale or transfer of Registered Mortgage Pandbrieven, the seller thereof will be required to complete the relevant transfer documents and certificates which can be found at <http://www.ing.be> or can be obtained from the Registrar.

(iii) Closed Period

No Pandbrieven Holder may require the transfer of a Registered Mortgage Pandbrief to be registered (i) during the period of 15 calendar days ending on the

due date for redemption of that Registered Mortgage Pandbrief, (ii) after any such Registered Mortgage Pandbrief has been called for redemption or (iii) during the period of 15 calendar days ending on (and including) the due date for payment of principal and/or interest in respect of Registered Mortgage Pandbrieven.

2.4 Denomination

The Mortgage Pandbrief will be issued in such denomination as may be agreed between the Issuer and the relevant Dealer(s) and set out in the applicable Final Terms (the **Specified Denomination**) with a minimum specified denomination of EUR 100,000 (or a multiple of EUR 100,000) or its equivalent in any other relevant Specified Currency as at the date of issuance of the relevant Mortgage Pandbrieven.

All Mortgage Pandbrieven of the same Series will have the same Specified Denomination shown in the applicable Final Terms in relation to each Tranche comprising such Series.

2.5 Fixed Rate Mortgage Pandbrieven, Floating Rate Mortgage Pandbrieven or Zero Coupon Mortgage Pandbrieven

The applicable Final Terms will indicate whether the Mortgage Pandbrieven are Fixed Rate Mortgage Pandbrieven, Floating Rate Mortgage Pandbrieven or Zero Coupon Mortgage Pandbrieven, or a combination of the foregoing, depending upon the Interest Basis shown in the applicable Final Terms (**Interest Basis**).

2.6 Issuer undertaking

For so long as the Mortgage Pandbrieven are outstanding, the Issuer will ensure that:

- (a) it will comply with the obligations applicable to it under the Belgian Covered Bond Regulations;
- (b) the Special Estate will not contain any commercial mortgage loans, any residential mortgage backed securities (RMBS), any commercial mortgage backed securities (CMBS) and any other asset backed securities (ABS);
- (c) that the Special Estate will at all times include a number of liquid bonds (i) which have an aggregate market value which, after applying the ECB haircut in accordance with the Guideline (EU) 2015/510 of the ECB of 19 December 2014 on the implementation of the Eurosystem monetary policy (as may be amended, supplemented, replaced and/or restated from time to time), is higher than the amount of interest due and payable on the outstanding Mortgage Pandbrieven within a period of three months meeting the criteria set out in paragraph 7 of the NBB Covered Bonds Regulation and (ii) which (1) are eligible as collateral for Eurosystem monetary policy purposes and intra-day credit operations by the Eurosystem, (2) have a credit quality step 1 as defined in the CRR, (3) are subject to a daily mark-to-market, (4) have a remaining maturity of more than three months and, (5) are not debt issued by the Issuer, and (6) are not residential mortgage backed securities (RMBS), commercial mortgage backed securities (CMBS) or any other asset backed securities (ABS) (the **Undertaking of the Issuer with regard to Liquidity of the Special Estate**); and
- (d) it will provide regular investor reports containing information regarding, amongst others, the Mortgage Pandbrieven and the composition of the Special Estate, on a on a monthly basis, on the 15th Business Day of each calendar month (each an Investor Report Date), which will be made available on the website of the Issuer at <http://www.ing.be/investor-relations>.

3 Status of the Mortgage Pandbrieven

The Mortgage Pandbrieven are issued as Belgian pandbrieven (*Belgische pandbrieven/lettres de gage belges*) in accordance with the Belgian Covered Bond Regulations and will constitute direct, unconditional and unsubordinated obligations of the Issuer. The Mortgage Pandbrieven rank *pari passu* and rateably without any preference or priority among themselves, irrespective of their Series, and at least *pari passu* with all other present and future outstanding unsecured obligations of the Issuer, save for such obligations as may be preferred by law that are both mandatory and of general application. In addition, the Mortgage Pandbrieven will be covered in accordance with the Belgian Covered Bond Regulations by the Special Estate and the Pandbrieven Holders and the Other Cover Pool Creditors will have an exclusive right of recourse to the Special Estate.

4 Interest

4.1 Interest on Fixed Rate Mortgage Pandbrieven

Each Fixed Rate Mortgage Pandbrief bears interest from (and including) the Interest Commencement Date at the rate(s) per annum equal to the Rate(s) of Interest determined in accordance with this Condition 4.1. Interest will accrue in respect of each Interest Period and will be payable in arrear on the Interest Payment Date(s).

Interest shall be calculated in respect of any period by applying the Rate of Interest to, in the case of Dematerialised Mortgage Pandbrieven, the relevant Series Principal Amount Outstanding or, in the case a Registered Mortgage Pandbrief, the Principal Amount Outstanding of such Registered Mortgage Pandbrief and, in either case, multiplying such sum by the applicable Fixed Day Count Fraction, and rounding the resultant figure to the nearest Sub-unit, half of any such Sub-unit being rounded upwards or otherwise in accordance with applicable market convention.

4.2 Interest on Floating Rate Mortgage

(a) Interest Period End Dates and Interest Payment Date

Each Floating Rate Mortgage Pandbrief bears interest at the rate per annum (expressed as a percentage) equal to the Rate of Interest (determined in accordance with Condition 4.2(b) (*Rate of Interest*)), from (and including) the Interest Commencement Date. Interest will accrue in respect of each Interest Period and will be payable in arrear on the Interest Payment Date(s). The amount of interest payable shall be calculated in accordance with Condition 4.2(d) (*Determination of Rate of Interest and calculation of Interest Amounts*).

(b) Rate of Interest

The Rate of Interest payable from time to time in respect of Floating Rate Mortgage Pandbrieven will be equal to the rate of interest determined in the following manner, but subject always to any Minimum Rate of Interest or Maximum Rate of Interest specified in the applicable Final Terms.

(i) ISDA Determination for Floating Rate Mortgage Pandbrieven

Where **ISDA Determination** is specified in the applicable Final Terms as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will be the relevant ISDA Rate plus or minus (as indicated in the applicable Final Terms) the Margin (if any). For the purposes of this subparagraph 4.2(b)(i), **ISDA Rate** for an Interest Period means a rate equal to the Floating Rate that would be determined by the Issuer or other person specified in the applicable Final Terms under an interest rate swap transaction if the Issuer or that other person were acting as Calculation Agent for that swap transaction under the terms of an agreement incorporating the 2006 ISDA Definitions, as published

by the International Swaps and Derivatives Association, Inc. and as amended and updated as at the Issue Date of the first Tranche of the Mortgage Pandbrieven (the **ISDA Definitions**), and under which:

- (A) the Floating Rate Option is as specified in the applicable Final Terms;
- (B) the Designated Maturity is the period specified in the applicable Final Terms; and
- (C) the relevant Reset Date is either (I) if the applicable Floating Rate Option is based on the Eurozone inter-bank offered rate (**EURIBOR**), the first day of that Interest Period or (II) in any other case, as specified in the applicable Final Terms.

For the purposes of this subparagraph 4.2(b)(i), (1) **Floating Rate, Calculation Agent, Floating Rate Option, Designated Maturity and Reset Date** have the meanings given to those terms in the ISDA Definitions and (2) **Eurozone** means the region comprising the member states of the European Union that adopt or have adopted the single currency in accordance with the Treaty establishing the European Community, as amended from time to time.

When this Condition 4.2(b)(i) (*ISDA Determination for Floating Rate Mortgage Pandbrieven*) applies, in respect of each relevant Interest Period the Calculation Agent will be deemed to have discharged its obligations under Condition 4.2(d) (*Determination of Rate of Interest and calculation of Interest Amounts*) in respect of the determination of the Rate of Interest if it has determined the Rate of Interest in respect of such Interest Period in the manner provided in this subparagraph 4.2(b)(i).

(ii) Screen Rate Determination

(A) Where **Screen Rate Determination** is specified in the applicable Final Terms as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will, subject as provided below, be either:

- (1) the offered quotation (if there is only one quotation appearing on the relevant Screen Page); or
- (2) the arithmetic mean (rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards) of the offered quotations,

(expressed as a percentage rate per annum) for the Reference Rate which appears or appear, as the case may be, on the Relevant Screen Page at the Specified Time on the Interest Determination Date in question plus or minus (as indicated in the applicable Final Terms) the Margin (if any), all as determined by the Calculation Agent.

(B) If the Reference Rate is EURIBOR, and

- (1) the Relevant Screen Page is not available or if, in the case of (A)(1) above, no such offered quotation appears or, in the case of (A)(2) above, fewer than three such offered quotations appear, in each case as at the Specified Time on the Interest Determination Date in question, the Calculation Agent shall request each of the Reference Banks (as defined below) to provide the Calculation Agent with its offered quotation (expressed as a percentage rate per annum) for the Reference Rate at approximately the Specified Time on the Interest Determination Date in question;

- (2) on any Interest Determination Date,
- (I) two or more of the Reference Banks provide the Calculation Agent with such offered quotations, the Rate of Interest for such Interest Period shall be the arithmetic mean (rounded if necessary to the fifth decimal place with 0.000005 being rounded upwards) of such offered quotations plus or minus (as appropriate) the Margin (if any), all as determined by the Calculation Agent; or
 - (II) fewer than two of the Reference Banks provide the Calculation Agent with such offered rates, the Rate of Interest for the relevant Interest Period shall be the offered rate for deposits in Euro for a period equal to that which would have been used for the Reference Rate, or the arithmetic mean (rounded as provided above) of the offered rates for deposits in Euro for a period equal to that which would have been used for the Reference Rate, at which, at approximately the Specified Time on the relevant Interest Determination Date, any one or more banks (which bank or banks is or are in the opinion of the Calculation Agent suitable for such purpose) informs the Calculation Agent it is quoting to leading banks in the Eurozone interbank market, as the case may be, plus or minus (as appropriate) the Margin (if any);
- (3) five or more of such offered quotations are available on the Relevant Screen Page, the highest (or, if there is more than one such highest quotation, one only of such quotations) and the lowest (or, if there is more than one such lowest quotation, one only of such quotations) shall be disregarded by the Calculation Agent for the purpose of determining the arithmetic mean (rounded as provided above) of such offered quotations; and
- (4) the Rate of Interest cannot be determined in accordance with the foregoing provisions of this paragraph, the Rate of Interest shall be determined as at the last preceding Interest Determination Date (though substituting, where a different Margin is to be applied to the relevant Interest Period from that which applied to the last preceding Interest Period, the Margin relating to the relevant Interest Period, in place of the Margin relating to that last preceding Interest Period).

(c) Minimum Rate of Interest and/or Maximum Rate of Interest

If the applicable Final Terms specifies a Minimum Rate of Interest for any Interest Period, then, in the event that the Rate of Interest in respect of such Interest Period determined in accordance with the provisions of paragraph (b) above is less than such Minimum Rate of Interest, the Rate of Interest for such Interest Period shall be such Minimum Rate of Interest.

If the applicable Final Terms specifies a Maximum Rate of Interest for any Interest Period, then, in the event that the Rate of Interest in respect of such Interest Period determined in accordance with the provisions of paragraph (b) above is greater than such Maximum Rate of Interest, the Rate of Interest for such Interest Period shall be such Maximum Rate of Interest.

(d) Determination of Rate of Interest and calculation of Interest Amounts

The Calculation Agent will, at or as soon as practicable after each time at which the Rate of Interest is to be determined, determine the Rate of Interest for the relevant Interest Period. The Calculation Agent will notify the Fiscal Agent and the Issuer, as applicable,

of the Rate of Interest for the relevant Interest Period as soon as practicable after calculating the same.

The Calculation Agent will calculate the amount of interest (the **Interest Amount**) payable on the Mortgage Pandbrievien for the relevant Interest Period by applying the Rate of Interest to, in the case of Dematerialised Mortgage Pandbrievien, the relevant Series Principal Amount Outstanding or, in the case a Registered Mortgage Pandbrief, the Principal Amount Outstanding of such Registered Mortgage Pandbrief and, in either case, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest Sub-unit, half of any such Sub-unit being rounded upwards or otherwise in accordance with applicable market convention.

(e) Notification of Rate of Interest and Interest Amounts

The Calculation Agent will promptly notify the Fiscal Agent and the Issuer, as applicable, of each Interest Amount and the Fiscal Agent will cause the Rate of Interest and each Interest Amount for each Interest Period and the relevant Interest Payment Date to be notified to the other Agents and any stock exchange on which the relevant Floating Rate Mortgage Pandbrievien are for the time being listed (to the extent required by the rules applicable to the relevant stock exchange) and notice thereof to be published in accordance with Condition 19 (*Notices*) as soon as possible after their determination but in no event later than the fourth Business Day thereafter. Each Interest Amount and Interest Payment Date so notified may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without prior notice in the event of an extension or shortening of the Interest Period. Any such amendment will be promptly notified to each stock exchange on which the relevant Floating Rate Mortgage Pandbrievien are for the time being listed (to the extent required by the rules applicable to the relevant stock exchange) and to the Pandbrievien Holders in accordance with Condition 19 (*Notices*).

(f) Calculation Agent

If for any reason at any relevant time after the Issue Date, the Calculation Agent defaults in its obligation to determine the Rate of Interest and any Interest Amount in accordance with Conditions 4.2(b)(i) (*ISDA Determination for Floating Rate Mortgage Pandbrievien*) or 4.2(b)(ii) above, and in each case in accordance with Condition 4.2(d) (*Determination of Rate of Interest and calculation of Interest Amounts*), the Issuer or upon the opening of Winding-up Proceedings against the Issuer, the Cover Pool Administrator, if the Calculation Agent is not the Issuer or the Mortgage Pandbrievien Holders' Representative, if the Calculation Agent is the Issuer, may determine the Rate of Interest at such rate as, in its absolute discretion (having such regard as it may think fit to the foregoing provisions of this Condition, but subject always to any Minimum Rate of Interest or Maximum Rate of Interest specified in the applicable Final Terms), it shall deem fair and reasonable in all the circumstances or, as the case may be, the Issuer, the Cover Pool Administrator or the Mortgage Pandbrievien Holders' Representative, as applicable, may calculate the Interest Amount(s) in such manner as it shall deem fair and reasonable in all the circumstances but taking into account the provisions of the applicable Final Terms. In making any such determination or calculation, the Issuer, the Cover Pool Administrator or the Mortgage Pandbrievien Holders' Representative, as applicable, may appoint and rely on a determination or calculation by a calculation agent (which shall be an investment bank or other suitable entity of international repute). If such determination or calculation is made, the Issuer, the Cover Pool Administrator or the Mortgage Pandbrievien Holders' Representative, as applicable, shall as soon as reasonably practicable notify the Issuer, the Fiscal Agent, the other Agents, the Issuer or the Mortgage Pandbrievien Holders' Representative, as applicable, and each stock exchange on which the relevant Floating Rate Mortgage Pandbrievien are for the time being listed (to the extent required by the rules applicable to the relevant stock exchange), of such determination or calculation and each such determination or calculation shall be deemed to have been made by the Calculation Agent.

(g) Notifications to be final

All certificates, communications, opinions, determinations, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this Condition 4.2 (*Interest on Floating Rate Mortgage Pandbrieven*), whether by the Issuer or the Mortgage Pandbrieven Holders' Representative shall (in the absence of wilful default, gross negligence, fraud or manifest error) be binding on the Issuer, the Fiscal Agent, the other Agents and all Pandbrieven Holders and (in the absence as aforesaid) no liability to the Issuer or the Pandbrieven Holders, as applicable, shall attach to the Issuer or the Mortgage Pandbrieven Holders' Representative, as applicable, in connection with the exercise or non-exercise by it of its powers, duties and discretions pursuant to such provisions.

4.3 Accrual of Interest

Each Mortgage Pandbrief (or in the case of the redemption of part only of a Mortgage Pandbrief, that part only of such Mortgage Pandbrief) will cease to bear interest (if any) from the date for its redemption unless payment of principal is improperly withheld or refused. In such event, interest will continue to accrue until whichever is the earlier of: (a) the date on which all amounts due in respect of such Mortgage Pandbrief have been paid; and (b) five days after the date on which the full amount of the moneys payable has been received by the Fiscal Agent and notice to that effect has been given to the Pandbrieven Holders in accordance with Condition 19 (*Notices*).

4.4 Interest on Zero Coupon Mortgage Pandbrieven

Zero Coupon Mortgage Pandbrieven will be offered and sold at a discount to their nominal amount and will, subject to Condition 4.5 (*Interest Payments up to the Extended Maturity Date*), not bear periodic interest. When a Zero Coupon Mortgage Pandbrief becomes repayable prior to its Maturity Date, it will be redeemed at the Early Redemption Amount calculated in accordance with Condition 6.4 (*Early Redemption Amounts*). In the case of late payment the amount due and repayable shall be calculated in accordance with Condition 6.9 (*Late Payment for Zero Coupon Mortgage Pandbrieven*).

4.5 Interest Payments up to the Extended Maturity Date

If the maturity of the Mortgage Pandbrieven is extended beyond the Maturity Date in accordance with Condition 6.2 (*Extension of Maturity Date*);

- (a) the Mortgage Pandbrieven then outstanding shall bear interest from (and including) the Maturity Date to (but excluding) the Extended Maturity Date or, if earlier, the relevant Interest Payment Date after the Maturity Date on which the Mortgage Pandbrieven are redeemed, subject to Condition 4.3 (*Accrual of Interest*). In that event, interest shall be payable on the Mortgage Pandbrieven at the rate determined in accordance with Condition 4.5(b) below on each Mortgage Pandbrief then outstanding on each Interest Payment Date after the Maturity Date in respect of the Interest Period ending immediately prior to the relevant Interest Payment Date, subject as otherwise provided in the applicable Final Terms. The final Interest Payment Date shall fall no later than the Extended Maturity Date;
- (b) the rate of interest payable from time to time under Condition 4.5(a) above will be as specified in the applicable Final Terms and, where applicable, determined by the Calculation Agent fourteen Business Days after the Maturity Date in respect of the first such Interest Period and thereafter as specified in the applicable Final Terms; and

- (c) in the case of Mortgage Pandbrievens which are Zero Coupon Mortgage Pandbrievens, for the purposes of this Condition 4.5, the principal amount outstanding of each Mortgage Pandbrief shall be the total amount otherwise payable by the Issuer on the Maturity Date in respect of such Mortgage Pandbrief less any payments made by the Issuer in respect of such amount in accordance with the Conditions.

4.6 Business Day Conventions

If a **Business Day Convention** is specified in the applicable Final Terms in relation to any date (including, for the avoidance of doubt, any Maturity Date or Extended Maturity Date) and (x) if there is no numerically corresponding day in the calendar month in which such date should occur or (y) if such date would otherwise fall on a day which is not a Business Day, then, if the Business Day Convention specified is:

- (a) in the case of Floating Rate Mortgage Pandbrievens, the Floating Rate Convention, the relevant Interest Period End Date (i) in the case of (x) above, shall be the last day that is a Business Day in the relevant month and the provisions of (B) below shall apply mutatis mutandis or (ii) in the case of (y) above, shall be postponed to the next day which is a Business Day, unless it would thereby fall into the next calendar month, in which event (A) such Interest Period End Date shall be brought forward to the immediately preceding Business Day and (B) each subsequent Interest Period End Date shall be the last Business Day in the month;
- (b) the **Following Business Day Convention**, such date shall be postponed to the next day which is a Business Day; or
- (c) the **Preceding Business Day Convention**, such date shall be brought forward to the immediately preceding Business Day.

In the event of Mortgage Pandbrievens cleared through the Securities Settlement System, the Following Business Day Convention will always be applicable (unless otherwise specified in the applicable Final Terms).

4.7 Benchmark discontinuation

- (a) Independent Advisor

If a Benchmark Event occurs in relation to an Original Reference Rate when any Rate of Interest (or any component part thereof) remains to be determined by reference to such Original Reference Rate, then the Issuer shall use its reasonable endeavours to appoint and consult with an Independent Advisor, as soon as reasonably practicable, with a view to the Issuer determining a Successor Rate, failing which an Alternative Rate (in each case in accordance with Condition 4.7(b) and, in either case, an Adjustment Spread if any (in accordance with Condition 4.7(c) and any Benchmark Amendments (in accordance with Condition 4.7(d))).

An Independent Advisor appointed pursuant to this Condition 4.7 shall act in good faith as an expert and (in the absence of fraud) shall have no liability whatsoever to the Issuer, the Principal Paying Agent or the Pandbrievens Holders for any determination made by it or for any advice given to the Issuer in connection with any determination made by the Issuer, pursuant to this Condition 4.7.

- (b) Successor Rate or Alternative Rate

If the Issuer, following consultation with the Independent Advisor and acting in good faith, determines that:

- (i) there is a Successor Rate, then such Successor Rate shall (subject to adjustment as provided in Condition 4.7(c) subsequently be used in place of the Original Reference Rate to determine the Rate of Interest (or the relevant component part

thereof) for all future payments of interest on the Mortgage Pandbrieven (subject to the operation of this Condition 4.7); or

- (ii) there is no Successor Rate but that there is an Alternative Rate, then such Alternative Rate shall (subject to adjustment as provided in Condition 4.7(c)) subsequently be used in place of the Original Reference Rate to determine the Rate of Interest (or the relevant component part thereof) for all future payments of interest on the Mortgage Pandbrieven (subject to the operation of this Condition 4.7).

(c) Adjustment Spread

If the Issuer, following consultation with the Independent Adviser and acting in good faith, determines (i) that an Adjustment Spread is required to be applied to the Successor Rate or the Alternative Rate (as the case may be) and (ii) the quantum of, or a formula or methodology for determining, such Adjustment Spread, then such Adjustment Spread shall be applied to the Successor Rate or the Alternative Rate (as the case may be).

(d) Benchmark Amendments

If any Successor Rate, Alternative Rate or Adjustment Spread is determined in accordance with this Condition 4.7 and the Issuer, following consultation with the Independent Adviser and acting in good faith, determines (i) that amendments to these Conditions are necessary to ensure the proper operation of such Successor Rate, Alternative Rate and/or Adjustment Spread (such amendments, the "**Benchmark Amendments**") and (ii) the terms of such Benchmark Amendments, then the Issuer may, without any requirement for the consent or approval of Pandbrieven Holders, vary these Conditions to give effect to such Benchmark Amendments with effect from the date specified in a notice given in accordance with Condition 4.7(e).

At the request of the Issuer, but subject to receipt by the Principal Paying Agent of a notice from the Issuer pursuant to Condition 4.7(e), the Principal Paying Agent shall (at the expense of the Issuer), without any requirement for the consent or approval of the Pandbrieven Holders, be obliged to concur with the Issuer in effecting any Benchmark Amendments (including, inter alia, by the execution of an agreement supplemental to or amending the Agency Agreement), provided that the Principal Paying Agent shall not be obliged so to concur if in the opinion of the Principal Paying Agent doing so would impose more onerous obligations upon it or expose it to any additional duties, responsibilities or liabilities or reduce or amend the protective provisions afforded to the Principal Paying Agent in these Conditions or the Agency Agreement (including, for the avoidance of doubt, any supplemental agency agreement) in any way.

In connection with any such variation in accordance with this Condition 4.7(d), the Issuer shall comply with the rules of any stock exchange on which the Mortgage Pandbrieven are for the time being listed or admitted to trading.

(e) Notices

Any Successor Rate, Alternative Rate, Adjustment Spread and the specific terms of any Benchmark Amendments, determined under this Condition 4.7 will be notified promptly by the Issuer to the Principal Paying Agent, the Calculation Agent, the Paying Agents and, in accordance with Condition 19, the Pandbrieven Holders. Such notice shall be irrevocable and shall specify the effective date of the Benchmark Amendments, if any.

The Principal Paying Agent shall be entitled to rely on such notice (without liability to any person) as sufficient evidence thereof. The Successor Rate or Alternative Rate and the Adjustment Spread (if any) and the Benchmark Amendments (if any) specified in such notice will (in the absence of manifest error or bad faith in the determination of the Successor Rate or Alternative Rate and the Adjustment Spread (if any) and the Benchmark Amendments (if any) and without prejudice to the Principal Paying Agent's

ability to rely on such notice as aforesaid) be binding on the Issuer, the Principal Paying Agent, the Calculation Agent, the Paying Agents and the Pandbrieven Holders.

(f) Survival of Original Reference Rate

Without prejudice to the obligations of the Issuer under Condition 4.7 (a),(b),(c) and (d), the Original Reference Rate and the fallback provisions provided for in Condition 4.2(b)(ii) will continue to apply unless and until the Calculation Agent has been notified of the Successor Rate or the Alternative Rate (as the case may be), and any Adjustment Spread and Benchmark Amendments, in accordance with Condition 4.7(e).

5 Payments

5.1 Method of payment

(a) Payments in relation to Dematerialised Mortgage Pandbrieven

Subject as provided below, all payments of principal or interest owing under the Dematerialised Mortgage Pandbrieven shall be made through the Fiscal Agent and the Securities Settlement System in accordance with the Settlement System Regulations and the Clearing Services Agreement.

Any payment of interest, principal or other sums payable on Dematerialised Mortgage Pandbrieven expressed in any currency other than Euro will be settled outside the Securities Settlement System and paid by the Fiscal Agent and Paying Agents via Euroclear and Clearstream, Luxembourg.

(b) Payments in relation to Registered Mortgage Pandbrieven.

Payments of principal and interest in respect of Registered Mortgage Pandbrieven shall be paid to the person shown on the register of the Registered Mortgage Pandbrieven at the close of business on the fifteenth calendar day before the due date for payment thereof (the **Record Date**).

5.2 Payments subject to fiscal laws

Payments will be subject in all cases to (a) any fiscal or other laws and regulations applicable thereto in the place of payment, but without prejudice to the provisions of Condition 7 (*Taxation*) as applicable and (b) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986 (the **Code**) or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, official interpretations thereof, or any law implementing an intergovernmental approach thereto.

No commissions or expenses shall be charged by the Issuer or the Fiscal Agent to the Pandbrieven Holders in respect of such payments.

5.3 Payment Day

If the date for payment of any amount in respect of any Mortgage Pandbrief is not a Payment Day (as defined below), the holder thereof shall not be entitled to payment of the relevant amount due until the next following Payment Day and shall not be entitled to any interest or other payment in respect of any delay. For these purposes, **Payment Day** means any day which (subject to Condition 10 (*Prescription*)) is:

(a) a day on which the TARGET2 System is open; and

(b) a day (other than Saturday or Sunday) on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing

in foreign exchange and foreign currency deposits) in any Additional Financial Centre specified in the applicable Final Terms

5.4 Interpretation of principal and interest

Any reference in the Conditions to principal in respect of the Mortgage Pandbrievien shall be deemed to include, as applicable:

- (a) any additional amounts which may be payable with respect to principal under Condition 7 (*Taxation*) or under any undertakings or covenants given in addition thereto, or in substitution therefore, pursuant to the Agency Agreement;
- (b) the Final Redemption Amount;
- (c) the Early Redemption Amount; and
- (d) in relation to Zero Coupon Mortgage Pandbrievien, the Amortised Face Amount (as defined in Condition 6.4(c) (*Early Redemption Amounts*)).

Any reference in these Conditions to interest in respect of the Mortgage Pandbrievien shall be deemed to include, as applicable, any additional amounts which may be payable with respect to interest under Condition 7 (*Taxation*) or under any undertakings given in addition thereto, or in substitution therefore, pursuant to the Agency Agreement.

6 Redemption and Purchase

6.1 Final redemption

Unless previously redeemed or purchased and cancelled as specified below, each Mortgage Pandbrief will be redeemed by the Issuer at the Final Redemption Amount specified in the applicable Final Terms in the Specified Currency on the Maturity Date.

6.2 Extension of Maturity Date

If the Issuer fails to redeem a Series of Mortgage Pandbrievien in full within fourteen Business Days after their Maturity Date and provided that an Extended Maturity Date is specified in the applicable Final Terms as applying to such Series of Mortgage Pandbrievien then:

- (a) (subject as provided below) payment of the unpaid amount by the Issuer shall be deferred until the Extended Maturity Date and in such case the Final Redemption Amount will not be considered to have been due and payable on the Maturity Date, provided that any amount representing the Final Redemption Amount due and remaining unpaid on the Maturity Date may be paid by the Issuer on any Interest Payment Date occurring thereafter up to (and including) the Extended Maturity Date;
- (b) if following the extension of the Maturity Date in accordance with Condition 6.2(a), the Issuer has, in the same month, the obligation to pay principal on two or more Series of Mortgage Pandbrievien, it will make payments in respect of the Series of Mortgage Pandbrievien where the Maturity Date has been extended prior to paying Series of Mortgage Pandbrievien where the Maturity Date has not been extended. If the Issuer fails to pay the Final Redemption Amount in respect of such Mortgage Pandbrievien with a later Maturity Date, payments of unpaid amounts shall be deferred in accordance with Condition 6.2(a);
- (c) an extension of one Series shall not automatically result in an extension of any other Series (other than, for the avoidance of doubt, as provided for in Condition 6.2(b) above);

- (d) any payments which shall be subject to an extension in accordance with this Condition 6.2 shall not be considered as unconditional for the purpose of article 7, §1 of the Covered Bonds Royal Decree;
- (e) the Issuer shall confirm to the Cover Pool Monitor, the Rating Agencies, any relevant Hedging Counterparty, the Mortgage Pandbrieven Holders' Representative, the Fiscal Agent and the Paying Agent and any relevant stock exchange as soon as reasonably practicable and in any event at least four Business Days prior to the Maturity Date of any inability of the Issuer to pay in full the Final Redemption Amount in respect of a Series of Mortgage Pandbrieven within fourteen Business Days after the Maturity Date. The Issuer shall give notice of the extension of the Maturity Date to the Extended Maturity Date to the Pandbrieven Holders of such Series as soon as reasonably practicable. Any failure by the Issuer to notify such parties shall not affect the validity or effectiveness of the extension nor give rise to any rights towards any such party;
- (f) failure to pay in full by the Issuer on the Maturity Date shall not constitute an Event of Default. However, failure by the Issuer to pay the Final Redemption Amount on the Extended Maturity Date will constitute an Event of Default;
- (g) if the maturity of any Mortgage Pandbrieven is extended up to the Extended Maturity Date in accordance with this Condition 6.2, for as long as any of those Mortgage Pandbrieven remain outstanding, the Issuer shall not issue any further Mortgage Pandbrieven, unless the proceeds of issuance of such further Mortgage Pandbrieven are applied by the Issuer on issuance in redeeming in whole or in part the relevant Mortgage Pandbrieven in accordance with the terms hereof; and
- (h) this Condition 6.2 shall only apply if the Issuer has insufficient funds available to redeem Mortgage Pandbrieven in full on the relevant Maturity Date (or within fourteen Business Days thereafter).

6.3 Redemption for taxation reasons

The Mortgage Pandbrieven may be redeemed at the option of the Issuer in whole, but not in part, at any time (if the relevant Mortgage Pandbrief is not a Floating Rate Mortgage Pandbrief) or on any Interest Payment Date (if the relevant Mortgage Pandbrief is a Floating Rate Mortgage Pandbrief), on giving not less than 30 nor more than 60 days' notice to the Fiscal Agent and the Mortgage Pandbrieven Holders' Representative and, in accordance with Condition 19 (*Notices*), the Pandbrieven Holders (which notice shall be irrevocable), if:

- (a) on the occasion of the next payment due under the Mortgage Pandbrieven, the Issuer has or will become obliged to pay additional amounts as provided or referred to in Condition 7 (Taxation), as a result of any change in, or amendment to, the laws or regulations of Belgium or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after the date on which agreement is reached to issue the first Tranche of the Mortgage Pandbrieven; and
- (b) such obligation cannot be avoided by the Issuer taking reasonable measures available to it,

provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer would be obliged to pay such additional amounts were a payment in respect of the Mortgage Pandbrieven then due.

Prior to the publication of any notice of redemption pursuant to this Condition, the Issuer shall deliver to the Fiscal Agent and the Mortgage Pandbrievens Holders' Representative a certificate signed by two authorised signatories of the Issuer, stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred, and an opinion of independent legal advisers of recognised standing to the effect that the Issuer has or will become obliged to pay such additional amounts as a result of such change or amendment.

Mortgage Pandbrievens redeemed pursuant to this Condition 6.3 (*Redemption for taxation reasons*) will be redeemed at their Early Redemption Amount referred to in Condition 6.4 (*Early Redemption Amounts*) together (if appropriate) with interest accrued to (but excluding) the date of early redemption.

6.4 Early Redemption Amounts

For the purpose of Condition 6.1 (*Final redemption*), Condition 6.2 (*Extension of Maturity Date*), Condition 6.3 (*Redemption for taxation reasons*), Condition 6.5 (*Illegality*) and Condition 8 (*Events of Default and Enforcement*), the Early Redemption Amount in respect of any Mortgage Pandbrievens shall be calculated as follows:

- (a) in the case of a Mortgage Pandbrief with a Final Redemption Amount equal to the Issue Price, at the Final Redemption Amount thereof;
- (b) in the case of a Mortgage Pandbrief (other than a Zero Coupon Mortgage Pandbrief) with a Final Redemption Amount which is or may be less or greater than the Issue Price, at the amount specified in the applicable Final Terms or, if no such amount is so specified in the applicable Final Terms, at its Principal Amount Outstanding; and
- (c) in the case of a Zero Coupon Mortgage Pandbrief, at an amount (the **Amortised Face Amount**) calculated in accordance with the following formula:

$$\text{Early Redemption Amount} = \text{RP} \times (1 + \text{AY})^y$$

where:

RP means the Reference Price;

AY means the Accrual Yield expressed as a decimal; and

y is a fraction the numerator of which is equal to the number of days (calculated on the basis of a 360-day year consisting of 12 months of 30 days each) from (and including) the Issue Date of the first Tranche of the Mortgage Pandbrievens to (but excluding) the date fixed for redemption or (as the case may be) the date upon which such Mortgage Pandbrief becomes due and repayable and the denominator of which is 360, provided that where such calculation is to be made for a period which is not a whole number of years, it shall be made (i) in the case of Zero Coupon Mortgage Pandbrievens payable in a specified currency other than Euro, on the basis of a 360-day year consisting of 12 months of 30 days each or (ii) in the case of Zero Coupon Mortgage Pandbrievens payable in Euro, on the basis of the actual number of days elapsed divided by 365 (or, if any of the days elapsed fall in a leap year, the sum of (x) the number of those days falling in a leap year divided by 366 and (y) the number of those days falling in a non-leap year divided by 365) or (iii) other such redemption amount of a Zero Coupon Mortgage Pandbrievens as may be specified in the applicable Final Terms.

6.5 Illegality

In the event that the Issuer determines that the performance of the Issuer's obligations under the Mortgage Pandbrieven has or will become unlawful, illegal or otherwise prohibited in whole or in part as a result of compliance with any applicable present or future law, rule, regulation, judgment, order or directive of any governmental, administrative, legislative or judicial authority or power, or in the interpretation thereof, the Issuer having given not less than 10 nor more than 30 days' notice to Pandbrieven Holders and the Mortgage Pandbrieven Holders' Representative in accordance with Condition 19 (*Notices*) (which notice shall be irrevocable), may, on expiry of such notice redeem all, but not some only, of the Mortgage Pandbrieven of the relevant Series, each Mortgage Pandbrief being redeemed at the Early Redemption Amount together (if appropriate) with interest accrued to (but excluding) the date of redemption.

Prior to the publication of any notice of redemption pursuant to this Condition, the Issuer shall deliver to the Fiscal Agent and the Mortgage Pandbrieven Holders' Representative a certificate signed by two authorised signatories of the Issuer, stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred.

6.6 Purchases

The Issuer or any subsidiary, affiliate or holding company of the Issuer may at any time purchase or otherwise acquire Mortgage Pandbrieven at any price in the open market either by tender or private agreement or otherwise.

Such Mortgage Pandbrieven acquired by the Issuer may be held, reissued, resold or, at the option of the Issuer, transferred to the Fiscal for cancellation.

Unless otherwise indicated in the applicable Final Terms, Mortgage Pandbrieven so acquired by the Issuer may be held in accordance with Article 12, §1 Annex III to the Credit Institutions Supervision Law or cancelled in accordance with this Condition 6.6.

6.7 Subscription to own Mortgage Pandbrieven

The Issuer may subscribe to its own Mortgage Pandbrieven in accordance with Article 12, §1 Annex III to the Credit Institutions Supervision Law.

Mortgage Pandbrieven so subscribed by the Issuer may be held in accordance with Article 12, §1 Annex III to the Credit Institutions Supervision Law or transferred to the Fiscal Agent for cancellation.

6.8 Cancellation of redeemed Mortgage Pandbrieven

All Mortgage Pandbrieven which are redeemed will forthwith be cancelled.

6.9 Late Payment for Zero Coupon Mortgage Pandbrieven

If the amount payable in respect of any Zero Coupon Mortgage Pandbrief upon redemption of such Mortgage Pandbrief pursuant to Condition 6.1, 6.3 above or 6.5 above or upon its becoming due and repayable as provided in Condition 8 (*Events of Default and Enforcement*) is improperly withheld or refused, the amount due and repayable in respect of such Zero Coupon Mortgage Pandbrief shall be the amount calculated as provided in Condition 6.4 (*Early Redemption Amounts*) above as though the references therein to the date fixed for the redemption or the date upon which such Zero Coupon Mortgage Pandbrief becomes due and payable were replaced by references to the date which is the earlier of:

- (a) the date on which all amounts due in respect of such Zero Coupon Mortgage Pandbrief have been paid; and

- (b) five days after the date on which the full amount of the moneys payable in respect of such Zero Coupon Mortgage Pandbrief has been received by the Fiscal Agent and notice to that effect has been given to the Pandbrieven Holders in accordance with Condition 19 (Notices).

7 Taxation

All payments of principal and interest in respect of the Mortgage Pandbrieven by or on behalf of the Issuer shall be made free and clear of, and without withholding or deduction for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature (**Taxes**) imposed, levied, collected, withheld or assessed by or on behalf of Belgium or any political subdivision thereof or any authority therein or thereof having power to tax, unless the withholding or deduction of such Taxes is required by law. In that event the Issuer shall pay such additional amounts as will result in receipt by the Pandbrieven Holders of such amounts after such withholding or deduction as would have been received by them had no such withholding or deduction been required, except that no such additional amounts shall be payable in respect of any Mortgage Pandbrief:

- (a) with respect to any payment in respect of any Dematerialised Mortgage Pandbrief:
 - (i) held by a holder of a Dematerialised Mortgage Pandbrief which is liable to Taxes in respect of such Dematerialised Mortgage Pandbrief by reason of its having some connection with the jurisdiction by which such Taxes have been imposed, levied, collected, withheld or assessed other than the mere holding of the Dematerialised Mortgage Pandbrief; or
 - (ii) where such withholding or deduction is required to be made pursuant to European Council Directive 2003/48/EC on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, this Directive (as it may be amended or replaced from time to time), or pursuant to FATCA; or
 - (iii) held by a holder of a Dematerialised Mortgage Pandbrief who would have been able to avoid such withholding or deduction by arranging to receive the relevant payment through another paying agent of the Issuer in a member state of the European Union; or
 - (iv) where such withholding or deduction is imposed because the holder of the Dematerialised Mortgage Pandbrieven is not an Eligible Investor (unless that person was an Eligible Investor at the time of its acquisition of the relevant Mortgage Pandbrief but has since ceased (as such term is defined from time to time under Belgian law) being an Eligible Investor by reason of a change in the Belgian tax laws or regulations or in the interpretation or application thereof or by reason of another change which was outside that person's control), or is an Eligible Investor but is not holding the relevant Dematerialised Mortgage Pandbrief in an exempt securities account with a qualifying clearing system in accordance with the Belgian law of 6 August 1993 relating to transactions in certain securities and its implementation decrees; or
 - (v) to a holder who is liable to such Taxes because the Dematerialised Mortgage Pandbrieven were converted into registered Mortgage Pandbrieven upon his/her request and could no longer be cleared through the Securities Settlement System; or
 - (vi) to a holder who is entitled to avoid such deduction or withholding by making a declaration of non-residence or other similar claim for exemption.

- (b) with respect to any payment in respect of any Registered Mortgage Pandbrief:
- (i) held by a holder of a Registered Mortgage Pandbrief which is liable to Taxes in respect of such Mortgage Pandbrief by reason of its having some connection with the jurisdiction by which such Taxes have been imposed, levied, collected, withheld or assessed other than the mere holding of the Registered Mortgage Pandbrief; or
 - (ii) where such withholding or deduction is required to be made pursuant to European Council Directive 2003/48/EC on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, this Directive (as it may be amended or replaced from time to time) or pursuant to FATCA; or
 - (iii) held by a holder of a Registered Mortgage Pandbrief who would have been able to avoid such withholding or deduction by arranging to receive the relevant payment through another paying agent of the Issuer in a member state of the European Union; or
 - (iv) where such withholding or deduction is imposed because the holder of the Registered Mortgage Pandbrief is not a holder who is an Exempt Investor (as defined below) (unless that person was an Exempt Investor at the time of its acquisition of the relevant Mortgage Pandbrief but has since ceased (as such term is defined from time to time under Belgian law) being an Exempt Investor by reason of a change in the Belgian tax laws or regulations or in the interpretation or application thereof); or
 - (v) where such withholding or deduction is imposed for reason of the holder of the Registered Mortgage Pandbrief, at the time of the relevant interest payment, not benefitting from a full exemption from Belgian interest withholding tax due to the Issuer no longer qualifying as a financial institution as referred to in the Articles 105, 1°, a) and 107, §2, 5°, b) of the Royal Decree implementing the Belgian Income Tax Code 1992"; or
 - (vi) to a holder who is entitled to avoid such deduction or withholding by making a declaration of non-residence or other similar claim for exemption; or
 - (vii) presented for payment more than 30 calendar days after the Relevant Date (as defined below) except to the extent that the holder of the Registered Mortgage Pandbrief would have been entitled to additional amounts on presenting the same for payment on the expiry of such period of 30 calendar days; or
 - (viii) which is issued as a Zero Coupon Mortgage Pandbrief or any other Registered Mortgage Pandbrief which provides for the capitalisation of interest.

As used in this Condition:

Exempt Investor means a holder of a Registered Mortgage Pandbrief that, as of the relevant interest payment date, (i) is not resident for tax purposes in Belgium and does not use the income producing assets to exercise a business or professional activity in Belgium, (ii) has been the legal owner (*eigenaar/proprietaire*) or usufructuary (*vruchtgebruiker/usufruitier*) of the Registered Mortgage Pandbrief during the entire relevant interest period, (iii) has been registered with the Issuer as the holder of the Registered Mortgage Pandbrief during the entire relevant interest period, (iv) has provided the Issuer an affidavit in which it is certified that the conditions mentioned in points (i) and (ii) are complied with respect to such interest payment on or before the date such affidavit is required to be delivered to the Issuer and (v) complies with any further requirement imposed by any successor provision to the current relevant Belgian tax provisions.

Relevant Date in respect of any payment means the date on which such payment first becomes due.

8 Events of Default and Enforcement

8.1 Events of Default

If any of the following events occurs and is continuing (each an **Event of Default**):

- (a) on the Extended Maturity Date (in respect of any Series in respect of which an Extended Maturity Date applies in accordance with the applicable Final Terms) or on the Maturity Date (in respect of any Series in respect of which an Extended Maturity Date does not apply) in respect of any Series there is a failure to pay any amount of principal due on the Mortgage Pandbrieven on such date and such default is not remedied within a period of fourteen Business Days from the due date thereof; or
- (b) on any Interest Payment Date, a default in the payment of the amount of interest due on any Series occurs and such default is not remedied within a period of fourteen Business Days from the due date thereof,

then the Mortgage Pandbrieven Holders' Representative may and, if it has been so directed by a request in writing by the holders of not less than 25% of the aggregate of the Series Principal Amount Outstanding of the Mortgage Pandbrieven of all Series then outstanding but excluding the Mortgage Pandbrieven held by the Issuer for the calculation of the percentage (with the Mortgage Pandbrieven of all Series taken together as a single Series) or if so directed by a Programme Resolution (subject to being indemnified and/or secured and/or prefunded to its satisfaction), shall serve a notice (a **Notice of Default**) on the Issuer (copied to the Cover Pool Monitor, the Supervisor, the Rating Agencies and, if appointed, the Cover Pool Administrator). Following the service of a Notice of Default, (i) no further Mortgage Pandbrieven will be issued and (ii) the Mortgage Pandbrieven of each Series shall become immediately due and repayable on the date specified in the Notice of Default at the Early Redemption Amount, together with accrued interest thereon to the date of repayment.

8.2 Enforcement

The Mortgage Pandbrieven Holders' Representative may at any time, at its discretion and without further notice, take such proceedings against the Issuer and/or any other person as it may think fit to enforce the provisions of the Mortgage Pandbrieven or any Programme Document.

No Pandbrief Holder shall be entitled to proceed directly against the Issuer or to take any action with respect to the Programme Documents, the Mortgage Pandbrieven or the Cover Assets unless the Mortgage Pandbrieven Holders' Representative, having become bound so to proceed pursuant to a Resolution or a direction of the Pandbrieven Holders in accordance with the Conditions, as applicable, fails so to do within a reasonable period, fourteen Business Days being considered reasonable in this respect, and such failure shall be continuing.

8.3 Pandbrieven Holders' Waiver

For the avoidance of doubt, the Pandbrieven Holders waive, to the fullest extent permitted by law (i) all their rights whatsoever pursuant to Article 1184 of the Belgian Civil Code to rescind (*ontbinden/résoudre*), or demand in legal proceedings the rescission (*ontbinding/résolution*) of, the Mortgage Pandbrieven and (ii) all their rights whatsoever in respect of Mortgage Pandbrieven pursuant to Article 487 of the Belgian Company Code (right to rescind (*ontbinding/résolution*)).

9 Priorities of Payments

9.1 Post Event of Default Priority of Payments

Following delivery of a Notice of Default and subject to Condition 9.3 (*Excess Cover Assets*) all funds deriving from the Cover Assets or otherwise received or recovered by the Special Estate (whether in the administration, liquidation of the Special Estate or otherwise) (other than amounts or financial instruments representing Excess Swap Collateral (if any), which amounts shall be applied in accordance with the terms of the relevant Hedging Agreement(s)) shall be applied on any Business Day in accordance with the following order of priority of payments (the **Post Event of Default Priority of Payments**) (in each case only if and to the extent that payments of a higher priority have been made in full) provided that any such amount that is due to be paid hereunder has not been paid by the Issuer using funds not forming part of the Special Estate:

- (a) first, *pari passu* and *pro rata* according to the respective amounts thereof, (a) to pay all amounts then due and payable to the Mortgage Pandbrieven Holders' Representative (including remuneration or amounts by way of indemnity payable to it) under the provisions of the Mortgage Pandbrieven Holder Representative Agreement or any other Programme Document together with interest and applicable VAT (or other similar taxes) thereon to the extent provided therein, (b) to pay all amounts then due and payable to the Agents and/or the Registrar (if any) under the provisions of the Agency Agreement, any Calculation Agency Agreement or any other Programme Document together with interest and applicable VAT (or other similar taxes) thereon to the extent provided therein; (c) to pay all amounts then due and payable to the Cover Pool Monitor under the provisions of the Cover Pool Monitor Agreement or any other Programme Document together with interest and applicable VAT (or other similar taxes) thereon to the extent provided therein and (d) upon its appointment in accordance with the Belgian Covered Bond Regulations, to pay all amounts then due to any Cover Pool Administrator (including any of its representatives or delegates) pursuant to the conditions of its appointment together with interest and applicable VAT or other similar taxes and any costs and expenses incurred by or on behalf of the Special Estate;
- (b) second, *pari passu* and *pro rata* according to the respective amounts thereof, to pay any amounts, fees, costs, charges, liabilities, expenses and taxes due and payable by the Issuer or the Special Estate to the Operational Creditors;
- (c) third, *pari passu* and *pro rata* according to the respective amounts thereof, (a) to pay all amounts of interest and principal then due and payable on any Mortgage Pandbrieven, (b) any amounts due and payable under any Hedging Agreement other than the Subordinated Termination Payments to any Hedging Counterparties under any such Hedging Agreements, and (c) to pay all amounts due and payable under any Liquidity Facility Agreement to any Liquidity Facility Provider;
- (d) fourth, *pari passu* and *pro rata*, according to the respective amounts thereof, to pay any amount due and payable to any Hedging Counterparties arising out of any Subordinated Termination Payment; and
- (e) fifth, once all Mortgage Pandbrieven have been redeemed and following the payment in full of all items under (a) to (d) above, to pay any excess to the General Estate of the Issuer.

9.2 Early Redemption Priority of Payments

Following a decision by the Cover Pool Administrator to early redeem the Mortgage Pandbrieven of all Series pursuant to Articles 11, 6° or 7° Annex III to the Credit Institutions Supervision Law and as long as no Notice of Default has been delivered all funds deriving from the Cover Assets or otherwise received or recovered by the Special Estate and subject to Condition 9.3 (*Excess Cover Assets*) (whether in the administration, liquidation of the Special Estate or otherwise) (other than amounts or financial instruments representing Excess Swap

Collateral (if any), which amounts shall be applied in accordance with the terms of the relevant Hedging Agreement(s)) shall be applied on any Business Day in accordance with the following order of priority of payments (the **Early Redemption Priority of Payments**) (in each case only if and to the extent that payments of a higher priority have been made in full) provided that any such amount that is due to be paid hereunder has not been paid by the Issuer using funds not forming part of the Special Estate:

- (a) first, *pari passu* and *pro rata* according to the respective amounts thereof, (a) to pay all amounts then due and payable to the Mortgage Pandbrieven Holders' Representative (including remuneration or amounts by way of indemnity payable to it) under the provisions of the Mortgage Pandbrieven Holder Representative Agreement or any other Programme Document together with interest and applicable VAT (or other similar taxes) thereon to the extent provided therein, (b) to pay all amounts then due and payable to the Agents and/or the Registrar (if any) under the provisions of the Agency Agreement, any Calculation Agency Agreement or any other Programme Document together with interest and applicable VAT (or other similar taxes) thereon to the extent provided therein; (c) to pay all amounts then due and payable to the Cover Pool Monitor under the provisions of the Cover Pool Monitor Agreement or any other Programme Document together with interest and applicable VAT (or other similar taxes) thereon to the extent provided therein, (d) upon its appointment in accordance with the Belgian Covered Bond Regulations, payment of all amounts then due to any Cover Pool Administrator (including any of its representatives or delegates) pursuant to the conditions of its appointment together with interest and applicable VAT or other similar taxes and any costs and expenses incurred by or on behalf of the Special Estate and (e) payment of any amounts, fees, costs, charges, liabilities, expenses and taxes due and payable by the Issuer or the Special Estate to the Operational Creditors;
- (b) second, *pari passu* and *pro rata* according to the respective amounts thereof, (a) to pay all amounts of interest and principal then due and payable on any Mortgage Pandbrieven, (b) any amounts due and payable under any Hedging Agreement other than the Subordinated Termination Payments to any Hedging Counterparties under any such Hedging Agreements, and (c) to pay all amounts due and payable under any Liquidity Facility Agreement to any Liquidity Facility Provider;
- (c) third, *pari passu* and *pro rata*, according to the respective amounts thereof, to pay any amount due and payable to any Hedging Counterparties arising out of any Subordinated Termination Payment; and
- (d) fourth, once all Mortgage Pandbrieven have been redeemed and following the payment in full of all items under (a) to (c) above, to pay any excess to the General Estate of the Issuer.

9.3 Excess Cover Assets

Nothing in Conditions 9.1 or 9.2 shall operate to prevent the Issuer, the Special Estate, the Mortgage Pandbrieven Holders' Representative, the Cover Pool Monitor or any Cover Pool Administrator from complying with any direction made in accordance with Article 11, 8° Annex III to the Credit Institutions Supervision Law from the bankruptcy trustee of the General Estate of the Issuer from transferring to the General Estate of the Issuer such Cover Assets as the bankruptcy trustee of the General Estate of the Issuer has determined, after consultation with the Supervisor (taking into account the Belgian Covered Bond Regulations and, as the case may be, the rating assigned to the Mortgage Pandbrieven), are no longer be required to form part of the Special Estate.

10 Prescription

Claims against the Issuer for payment of principal and interest in respect of the Mortgage Pandbrieven will be prescribed and become void unless made, in the case of principal, within ten years or, in the case of interest, five years after their due date, unless application to a court of law for such payment has been initiated on or before such respective time. The due date for

Mortgage Pandbrieven of which the Maturity Date has been extended shall be the Extended Maturity Date.

11 Agents

- (a) In acting under the Agency Agreement and in connection with the Mortgage Pandbrieven, the Agents act solely as agents of the Issuer and do not assume any obligations towards or relationship of agency or trust for or with any of the Pandbrieven Holders.
- (b) The initial Agents and their initial specified offices are set forth in the Base Prospectus. The Issuer reserves the right at any time to vary or terminate the appointment of any Agent and to appoint a successor Agent provided, however, that:
 - (i) the Issuer shall at all times maintain a Fiscal Agent and a Principal Paying Agent (which may be the same entity) which will at all times be a participant in the Securities Settlement System;
 - (ii) so long as the Mortgage Pandbrieven are listed on any stock exchange or admitted to listing by any other relevant authority, there will at all times be a Paying Agent (which may be the Fiscal Agent) with a specified office in such place as may be required by the rules and regulations of such stock exchange or other relevant authority (which, so long as the Mortgage Pandbrieven are listed on Euronext Brussels, shall be Brussels);
 - (iii) so long as there are Registered Mortgage Pandbrieven, the Issuer shall maintain a Registrar for the relevant Series of Registered Mortgage Pandbrieven (which may be the Issuer itself);
 - (iv) in the case of Floating Rate Mortgage Pandbrieven, the Issuer shall at all times maintain a Calculation Agent for the relevant Series of Mortgage Pandbrieven (which may be the Issuer itself); and
 - (v) the Issuer shall at all times maintain a paying agent in an EU member state that will not be obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC on the taxation of savings income (as amended, supplemented or replaced from time to time), or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26th-27th November, 2000 or any law implementing or complying with, or introduced in order to conform to, such Directives or pursuant to FATCA.

Notice of any change in any of the Agents, the Registrar or the Calculation Agent or in their specified offices shall promptly be given to the Pandbrieven Holders in accordance with Condition 19 (*Notices*).

12 Mortgage Pandbrieven Provisions

12.1 Criteria for the transfer of assets by the General Estate to the Special Estate

In accordance with Article 3, §2, second paragraph of Annex III to the Credit Institutions Supervision Law, the following criteria shall be applied in circumstances where amounts must be transferred to the Special Estate but cannot be identified within the General Estate of the Issuer. In such circumstances, the General Estate shall transfer to the Special Estate (in consultation between the Cover Pool Administrator and the bankruptcy trustee of the Issuer), instead of the relevant amounts, the following unencumbered assets available within the General Estate in an equal amount determined in the following order of priority:

- (a) first, credit quality step 1 bonds that are ECB eligible and/or level 1 assets as described in the liquidity risk framework calculation of the Liquidity Coverage Ratio (as implemented through CRD IV);
- (b) failing which, credit quality step 2 bonds that are ECB eligible and/or level 2 assets as described in the liquidity risk framework calculation of the Liquidity Coverage Ratio (as implemented through CRD IV);
- (c) failing which, bonds other than (a) or (b) above that are ECB eligible;
- (d) failing which, bonds other than (a), (b) or (c) above;
- (e) failing which, public sector exposure other than (a), (b), (c) or (d);
- (f) failing which, residential mortgage loans; and
- (g) failing any of the above, such assets as the Cover Pool Administrator in the name and for the account of the Special Estate may select in its sole discretion.

12.2 Use of swap collateral

Any collateral provided to the Issuer in the context of a Hedging Agreement that constitutes a Cover Asset, may only be used in order to satisfy the obligations that relate to the Special Estate and in accordance with the provisions of the relevant Hedging Agreement.

12.3 Priority Rules regarding security interest securing both Cover Assets and assets in the General Estate

If a security interest (including any mortgages or mortgage mandate) secures claims of both the Special Estate and the General Estate of the Issuer, proceeds from the enforcement of any such security interest shall be applied in priority to satisfy the obligations due in respect of the Cover Assets shown in the Cover Register as comprising part of the Special Estate. Only upon satisfaction in full of the relevant claims of the Cover Assets shown in the Cover Register as comprising part of the Special Estate shall any of the proceeds be applied against the claims of the General Estate which are also secured by such security interest.

13 Meeting Rules

The Meeting Rules of Pandbrieven Holders (the **Meeting Rules**) are attached to, and form an integral part of, these Conditions. References in these Conditions to the Meeting Rules include such rules as from time to time modified in accordance with the provisions contained therein and any agreement or other document expressed to be supplemental thereto.

The Articles 568 to 580 of the Belgian Company Code relating to Bondholders' meetings shall only apply to the extent that (i) the Conditions (including the Meeting Rules) and (ii) the articles of association of the Issuer, do not contain provisions which differ from the provisions contained in such articles.

14 The Mortgage Pandbrieven Holders' Representative

The Mortgage Pandbrieven Holders' Representative has been appointed by the Issuer as representative of the Pandbrieven Holders in accordance with Article 14, §2 Annex III to the Credit Institutions Supervision Law upon the terms and conditions set out in the Mortgage Pandbrieven Holder Representative Agreement and herein.

As long as the Mortgage Pandbrieven are outstanding, there shall at all times be a representative of the Pandbrieven Holders in accordance with Article 14, §2 Annex III to the Credit Institutions Supervision Law, which has the power to exercise the rights conferred on it by these Conditions, the Meeting Rules, the Mortgage Pandbrieven Holder Representative Agreement and the Belgian Covered Bond Regulations in order to protect the interests of the Pandbrieven Holders.

By reason of holding Mortgage Pandbrieven, each Pandbrief Holder:

- (a) recognises the Mortgage Pandbrieven Holders' Representative as its representative and (to the fullest extent permitted by law) agrees to be bound by any agreement entered into from time to time by the Mortgage Pandbrieven Holders' Representative in such capacity as if such Pandbrief Holder was a signatory thereto; and
- (b) acknowledges and accepts that the Issuer shall not be liable, except in case of fraud, in respect of any loss, liability, claim, expenses or damage suffered or incurred by any of the Pandbrieven Holders as a result of the performance by the Mortgage Pandbrieven Holders' Representative of its duties or the exercise of any of its rights under these Conditions (including the Meeting Rules).

The Mortgage Pandbrieven Holders' Representative may also be appointed to represent Other Cover Pool Creditors provided that such Other Cover Pool Creditors agree with such representation.

15 Conflicts of Interest

The Mortgage Pandbrieven Holders' Representative shall, as regards the powers, authorities and discretions vested in it, except where expressly provided otherwise, have regard to the overall interests of the Pandbrieven Holders of all Series taken together and of the Other Cover Pool Creditors that have agreed to be represented by the Mortgage Pandbrieven Holders' Representative provided that if, in the opinion of the Mortgage Pandbrieven Holders' Representative, there is a conflict between the interests the Pandbrieven Holders and those Other Cover Pool Creditors, the Mortgage Pandbrieven Holders' Representative will have regard solely to the interest of the Pandbrieven Holders. The Mortgage Pandbrieven Holders' Representative shall not have regard to any interests arising from circumstances particular to individual Pandbrieven Holders or such Other Cover Pool Creditors.

16 Meetings of Pandbrieven Holders

16.1 Meetings of Pandbrieven Holders

The Meeting Rules contain provisions for convening meetings of the Pandbrieven Holders of each Series to consider matters relating to the Mortgage Pandbrieven, including the modification or waiver of any provision of the Conditions. For the avoidance of doubt any such modification or waiver shall be subject to the consent of the Issuer or, upon the opening of Winding-up Proceedings against the Issuer, the Cover Pool Administrator on behalf of the Special Estate, except as provided otherwise in the Meeting Rules.

All meetings of Pandbrieven Holders will be held in accordance with the Meeting Rules. The Articles 568 to 580 of the Belgian Company Code relating to Bondholders' meetings shall only apply to the extent that (i) the Conditions (including the Meeting Rules) and (ii) the articles of association of the Issuer do not contain provisions which differ from the provisions contained in such articles.

16.2 Written Resolution

Except in relation to a Programme Resolution to direct the Cover Pool Administrator to proceed with the liquidation of the Special Estate and with the early redemption of the Mortgage Pandbrieven pursuant to Article 11, 7° Annex III to the Credit Institutions Supervision Law, a resolution in writing signed by or on behalf of holders of 50% or more of the aggregate of the Series Principal Amount Outstanding of the Mortgage Pandbrieven of all Series then outstanding shall take effect as a Programme Resolution. A resolution in writing to direct the Cover Pool Administrator to proceed with the liquidation of the Special Estate and with the early redemption of the Mortgage Pandbrieven pursuant to Article 11, 7° Annex III to the Credit Institutions Supervision Law signed by or on behalf of holders of 75 per cent. of the Series Principal Amount Outstanding of the Mortgage Pandbrieven of all Series then outstanding shall take effect as a Programme Resolution. A resolution in writing signed by or on behalf of holders of two thirds of the Series Principal Amount Outstanding of the relevant Series of Mortgage Pandbrieven outstanding shall take effect as an Extraordinary Resolution. A written resolution signed by the holders of 50% or more of the Series Principal Amount Outstanding of the relevant Series of the Mortgage Pandbrieven outstanding shall take effect as if it were an Ordinary Resolution. Such resolutions in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Pandbrieven Holders.

17 Amendments to the Conditions and Waivers

Amendments to and waivers of the Conditions shall be made in accordance with the Meeting Rules.

18 Further Issues

The Issuer may from time to time, subject to Condition 6.2 (*Extension of Maturity Date*), without the consent of the Pandbrieven Holders, create and issue further Mortgage Pandbrieven having either: (i) the same terms and conditions as the Mortgage Pandbrieven in all respects (or in all respects except for the first payment of interest thereon, issue date and/or issue price) so as to form a single series with the Mortgage Pandbrieven; or (ii) different terms from any existing Mortgage Pandbrieven, where Mortgage Pandbrieven shall constitute a new Series of Mortgage Pandbrieven.

19 Notices

Notices to be given by any holder of Mortgage Pandbrieven (including notices to convene a meeting of Pandbrieven Holders) shall be in writing and given by lodging the same, with the Fiscal Agent and the Mortgage Pandbrieven Holders' Representative. Notices to be given to the holders of Dematerialised Mortgage Pandbrieven (including notices to convene a meeting of Pandbrieven Holders) shall be deemed to have been duly given to the relevant Pandbrieven Holders if sent to the Securities Settlement System, Euroclear, Clearstream, Luxembourg, SIX SIS (Switzerland) and Monte Titoli (Italy) and any other NBB investor (I)CSDs for communication by them to the Participants and shall be deemed to be given on the date on which it was so sent.

All notices to holders of Registered Mortgage Pandbrieven (including notices to convene a meeting of Pandbrieven Holders) will be mailed by regular post or by fax to the holders at their respective addresses or fax numbers appearing in the register of Registered Mortgage Pandbrieven.

If sent by post, notices will be deemed to have been given on the fourth weekday (being a day other than a Saturday or a Sunday) after the date of mailing. If sent by fax, notices will be deemed to have been given upon receipt of a confirmation of the transmission.

So long as the Mortgage Pandbrieven are listed on any stock exchange or admitted to listing by any other relevant authority and if the rules of the exchange so require, any notice shall also be published in accordance with the rules and regulations of such stock exchange or other relevant authority.

No notifications in any such form will be required for convening meetings of Pandbrieven Holders if all Pandbrieven Holders have been identified and have been given an appropriate notice by registered mail.

Notwithstanding the above, the Mortgage Pandbrieven Holders' Representative shall be at liberty to approve any other method of giving notice to Pandbrieven Holders if, in its opinion, such other method is reasonable having regard to the then-prevailing market practice and rules of the competent authority, stock exchange, clearing system or, as the case may be, quotation system on which the Mortgage Pandbrieven are then admitted to trading.

20 Governing Law and Submission to Jurisdiction

The Mortgage Pandbrieven and all matters arising from or connected with the Mortgage Pandbrieven (and any non-contractual obligations arising out of or in connection with the Mortgage Pandbrieven) are governed by, and shall be construed in accordance with Belgian law.

The Dutch speaking courts of Brussels, Belgium are to have exclusive jurisdiction to settle any dispute, arising from or connected with the Mortgage Pandbrieven (including any disputes relating to any non-contractual obligations arising out of or in connection with the Mortgage Pandbrieven).

MEETING RULES OF THE PANDBRIEVEN HOLDERS

PART 1 – GENERAL PROVISIONS AND INTERPRETATION

1. GENERAL PROVISIONS

- 1.1. Each Pandbrief Holder is a member of the meeting of Pandbrieven Holders held in accordance with these meeting rules (the **Meeting Rules**). The Articles 568 to 580 of the Belgian Company Code shall only apply to the extent that (1) the Conditions (including these Meeting Rules) or (2) the articles of association of the Issuer do not contain provisions which differ from the provisions contained in such articles.
- 1.2. The Meeting Rules, which are deemed to be an integral part of the Conditions of the Mortgage Pandbrieven of each Series issued by the Issuer under the Programme, aim to coordinate the exercise of the rights of the Pandbrieven Holders and, more generally, to protect the interest of the Pandbrieven Holders. To this end:
- (A) Part 2 of these Meeting Rules contains provisions applicable to the Mortgage Pandbrieven Holders' Representative; and
- (B) Part 3 of these Meeting Rules contains the rules that apply in particular to the meeting of Pandbrieven Holders.
- 1.3. The Meeting Rules shall remain in full force and effect until full repayment or cancellation of all Mortgage Pandbrieven of whatever Series.

2. INTERPRETATION

2.1. Definitions

Unless otherwise defined in these Meeting Rules or unless the context otherwise requires, in these Meeting Rules the following words shall have the following meanings:

- Basic Term Change** : means the matters referred to under Clauses 6.2(f) to 6.2(i) of part 3 of the Meeting Rules;
- Block Voting Instruction** : means a document issued by a Recognised Accountholder or the Securities Settlement System in accordance with Clause 1.3.(c) of part 3 of the Meeting Rules;
- Conditions** : means the Terms and Conditions of the Mortgage Pandbrieven of the relevant Series or Tranche issued by the Issuer;
- Extraordinary Resolution** : means a resolution passed at a Meeting duly convened and held in accordance with the Meeting Rules by a majority of at least two thirds of the aggregate Series Principal Amount Outstanding of the Series of Mortgage Pandbrieven for which votes have been cast;
- Ordinary Resolution** : means any resolution passed at a Meeting duly convened and held in accordance with the Meeting Rules by a simple majority of at least 50 per cent. of the aggregate Series Principal Amount Outstanding of the Series of Mortgage Pandbrieven for which votes have been cast plus one vote;
- Programme Resolution** : means any resolution passed at a Meeting duly convened and held in accordance with the Meeting Rules by a simple majority of at least 50 per cent. of the aggregate Series

Principal Amount Outstanding of the Mortgage Pandbrieven of all Series under the Programme for which votes have been cast plus one vote, with the Mortgage Pandbrieven of all Series taken together as a single Series;

- Recognised Accountholder** : means, in relation to one or more Dematerialised Mortgage Pandbrieven, the recognised accountholder (*erkende rekeninghouder/teneur de compte agréé*) within the meaning of Article 468 of the Belgian Company Code with which a Pandbrieven Holder holds such Dematerialised Mortgage Pandbrieven on a securities account;
- Resolution** : means an Ordinary Resolution, an Extraordinary Resolution or a Programme Resolution;
- Voting Certificate** : means a certificate issued by a Recognised Accountholder or the Securities Settlement System in accordance with Clause 1.3. (b) of part 3 of the Meeting Rules.

Any other capitalized terms used in the Meeting Rules and not otherwise defined herein, shall have the meaning and the construction ascribed to them in the Conditions.

2.2. Interpretation

All references in the Meeting Rules to

- (a) **Mortgage Pandbrieven** are, unless the context otherwise requires, references to the Mortgage Pandbrieven of the relevant Series;
- (b) a **Clause** shall, except where expressly provided to the contrary, be a reference to a Clause of the Meeting Rules; and
- (c) a **Meeting** references to a meeting of Pandbrieven Holders of a single Series of Mortgage Pandbrieven (except in case of a meeting to pass a Programme Resolution, in which case the Mortgage Pandbrieven of all Series are taken together as a single Series) and includes, unless the context otherwise requires, any adjournment.

PART 2 – MORTGAGE PANDBRIEVEN HOLDERS' REPRESENTATIVE

3. APPOINTMENT AND REMOVAL

3.1. Appointment

The Mortgage Pandbrieven Holders' Representative has been appointed by the Issuer as Mortgage Pandbrieven Holders' Representative of the Pandbrieven Holders in accordance with Article 14, §2 Annex III to the Credit Institutions Supervision Law upon the terms and conditions set out in the Mortgage Pandbrieven Holder Representative Agreement and herein.

As long as the Mortgage Pandbrieven are outstanding, there shall at all times be a Mortgage Pandbrieven Holders' Representative of the Pandbrieven Holders in accordance with Article 14, §2 Annex III to the Credit Institutions Supervision Law.

The Mortgage Pandbrieven Holders' Representative protects the interests of the Pandbrieven Holders and hereto has the power to exercise the rights conferred on it by the Conditions, the Meeting Rules, the Mortgage Pandbrieven Holder Representative Agreement and the Belgian Covered Bond Regulations. In connection with the exercise of its functions (including but not limited to those referred to in these Meeting Rules) the Mortgage Pandbrieven Holders' Representative shall have regard to the interests of the Pandbrieven Holders under the Programme and Other Cover Pool Creditors (in accordance with Clause 4.3), and shall not have regard to the consequences of such exercise for individual Pandbrieven Holders and the Mortgage Pandbrieven Holders' Representative shall not be entitled to require, nor shall any Pandbrieven Holder be entitled to claim, from the Issuer any indemnification or payment in respect of any tax consequence of any such exercise upon individual Pandbrieven Holders.

By reason of holding Mortgage Pandbrieven, each Pandbrieven Holder:

- (a) recognises the Mortgage Pandbrieven Holders' Representative as its Mortgage Pandbrieven Holders' Representative and (to the fullest extent permitted by law) agrees to be bound by any agreement entered into from time to time by the Mortgage Pandbrieven Holders' Representative in such capacity as if such Pandbrieven Holder were a signatory thereto;
- (b) acknowledges and accepts that the Issuer shall not be liable, except in case of fraud, in respect of any loss, liability, claim, expenses or damage suffered or incurred by any of the Pandbrieven Holders as a result of the performance by the Mortgage Pandbrieven Holders' Representative of its duties or the exercise of any of its rights under the Conditions; and
- (c) agrees that the Issuer, as agreed in the Mortgage Pandbrieven Holder Representative Agreement, shall pay to the Mortgage Pandbrieven Holders' Representative a remuneration for its services as Mortgage Pandbrieven Holders' Representative.

3.2. Retirement and removal

3.2.1. Conditions for Removal

As long as Mortgage Pandbrieven are outstanding, the Mortgage Pandbrieven Holders' Representative shall not retire and may only be removed from its duties under the Mortgage Pandbrieven Holder Representative Agreement, the Meeting Rules or any other Programme Document by means of a Programme Resolution:

- (A) if any of the following events occurs, namely:
- (I) an order is made or an effective resolution is passed for the dissolution (*ontbinding / dissolution*) of the Mortgage Pandbrieven Holders' Representative except a dissolution (*ontbinding / dissolution*) for the purpose of a merger where the Mortgage Pandbrieven Holders' Representative remains solvent; or
 - (II) the Mortgage Pandbrieven Holders' Representative ceases or threatens to cease to carry on its business or a substantial part of its business or stops payment or threatens to stop payment of its debts or becomes unable to pay its debts as they fall due or the value of its assets falls to less than the amount of its liabilities (taking into account for both these purposes its contingent and prospective liabilities) or otherwise becomes insolvent; or
 - (III) the Mortgage Pandbrieven Holders' Representative defaults in the performance or observance of any of its material covenants and obligations under the Conditions, Mortgage Pandbrieven Holder Representative Agreement or any other Programme Document and (except where such default is incapable of remedy, when no such continuation and/or notice shall be required) such default continues unremedied for a period of thirty (30) Business Days after the earlier of the Mortgage Pandbrieven Holders' Representative becoming aware of such default and receipt by the Mortgage Pandbrieven Holders' Representative of written notice from the Issuer requiring the same to be remedied; or
 - (IV) the Mortgage Pandbrieven Holders' Representative becomes subject to any bankruptcy (*faillissement / faillite*), judicial reorganisation (*gerechtelijke reorganisatie / réorganisation judiciaire*), as applicable, or other insolvency procedure under applicable laws; or
 - (V) the Mortgage Pandbrieven Holders' Representative is unable to perform its material obligations under the Conditions or the Mortgage Pandbrieven Holder Representative Agreement for a period of twenty (20) Business Days by circumstances beyond its reasonable control or *force majeure*;
- (B) provided that:
- (I) in the same Programme Resolution a substitute Mortgage Pandbrieven Holders' Representative is appointed; and
 - (II) such substitute Mortgage Pandbrieven Holders' Representative meets all legal requirements to act as Mortgage Pandbrieven Holders' Representative and accepts to be bound by the terms of the Conditions, the Meeting Rules and the Programme Documents in the same way as its predecessor.

3.2.2. Procedure

(A) Termination

Upon the Programme Resolution as provided for by Clause 3.2.1 (*Conditions for Removal*) the Issuer shall provide notice in writing to the Mortgage Pandbrieven Holders' Representative of the termination of the powers delegated to it under the Mortgage Pandbrieven Holder Representative Agreement and the Programme Documents.

The termination of the Mortgage Pandbrieven Holder Representative Agreement (1) shall take effect from a date (not earlier than the date of the notice) specified in the notice and (2) shall also terminate the appointment and power of attorney by the Other Cover Pool Creditors.

(B) Substitute Mortgage Pandbrieven Holders' Representative

The appointment of the substitute Mortgage Pandbrieven Holders' Representative in accordance with the Programme Resolution referred to in Clause 3.2.2(A) above shall become automatically effective upon the termination of the Mortgage Pandbrieven Holders' Representative becoming effective and at such time all rights and powers granted to the then acting Mortgage Pandbrieven Holders' Representative shall terminate and shall automatically be vested in the substitute Mortgage Pandbrieven Holders' Representative. All references to the Mortgage Pandbrieven Holders' Representative in the Programme Documents shall where and when appropriate be read as references to the substitute Mortgage Pandbrieven Holders' Representative as selected and upon vesting of rights and powers pursuant to this Clause.

3.3. Appointment of the Management Board of the Mortgage Pandbrieven Holders' Representative

Pursuant to the Mortgage Pandbrieven Holders' Representative's articles of association, the management board (*bestuur*) of the Mortgage Pandbrieven Holders' Representative shall initially consist of one (1) member, being Amsterdamsch Trustee's Kantoor BV.

Except as set forth in Clause 3.4 below, any other board member to the management board will be appointed by the management board or, if there are no more board members in office, one or more board members can be appointed by a Programme Resolution.

3.4. Resignation and Removal of the Management Board of the Mortgage Pandbrieven Holders' Representative

Pursuant to the Mortgage Pandbrieven Holders' Representative's articles of association, membership of the management board shall end in the following cases:

- (a) upon written voluntary resignation by the board member;
- (b) in the case of an individual, upon the death of the board member;
- (c) in the case of a legal entity, upon the dissolution of the board member;
- (d) upon the board member being declared bankrupt or becoming subject to a moratorium or if and when a debt application natural persons (*schuldsanering natuurlijke personen*) becomes applicable on the board member;
- (e) upon the board member being placed under guardianship (*ondercuratelestelling*) or becoming subject to a court order whereby as a result of the physical or mental condition of the board member an administrator is appointed in respect of one or more of the goods or the board member;
- (f) by dismissal ordered by court;
- (g) if the board consists of more than two members, by dismissal by board resolution adopted unanimously by all board members in position, the board member involved excluded;

- (h) by dismissal by a Programme Resolution of the Pandbrieven Holders, provided that, in case there would be no more board members as a result of such dismissal, the Pandbrieven Holders appoint one or more new board members.

4. POWERS

4.1. Powers

The Mortgage Pandbrieven Holders' Representative, acting in its own name and on behalf of the Pandbrieven Holders shall have the powers and authorities set forth in the Belgian Covered Bond Regulations, the Mortgage Pandbrieven Holder Representative Agreement, the Conditions and in any of the Programme Documents to which it is a party and such powers incidental thereto, which it will exercise in accordance with and subject to the provisions of the Belgian Covered Bond Regulations, the Mortgage Pandbrieven Holder Representative Agreement, the Conditions and the Programme Documents. In particular, but without limitation, the Mortgage Pandbrieven Holders' Representative, acting in its own name and on behalf of the Pandbrieven Holders shall have the power:

- (a) to represent the Pandbrieven Holders as provided for in Article 14, §2 Annex III to the Credit Institutions Supervision Law;
- (b) to exercise all other powers and rights and perform all duties given to the Mortgage Pandbrieven Holders' Representative under the Conditions including the Meeting Rules, the Programme Documents and the Belgian Covered Bond Regulations;
- (c) upon service of a Notice of Default, to proceed against the Issuer to enforce the performance of the Programme Documents and the Conditions on behalf of the Pandbrieven Holders and the Other Cover Pool Creditors represented by it;
- (d) to collect all proceeds in the course of enforcing the rights of the Pandbrieven Holders and the Other Cover Pool Creditors represented by it;
- (e) to apply or to direct the application of the proceeds of enforcement in accordance with the Conditions; and
- (f) generally, to do all things necessary in connection with the performance of such powers and duties.

The Mortgage Pandbrieven Holders' Representative may act in court and represent the Pandbrieven Holders or Other Cover Pool Creditors (provided such Other Cover Pool Creditors previously agreed with the representation in accordance with the provisions of the Mortgage Pandbrieven Holder Representative Agreement) in any bankruptcy or similar insolvency proceedings, without having to reveal the identity of the Pandbrieven Holders or Other Cover Pool Creditors it represents.

4.2. Delegation

The Mortgage Pandbrieven Holders' Representative may delegate the performance of any of the powers listed in this Clause 4 (*Powers*) to any persons (including any legal entity) whom it may designate.

Notwithstanding any sub-contracting or delegation of the performance of its obligations hereunder or under the Programme Documents or under the Mortgage Pandbrieven Holder Representative Agreement, the Mortgage Pandbrieven Holders' Representative shall not thereby be released or discharged from any liability hereunder and shall remain responsible for the performance of the obligations of the Mortgage Pandbrieven Holders' Representative and shall be jointly and severally liable for the performance or non-performance or the manner of performance of any sub-contractor, agent or delegate and such sub-contracting or delegation shall not affect the Mortgage Pandbrieven Holders' Representative's obligations hereunder, under the Programme Documents to which it is a party or under the Mortgage

Pandbrieven Holder Representative Agreement. The Mortgage Pandbrieven Holders' Representative shall, prior to such appointment, give notice to the Issuer of the appointment of any delegate and any renewal, extension and termination of such appointment.

4.3. Representation of Other Cover Pool Creditors

4.3.1. Representation of Other Cover Pool Creditors

The Mortgage Pandbrieven Holders' Representative may also be appointed to represent Other Cover Pool Creditors provided that such Other Cover Pool Creditors agree with such representation.

In relation to any duties, obligations and responsibilities of the Mortgage Pandbrieven Holders' Representative to these Other Cover Pool Creditors in its capacity as agent of these Other Cover Pool Creditors, the Mortgage Pandbrieven Holders' Representative and these Other Cover Pool Creditors will agree and the Issuer will concur, that the Mortgage Pandbrieven Holders' Representative shall discharge these duties, obligations and responsibilities by performing and observing its duties, obligations and responsibilities as representative of the Pandbrieven Holders in accordance with the provisions of the Mortgage Pandbrieven Holder Representative Agreement, the Programme Documents and the Conditions including these Meeting Rules.

4.3.2. Conflicts between Pandbrieven Holders and Other Cover Pool Creditors

The Mortgage Pandbrieven Holders' Representative shall, as regards the powers, authorities and discretions vested in it, except where expressly provided otherwise, have regard to the interests of both the Pandbrieven Holders of all Series and the Other Cover Pool Creditors that have agreed to be represented by the Mortgage Pandbrieven Holders' Representative but if, in the opinion of the Mortgage Pandbrieven Holders' Representative, there is a conflict between the interests the Pandbrieven Holders and those Other Cover Pool Creditors, the Mortgage Pandbrieven Holders' Representative will have regard solely to the interest of the Pandbrieven Holders, but, for the avoidance of doubt, without prejudice to the applicable priority of payments.

5. INSTRUCTIONS AND INDEMNITY

The Mortgage Pandbrieven Holders' Representative shall not be bound to take any action under its powers or duties unless:

- (a) it shall have been directed to do so by an Extraordinary Resolution of the Pandbrieven Holders in accordance with the Meeting Rules or, in relation to the service of a Notice of Default pursuant to Condition 8.1 (*Events of Default*), it shall have been (x) requested to do so by a request in writing by the holders of not less than 25% of the aggregate Series Principal Amount Outstanding of the Mortgage Pandbrieven of all Series then outstanding (but excluding the Mortgage Pandbrieven held by the Issuer for the calculation of the percentage) or (y) so directed by a Programme Resolution; and
- (b) it shall in all cases have been indemnified, prefunded or secured to its satisfaction against all liability, proceedings, claims and demands to which it may be or become liable and all costs, charges and expenses which may be incurred by it in connection therewith, save where these are due to its own gross negligence, wilful misconduct or fraud.

Whenever the interests of the Pandbrieven Holders are or can be affected in the opinion of the Mortgage Pandbrieven Holders' Representative, the Mortgage Pandbrieven Holders' Representative may – if indemnified, prefunded or secured to its satisfaction – take legal action on behalf of the Pandbrieven Holders and represent the Pandbrieven Holders in any insolvency proceeding and any other legal proceedings initiated against the Issuer or any other party to a Programme Document.

The Mortgage Pandbrieven Holders' Representative can under no circumstances, including the situation wherein Pandbrieven Holders' instruction or approval cannot be obtained for whatever reason, be required to act without it being remunerated and indemnified or secured to its satisfaction.

The Mortgage Pandbrieven Holders' Representative shall be indemnified by the Issuer and held harmless, in respect of any and all liabilities and expenses incurred by it or by anyone appointed by it or to whom any of its functions may be delegated by it in carrying out its functions.

6. REPORTING, LIABILITY, EXONERATION AND INDEMNIFICATION OF THE MORTGAGE PANDBRIEVEN HOLDERS' REPRESENTATIVE

6.1. Reporting

If so requested in advance by the Issuer or the Cover Pool Administrator, as applicable, the Mortgage Pandbrieven Holders' Representative shall report to the Meeting on the performance of its duties under the Mortgage Pandbrieven Holder Representative Agreement, the Meeting Rules and the Programme Documents (the **Report**) provided such request is notified by registered mail no later than ten (10) Business Days prior to the relevant Meeting.

The Issuer or the Cover Pool Administrator, as applicable, shall require a Report if so instructed by those Pandbrieven Holders who have requested that such Meeting be convened.

6.2. Liabilities and Exoneration

The Mortgage Pandbrieven Holder Representative Agreement contains provisions governing the responsibility (and relief from responsibility) of the Mortgage Pandbrieven Holders' Representative and providing for its indemnification in certain circumstances, including provisions relieving the Mortgage Pandbrieven Holders' Representative from taking enforcement proceedings unless indemnified to its satisfaction.

The Mortgage Pandbrieven Holders' Representative shall not be liable to the Issuer or any of the Pandbrieven Holders or the Other Cover Pool Creditors represented by it in respect of any loss or damage which arises out of the exercise, or the attempted exercise of, or the failure to exercise any of its powers or any loss resulting therefrom, except that the Mortgage Pandbrieven Holders' Representative shall be liable for such loss or damage that is caused by its gross negligence, wilful misconduct or fraud.

The Mortgage Pandbrieven Holders' Representative shall not be responsible for any loss, expense or liability which may be suffered as a result of any assets comprised in the Cover Assets, or any deeds or documents of title thereto, being uninsured or inadequately insured or being held by or to the order of the Issuer or any agent or related company of the Issuer or by clearing organisations or their operators or by intermediaries such as banks, brokers or other similar persons.

The Mortgage Pandbrieven Holders' Representative shall have no liability for any breach of or default under its obligations under the Mortgage Pandbrieven Holder Representative Agreement if and to the extent that such breach is caused by any failure on the part of the Issuer, any of the Other Cover Pool Creditors (other than the Mortgage Pandbrieven Holders' Representative) to duly perform any of their material obligations under any of the Programme Documents. In the event that the Mortgage Pandbrieven Holders' Representative is rendered unable to duly perform its obligations under the Mortgage Pandbrieven Holder Representative Agreement by any circumstances beyond its control (*overmacht/force majeure*), the Mortgage Pandbrieven Holders' Representative shall not be liable for any failure to carry out its obligations under the Mortgage Pandbrieven Holder Representative Agreement which are thus affected by the event in question and, for so long as such circumstances continue, its obligations under the Mortgage Pandbrieven Holder Representative Agreement which are thus affected will be suspended without liability for the Mortgage Pandbrieven Holders' Representative.

The Mortgage Pandbrieven Holders' Representative shall not be responsible for monitoring the compliance by any of the other parties (including the Issuer and the Cover Pool Monitor) with their obligations under the Programme Documents. The Mortgage Pandbrieven Holders' Representative may, until it has actual knowledge or express notice to the contrary, assume the Issuer and the Cover Pool Monitor are observing and performing all their obligations under any of the Programme Documents and in any notices or acknowledgements delivered in connection with any such Programme Documents.

The Mortgage Pandbrieven Holders' Representative shall not be responsible for ensuring that the Issuer complies with the obligations applicable to it under the Belgian Covered Bond Regulations or that any asset is duly registered in the Cover Register and the Cover Register is duly maintained.

Except if such meeting is convened by the Mortgage Pandbrieven Holders' Representative or the passing of a Written Resolution has been organised by the Mortgage Pandbrieven Holders' Representative, but only to the extent that any defect has arisen directly from the Mortgage Pandbrieven Holders' Representative's gross negligence, wilful misconduct or fraud, the Mortgage Pandbrieven Holders' Representative shall not be liable for acting upon any resolution purporting to be a Written Resolution or to have been passed at any Meeting in respect whereof minutes have been made and signed or a direction of the requisite percentage of Pandbrieven Holders, even though subsequent to its acting it may be found that there was some defect in the constitution of the meeting or passing of the Written Resolution or the giving of such direction or that for any reason the resolution purporting to be a Written Resolution or to have been passed at any meeting or the giving of the direction was not valid or binding upon such Pandbrieven Holders.

6.3. Indemnity

If the Mortgage Pandbrieven Holders' Representative has acted upon such resolution or direction, each Pandbrief Holder shall forthwith on demand indemnify the Mortgage Pandbrieven Holders' Representative for its *pro rata* share in any liability, loss or expense incurred or expected to be incurred by the Mortgage Pandbrieven Holders' Representative in any way relating to or arising out of its acting as Mortgage Pandbrieven Holders' Representative in respect of that resolution or direction, except to the extent that the liability or loss arises directly from the Mortgage Pandbrieven Holders' Representative's gross negligence, wilful misconduct or fraud. The liability shall be divided between the Pandbrieven Holders *pro rata* according to the respective Principal Amount Outstanding of the Mortgage Pandbrieven held by each of them respectively at the time of such resolution or direction.

7. MODIFICATIONS BY THE MORTGAGE PANDBRIEVEN HOLDERS' REPRESENTATIVE

7.1. Waivers

7.1.1. Waivers

The Mortgage Pandbrieven Holders' Representative may in its sole discretion, without the consent of the Pandbrieven Holders and without prejudice to its rights in respect of any further or other breach, condition, event or act from time to time and at any time, but only if and in so far as in its opinion the interests of the Pandbrieven Holders will not be materially prejudiced thereby:

- (a) authorise or waive, on such terms and conditions (if any) as shall seem expedient to it, any proposed or actual breach of any of the covenants or provisions contained in or arising pursuant to the Mortgage Pandbrieven Holder Representative Agreement, the Mortgage Pandbrieven or any of the Programme Documents, or
- (b) determine that any breach shall not be, or shall not be subject to specified conditions, treated as such.

Any such authorisation, waiver or determination pursuant to this clause shall be binding on the Pandbrieven Holders and notice thereof shall be given to the Pandbrieven Holders and the Rating Agencies.

7.1.2. Reliance

In determining whether or not any power, trust, authority, duty or discretion or any change, event or occurrence under or in relation to the Conditions or any of the Programme Documents will be materially prejudicial to the interests of Pandbrieven Holders, the Mortgage Pandbrieven Holders' Representative shall be able to rely on, and act on any advice or opinion of or any certificate obtained from a valuer, accountant, banker, broker, securities company or other company other than the Rating Agencies whether obtained by itself or the Issuer and it shall not be liable for any loss occasioned by such action, save where such loss is due to its gross negligence, wilful misconduct or fraud.

7.2. Amendments

The Mortgage Pandbrieven Holders' Representative may upon the request of the Issuer on behalf of the Pandbrieven Holders and without the consent or sanction of any of the Pandbrieven Holders of any Series or the Other Cover Pool Creditors it represents at any time and from time to time, concur with the Issuer or any other person in making:

- (a) any modification (other than in respect of a Basic Term Change) of the terms and conditions applying to the Mortgage Pandbrieven of one or more Series (including the Conditions) or any Programme Document provided that in the sole opinion of the Mortgage Pandbrieven Holders' Representative such modification is not materially prejudicial to the interests of any of the Pandbrieven Holders of such Series; or
- (b) any modification of the terms and conditions applying to Mortgage Pandbrieven of any one or more Series (including the Conditions) or any Programme Document which is in the sole opinion of the Mortgage Pandbrieven Holders' Representative of a formal, minor or technical nature or is to correct a manifest error or to comply with applicable mandatory statutory provisions or would cause such terms and conditions of the Mortgage Pandbrieven or provision of any Programme Document to better reflect or comply with the provisions and requirements of the Belgian Covered Bond Regulations.

In no event may such modification be a Basic Term Change. The Mortgage Pandbrieven Holders' Representative shall not be bound to give notice to Pandbrieven Holders of any modifications to the Programme Documents agreed pursuant to this Clause.

The Issuer or the Cover Pool Administrator, as applicable, shall cause notice of any modification in this Clause 7.2 to be given to the Rating Agencies and the Fiscal Agent.

If, in the Mortgage Pandbrieven Holders' Representative's opinion it is not sufficiently established that the proposed amendment or variation can be approved by it in accordance with this Clause, it will determine in its full discretion whether to submit the proposal to a duly convened Meeting or to refuse the proposed amendment or variation.

Upon the Issuer's request, the Mortgage Pandbrieven Holders' Representative shall, without the consent or sanction of any of the Pandbrieven Holders, concur with the Issuer in making any modifications to the Conditions, to the Meeting Rules or to the Special Estate Administration Terms that the Issuer may decide in its discretion in order to comply with any criteria of the Rating Agency which may be published after the signing of the initial agreement(s) for the issuance of and subscription for the Mortgage Pandbrieven and in respect of which the Issuer certifies to the Mortgage Pandbrieven Holders' Representative in writing that it reasonably believes such modifications are necessary to avoid a downgrade, withdrawal or suspension of the then current ratings assigned by a Rating Agency to any Series of Mortgage Pandbrieven, provided that the Mortgage Pandbrieven Holders' Representative shall not be obliged to agree to any modification which, in the sole opinion of the Mortgage Pandbrieven Holders' Representative, as applicable, would have the effect of (i) exposing the Mortgage Pandbrieven Holders' Representative, as applicable, to any liability against which it has not been indemnified and/or secured and/or prefunded to its satisfaction or (ii) increasing the obligations or duties, or decreasing the protections, of the Mortgage Pandbrieven Holders' Representative, as applicable in these Meeting Rules or the Conditions. For avoidance of doubt, such modification may include, without limitation, modifications which would allow any hedge counterparty and/or liquidity facility provider not to post collateral in circumstances where it previously would have been obliged to do so.

Notwithstanding the foregoing, upon the Issuer's request, the Mortgage Pandbrieven Holders' Representative shall, without the consent or sanction of any of the Pandbrieven Holders, concur with the Issuer in making any modifications to the Special Estate Administration Terms in relation to future issues of Mortgage Pandbrieven under the Programme provided that (i) the Issuer certifies to the Mortgage Pandbrieven Holders' Representative in writing that it reasonably believes such modifications will not affect the then current ratings assigned by a Rating Agency to any Series of Mortgage Pandbrieven issued under the Programme and (ii) the Issuer certifies to the Mortgage Pandbrieven Holders' Representative in writing that these modifications will not affect the rights of holders of Mortgage Pandbrieven already issued under the Programme, provided that the Mortgage Pandbrieven Holders' Representative shall not be obliged to agree to any modification which, in the sole opinion of the Mortgage Pandbrieven Holders' Representative, as applicable, would have the effect of (i) exposing the Mortgage Pandbrieven Holders' Representative, as applicable, to any liability against which it has not been indemnified and/or secured and/or prefunded to its satisfaction or (ii) increasing the obligations or duties, or decreasing the protections, of the Mortgage Pandbrieven Holders' Representative, as applicable in the Meeting Rules. For avoidance of doubt, such modification may include, without limitation, modifications which would allow any hedge counterparty and/or liquidity facility provider not to post collateral in circumstances where it previously would have been obliged to do so.

PART 3 – MEETING RULES

1. MEETING ATTENDANCE

1.1. General

Subject to the provisions of this Clause 1 (Meeting Attendance) the following persons may attend and speak at a Meeting:

- (a) Pandbrieven Holders and their proxies;
- (b) the chairman; and
- (c) the Issuer, the Mortgage Pandbrieven Holders' Representative, the Cover Pool Monitor the Dealers (through their respective officers, employees, advisers, agents or other representatives) and their financial and legal advisers.

1.2. Proxies

Pandbrieven Holders may be represented at a Meeting by proxies authorised by a power of attorney that is duly dated and signed by a Pandbrief Holder (a **Power of Attorney**). Proxies need not to be Pandbrieven Holders.

The Issuer or the Cover Pool Administrator, as applicable, may determine the form of the Power of Attorney.

1.3. Dematerialised Pandbrieven

- (a) With respect to Dematerialised Mortgage Pandbrieven, save as expressly provided otherwise herein, no person shall be entitled to attend or to vote at any Meeting unless he (1) is a proxy or (2) he produces the Voting Certificate as defined in to in Clause 1.3. (b).

- (b) **Voting Certificate** means: a voting certificate in Dutch or French (with a translation in English) issued by the Recognised Accountholder or the Securities Settlement System and dated in which it is stated:

- (i) that on the date thereof Dematerialised Pandbrief (not being Dematerialised Mortgage Pandbrieven in respect of which a Block Voting Instruction (as defined below in Clause 1.3.(c)) has been issued and is outstanding in respect of the Meeting specified in such certificate and any such adjourned Meeting) of a specified Principal Amount Outstanding were (to the satisfaction of such Recognised Accountholder or Securities Settlement System) held to its order or under its control and blocked by it and that no such Dematerialised Mortgage Pandbrieven will cease to be so held and blocked until the first to occur of:

- (°) the conclusion of the Meeting specified in such certification or, if applicable, any adjourned Meeting; and

- (°°) the surrender of the certificate to the Recognised Accountholder or Securities Settlement System who issued the same; and

- (ii) that until the release of the Dematerialised Mortgage Pandbrieven represented thereby the bearer thereof is entitled to attend and vote at such Meeting and any such adjourned meeting in respect of the Dematerialised Mortgage Pandbrieven represented by such certificate.

- (c) **Block Voting Instruction** means a document in Dutch or French (with a translation in English) issued by the Recognised Accountholder or Securities Settlement System and dated in which:
- (i) it is certified that Dematerialised Mortgage Pandbrieven (not being Dematerialised Mortgage Pandbrieven in respect of which a Voting Certificate has been issued and is outstanding in respect of the meeting specified in such Block Voting Instruction and any such adjourned meeting) of a specified Principal Amount Outstanding were (to the satisfaction of such Recognised Accountholder or Securities Settlement System) held to its order or under its control and blocked by it and that no such Dematerialised Mortgage Pandbrieven will cease to be so held and blocked until the first to occur of:
 - (A) the conclusion of the Meeting specified in such document or, if applicable, any such adjourned Meeting; and
 - (B) the giving of notice by the Recognised Accountholder or the Securities Settlement System to the Issuer in accordance with Clause 7.3 hereof, stating that certain of such Dematerialised Mortgage Pandbrieven cease to be held with it or under its control and blocked and setting out the necessary amendment to the Block Voting Instruction;
 - (ii) it is certified that each holder of such Dematerialised Mortgage Pandbrieven has instructed such Recognised Accountholder or Securities Settlement System, that the vote(s) attributable to the Dematerialised Mortgage Pandbrief or Dematerialised Mortgage Pandbrieven so held and blocked should be cast in a particular way in relation to the resolution or resolutions to be put to such Meeting or any such adjourned meeting and that all such instructions are during the period commencing three (3) Business Days prior to the time for which such Meeting or any such adjourned meeting is convened and ending at the conclusion or adjournment thereof neither revocable nor capable of amendment;
 - (iii) the nominal amount of the Dematerialised Mortgage Pandbrieven so held and blocked is stated, distinguishing with regard to each resolution between those in respect of which instructions have been given as aforesaid that the votes attributable thereto should be cast in favour of the resolution and those in respect of which instructions have been so given that the votes attributable thereto should be cast against the resolution; and
 - (iv) one or more persons named in such document (each hereinafter called a proxy) is or are authorised and instructed by such Recognised Accountholder or Securities Settlement System to cast the votes attributable to the Dematerialised Mortgage Pandbrieven so listed in accordance with the instructions referred to in paragraph (ii) above as set out in such document.

1.4. Registered Mortgage Pandbrieven

With respect to Registered Mortgage Pandbrieven, save as expressly provided otherwise herein, no person shall be entitled to attend or vote at any Meeting unless:

- (a) it appears from the register held in accordance with Article 462 et seq. of the Belgian Company Code that the relevant person is registered as a holder of Registered Mortgage Pandbrieven; or
- (b) such person is authorised and instructed, by means of a Power of Attorney to cast the votes attributable to a Pandbrief Holder.

2. CONVENING A MEETING

2.1. Initiative

2.1.1. Single Series

The Meeting:

- (a) may be convened by the Issuer, or upon its appointment the Cover Pool Administrator, as applicable, or the Mortgage Pandbrieven Holders' Representative; and
- (b) shall be convened by the Issuer, or upon its appointment the Cover Pool Administrator, as applicable, upon the request in writing signed by Pandbrieven Holders holding not less than one fifth of the aggregate Series Principal Amount Outstanding of the Mortgage Pandbrieven of the relevant Series.

2.1.2. Multiple Series

The Mortgage Pandbrieven Holders' Representative can convene a meeting of Pandbrieven Holders of more than one Series if in the opinion of the Mortgage Pandbrieven Holders' Representative (i) the subject matter of the Meeting is relevant to the Pandbrieven Holders of each of those Series and (ii) there is no conflict between the Pandbrieven Holders of the relevant Series, in which case these Meeting Rules shall apply *mutatis mutandis*.

2.2. Time, Place and Notice

2.2.1. Time and Place

Every Meeting shall be held at a time and place approved by the Mortgage Pandbrieven Holders' Representative.

2.2.2. Notice

At least fifteen (15) calendar days' notice (exclusive of the day on which the notice is given and the day on which the Meeting is held) specifying the day, time and place of the Meeting shall be given to the Pandbrieven Holders in the manner provided by Condition 19 (*Notices*).

Such notice shall include the agenda of the Meeting. The agenda shall state the nature of the business to be transacted at the Meeting thereby convened and specify the terms of any resolution to be proposed. Such notice shall include a statement to the effect that Dematerialised Mortgage Pandbrieven must be held with or under the control of and blocked by (i) a Recognised Accountholder (as defined below) (ii) as the case may be, the Securities Settlement System for the purpose of obtaining Voting Certificates or appointing proxies until three (3) Business Days before the time fixed for the Meeting but not thereafter.

3. CHAIRMAN

3.1. Appointment

The Issuer may appoint a chairman (who may, but need not be, a Pandbrieven Holder). Failing such choice the Mortgage Pandbrieven Holders' Representative may appoint a chairman in writing, but if no such appointment is made or if the person appointed is not present within fifteen (15) minutes after the time fixed for the Meeting, the Meeting shall be chaired by the person elected by the majority of the voters present, failing which, the Mortgage Pandbrieven Holders' Representative shall appoint a chairman.

3.2. Adjourned Meeting

The chairman of an adjourned Meeting held in accordance with the provisions in Clause 5 (*Adjourned Meeting*) needs not to be the same person as was chairman at the original Meeting.

4. QUORUM

4.1. General provisions

Mortgage Pandbrieven held by the Issuer shall not be taken into account for the calculation of the required quorum in accordance with this Clause 4 (*Quorum*).

For the avoidance of doubt, any modification (regardless of whether such modification is a Basic Term Change or not), shall require the consent of the Issuer, except that no such consent shall be required in relation to a Programme Resolution.

4.2. Ordinary Resolutions and Extraordinary Resolutions (other than a Basic Term Change)

The quorum at any Meeting the purpose of which is to pass an Ordinary Resolution or an Extraordinary Resolution concerning matters referred to under Clauses 6.2(a) to 6.2(e), will be one or more persons holding or representing at least 50 per cent. of the aggregate Series Principal Amount Outstanding of the Mortgage Pandbrieven of the relevant Series, or, at an adjourned meeting in accordance with the provisions of Clause 5 (*Adjourned Meeting*), one or more persons being or representing Pandbrieven Holders of the relevant Series for the time being outstanding, whatever the Series Principal Amount Outstanding of the Mortgage Pandbrieven so held or represented.

4.3. Basic Term Change

At any Meeting the purpose of which is to pass an Extraordinary Resolution concerning a Basic Term Change, the quorum will be one or more persons holding or representing not less than two thirds of the aggregate Series Principal Amount Outstanding of the Mortgage Pandbrieven of such Series or, at any adjourned meeting, one or more persons being or representing not less than one third of the aggregate Series Principal Amount Outstanding of the Mortgage Pandbrieven of such Series for the time being outstanding.

4.4. Programme Resolutions

The quorum at any Meeting the purpose of which is to pass a Programme Resolution concerning matters referred to under Clauses 6.3(a) to 6.3(d), will be one or more persons holding or representing at least 50 per cent. of the aggregate Principal Amount Outstanding of the Mortgage Pandbrieven of all Series taken together as a single Series, or, at an adjourned meeting in accordance with the provisions of Clause 5 (*Adjourned Meeting*), one or more persons being or representing Pandbrieven Holders for the time being outstanding, whatever the Series Principal Amount Outstanding of the Mortgage Pandbrieven so held or represented.

At any Meeting the purpose of which is to pass a Programme Resolution concerning matters referred to under Clause 6.3(e), the quorum will be one or more persons holding or representing not less than two thirds of the aggregate Principal Amount Outstanding of the Mortgage Pandbrieven of all Series taken together as a single Series, including at an adjourned meeting.

4.5. Non-quorate Meeting

No business (except choosing a chairman) shall be transacted at a Meeting unless a quorum as required by this Clause 4 (*Quorum*) is present at the commencement of the Meeting.

If a quorum is not present within fifteen (15) minutes from the time initially fixed for the Meeting, the Meeting shall, if convened on the request of the Pandbrieven Holders, be dissolved. In any other case it shall be adjourned in accordance with the provisions with regard to Adjourned Meetings under Clause 5 (*Adjourned Meeting*).

4.6. Overview

Purpose of the meeting	Required proportion for an initial meeting to be quorate	Required proportion for an adjourned meeting to be quorate
To pass any Ordinary Resolution	50%	No minimum proportion
To pass any Extraordinary Resolution concerning matters referred to under Clauses 6.2(a) to 6.2(e)	50%	No minimum proportion
To pass any Extraordinary Resolution concerning matters referred to under Clauses 6.2(f) to 6.2(i)	Two thirds	One third
To pass any Programme Resolution concerning matters referred to under Clauses 6.3(a) to 6.3(d)	50%	No minimum proportion
To pass any Programme Resolution concerning matters referred to under Clause 6.3(e)	Two thirds	Two thirds

5. ADJOURNED MEETING

5.1. Convening

In the event of a non-quorate Meeting (in accordance with the provisions of Clause 4.5) the chairman may with the consent of (and shall if directed by) the Meeting, adjourn the same “from time to time and from place to place” (the **Adjourned Meeting**).

The chairman may determine the time and place of the Adjourned Meeting that shall take place, not less than fourteen (14) nor more than forty-two (42) calendar days upon the original Meeting from which the adjournment took place.

Notice of any Adjourned Meeting shall be given in the same manner as for a Meeting, and such notice shall state the quorum required at the Adjourned Meeting. Subject as aforesaid, it shall not be necessary to give any other notice of an Adjourned Meeting.

5.2. Agenda

No business shall be transacted at any Adjourned Meeting except business which could have been transacted at the original Meeting from which the adjournment took place.

6. POWERS OF MEETINGS

6.1. Ordinary Resolutions

A Meeting shall, subject to the Conditions and only with the consent of the Issuer, and without prejudice to any powers conferred on other persons by these Meeting Rules, have power to decide by Ordinary Resolution on any business which is not listed under Clause 6.2 (*Extraordinary Resolutions*) or under Clause 6.3 (*Programme Resolutions*).

6.2. Extraordinary Resolutions

A Meeting shall, subject to the Conditions and only with the consent of the Issuer, and without prejudice to any powers conferred on other persons by these Meeting Rules, have power by Extraordinary Resolution:

- (a) to approve any modification, abrogation, variation or compromise in respect of (i) the rights of the Mortgage Pandbrieven Holders' Representative, the Issuer, the Pandbrieven Holders or any of them, whether such rights arise under the Programme Documents or otherwise, and (ii) these Meeting Rules, the Conditions, any Programme Document or any arrangement in respect of the obligations of the Issuer under or in respect of the Mortgage Pandbrieven, other than a Basic Term Change;
- (b) to discharge or exonerate, whether retrospectively or otherwise, the Mortgage Pandbrieven Holders' Representative from any liability in relation to any act or omission for which the Mortgage Pandbrieven Holders' Representative has or may become liable pursuant or in relation to these Meeting Rules, the Conditions or any Programme Document;
- (c) to give any authority or approval which under these Meeting Rules or the Conditions is required to be given by Extraordinary Resolution;
- (d) to authorise the Mortgage Pandbrieven Holders' Representative (subject to it being indemnified and/or secured to its satisfaction) or any other person to execute all documents and do all things necessary to give effect to any Extraordinary Resolution;
- (e) to waive any breach or authorise any proposed breach by the Issuer of its obligations in respect of the Mortgage Pandbrieven or to waive the occurrence of an Event of Default;
- (f) to approve any reduction or cancellation of the amount payable or, where applicable, a modification of the method of calculating the amount payable or a modification of the date of payment or, where applicable, a modification of the method of calculating the date of payment in respect of any principal or interest in respect of the Mortgage Pandbrieven other than in accordance with the terms thereof;
- (g) to approve any alteration of the currency in which payments under the Mortgage Pandbrieven are to be made;
- (h) to approve any alteration of the quorum or majority required to pass an Extraordinary Resolution; and
- (i) to approve any scheme or proposal for the exchange or sale of the Mortgage Pandbrieven for or the conversion of the Mortgage Pandbrieven into, or the cancellation of the Mortgage Pandbrieven in consideration of, shares, stock, Mortgage Pandbrieven, bonds, debentures, debenture stock and/or other obligations and/or securities of the Issuer or any other company formed or to be formed, or for or into or in consideration of cash, or partly for or into or in consideration of such shares, stock, bonds, Mortgage Pandbrieven, debentures, debenture stock and/or other obligations.

6.3. Programme Resolutions

A Meeting shall, subject to the Conditions, and without prejudice to any powers conferred on other persons by these Meeting Rules, have power by Programme Resolution:

- (a) to appoint, remove or replace the Mortgage Pandbrieven Holders' Representative in accordance with Clause 3.2 of part 2 (*Retirement and Removal*) above or a member of the management board in accordance with Clause 3.4 of part 2 (*Resignation and Removal of the Management Board of the Mortgage Pandbrieven Holders' Representative*) above;
- (b) to direct the Mortgage Pandbrieven Holders' Representative to service a Notice of Default;
- (c) with the consent of the Issuer (or, if applicable, the Cover Pool Administrator on behalf of the Special Estate), to amend the Special Estate Administration Terms;
- (d) to consider the decision or proposal of the Cover Pool Administrator to proceed with the liquidation of the Special Estate and with the early redemption of the Mortgage Pandbrieven pursuant to Article 11, 6° Annex III to the Credit Institutions Supervision Law; and
- (e) to direct the Cover Pool Administrator to proceed with the liquidation of the Special Estate and with the early redemption of the Mortgage Pandbrieven pursuant to Article 11, 7° Annex III to the Credit Institutions Supervision Law.

7. VOTING

7.1. General Provisions

7.1.1. Voting by show of hands

Every question submitted to a Meeting shall be decided in the first instance by a show of hands, then by a poll subject to the provisions of Clause 7.1.2 (*Voting by poll*).

7.1.2. Voting by poll

At any meeting, unless a poll is (before or on the declaration of the result of the show of hands) demanded by the chairman, the Issuer or the Cover Pool Administrator, as applicable, one or more persons holding Voting Certificates in respect of the Dematerialised Mortgage Pandbrieven or proxies holding or representing in the aggregate not less than 2 per cent. of the relevant Series of the aggregate Series Principal Amount Outstanding of the Mortgage Pandbrieven, a declaration by the chairman that a resolution has passed or not passed, shall be conclusive evidence of the fact without proof of the number or proportion of the votes recorded in favour of or against such resolution.

If at any Meeting a poll is so demanded, it shall be taken in such manner and (subject as hereinafter provided) either at once or after such an adjournment as the chairman directs. The result of such poll shall be deemed to be the resolution of the Meeting at which the poll was demanded as at the date of the taking of the poll. The demand for a poll shall not prevent the continuance of the Meeting for the transaction of any business other than the question on which the poll has been demanded.

Any poll demanded at any Meeting on the election of a chairman or on any question of adjournment shall be taken at the Meeting without adjournment.

7.1.3. Mortgage Pandbrieven held by the Issuer

In case Mortgage Pandbrieven are held by the Issuer, the Issuer shall not have any voting rights with respect to such Mortgage Pandbrieven.

7.1.4. Registered Mortgage Pandbrieven

The formalities and procedures to validly cast a vote at a Meeting in respect of Registered Mortgage Pandbrieven shall be such formalities and procedures as described by the Mortgage Pandbrieven Holders' Representative.

7.1.5. Equality of votes

In case of equality of votes the chairman shall have a casting vote in addition to any other votes which he may have.

7.2. Majority

7.2.1. Ordinary Resolutions

An Ordinary Resolution shall be validly passed by a simple majority of at least 50% of the aggregate Series Principal Amount Outstanding of the Series of Mortgage Pandbrieven for which votes have been cast plus one vote.

7.2.2. Extraordinary Resolutions

An Extraordinary Resolution shall be validly passed by a voting majority of at least two thirds of the aggregate Series Principal Amount Outstanding of the Series of Mortgage Pandbrieven for which votes have been cast.

7.2.3. Programme Resolutions

A Programme Resolution shall be validly passed by a simple majority of at least 50% of the aggregate Series Principal Amount Outstanding of the Mortgage Pandbrieven for which votes have been cast plus one vote.

7.3. Voting Certificates and Block Voting Instructions regarding Dematerialised Mortgage Pandbrieven

Any vote given in accordance with the terms of a Block Voting Instruction shall be valid notwithstanding the previous revocation or amendment of the Block Voting Instruction or of any Pandbrievenholder's instructions pursuant to which it was executed, provided that no confirmation in writing of such revocation or amendment shall have been received from the Securities Settlement System or Recognised Accountholder by the Issuer at its headquarters (Avenue Marnix 24, 1000 Brussels, Belgium or such other address as notified to the Pandbrieven Holders in accordance with the Conditions) by the time being 24 hours before the commencement of the Meeting or Adjourned Meeting at which the Block Voting Instruction is intended to be used.

Voting Certificates and Block Voting Instructions will only be issued in respect of Dematerialised Mortgage Pandbrieven (to the satisfaction of such Recognised Accountholder or Securities Settlement System) held to the order or under the control and blocked by a Recognised Accountholder or Securities Settlement System not less than three (3) Business Days before the time for which the Meeting or the poll to which the same relate has been convened or called and shall be valid for so long as the relevant Dematerialised Mortgage Pandbrieven continue to be so held and blocked and during the validity thereof the holder of any such Voting Certificate or (as the case may be) the proxies named in any such Block Voting Instruction shall, for all purposes in connection with the relevant Meeting, be deemed to be the holder of the Dematerialised Mortgage Pandbrieven to which such Voting Certificate or Block Voting Instruction relates and the Recognised Accountholder or Securities

Settlement System with which such Dematerialised Mortgage Pandbrievens have been deposited or to whose order or under whose control they are held or the person holding them blocked as aforesaid shall be deemed for such purpose not to be the holder of those Dematerialised Mortgage Pandbrievens.

Each Voting Certificate and each Block Voting Instruction shall be deposited at the registered office of the Issuer not less than three Business Days before the time appointed for holding the meeting or adjourned meeting at which the holder of the Voting Certificate or the proxies named in the Block Voting Instruction propose to vote and in default of such deposit the Voting Certificate or Block Voting Instruction shall not be treated as valid unless the chairman of the general meeting decides otherwise before such Meeting or Adjourned Meeting proceeds to business.

8. MINUTES

8.1. General

Minutes of all resolutions and proceedings at every Meeting shall be made and duly entered in books to be from time to time provided for that purpose by the Issuer (or the Cover Pool Administrator, as applicable) and signed by the chairman and any such minutes as aforesaid shall be conclusive evidence of the matters therein contained, and until the contrary is proved each such meeting in respect of the proceedings of which minutes have been made and signed as aforesaid shall be deemed to have been duly held and convened and all resolutions passed or proceedings transacted thereat to have been duly passed or transacted.

8.2. Attachments

An attendance list will be attached to the minutes.

8.3. Certified Copies

Certified copies or extracts of the minutes shall be signed by two directors of the Issuer (or the Cover Pool Administrator, as applicable).

9. BINDING RESOLUTIONS

9.1. Ordinary or Extraordinary Resolutions

Any Ordinary or Extraordinary Resolution passed at a Meeting duly convened and held in accordance with these Meeting Rules shall be binding on all the Pandbrievens Holders of the relevant Series, whether or not they are present at the Meeting and whether or not they vote in favour of such resolution.

9.2. Programme Resolutions

Any Programme Resolution passed at a Meeting of all Series duly convened and held in accordance with these Meeting Rules shall be binding on all Pandbrievens Holders of all Series, whether or not they are present or represented at the Meeting and whether or not they vote in favour of such resolution.

9.3. Notice to Pandbrievens Holders

Save as the Mortgage Pandbrievens Holders' Representative may otherwise agree, the Issuer or the Cover Pool Administrator (as the case may be) shall give notice of the passing of a Resolution to the Pandbrievens Holders in accordance with Condition 19 (*Notices*), within fourteen (14) calendar days of the conclusion of the meeting, but failure to do so shall not invalidate the Resolution.

10. WRITTEN RESOLUTIONS

10.1. Format

Written resolutions may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Pandbrieven Holders.

10.2. Thresholds

10.2.1. Ordinary Resolutions

A written resolution signed by the holders of 50 per cent. of the Series Principal Amount Outstanding of the relevant Series of the Mortgage Pandbrieven outstanding shall take effect as if it were an Ordinary Resolution.

10.2.2. Extraordinary Resolutions

A resolution in writing signed by or on behalf of holders of 75 per cent. of the Series Principal Amount Outstanding of the relevant Series of Mortgage Pandbrieven outstanding shall take effect as an Extraordinary Resolution.

10.2.3. Programme Resolutions

Except in relation to a Programme Resolution to direct the Cover Pool Administrator to proceed with the liquidation of the Special Estate and with the early redemption of the Mortgage Pandbrieven pursuant to Article 11, 7° Annex III to the Credit Institutions Supervision Law, a resolution in writing signed by or on behalf of holders of 50 per cent. of the Series Principal Amount Outstanding of the Mortgage Pandbrieven of all Series then outstanding shall take effect as a Programme Resolution.

A resolution in writing to direct the Cover Pool Administrator to proceed with the liquidation of the Special Estate and with the early redemption of the Mortgage Pandbrieven pursuant to Article 11, 7° Annex III to the Credit Institutions Supervision Law signed by or on behalf of holders of 75 per cent. of the Series Principal Amount Outstanding of the Mortgage Pandbrieven of all Series then outstanding shall take effect as a Programme Resolution.

11. WRITTEN RESOLUTIONS

Subject to the provisions contained in these Meeting Rules and with the consent of the Issuer, the Mortgage Pandbrieven Holders' Representative may determine, in its sole discretion, further regulations regarding the holding of Meetings of Pandbrieven Holders and attendance and voting as the Mortgage Pandbrieven Holders' Representative may determine in its sole discretion.

FORM OF FINAL TERMS

Set out below is the form of Final Terms which, subject to any necessary amendment, will be completed for each Tranche of Mortgage Pandbrieven issued under the Programme. Text in this section appearing in italics does not form part of the Final Terms but provides directions for completing the Final Terms.

Final Terms dated [●]

ING Belgium SA/NV

Issue of [Aggregate Nominal Amount of Tranche] [Title of Mortgage Pandbrieven]
Issued under the EUR 10,000,000,000

Belgian Mortgage Pandbrieven Programme

MiFID II PRODUCT GOVERNANCE – Solely for the purposes of the product approval process of each Manufacturer (i.e., each person deemed a manufacturer for purposes of the EU Delegated Directive 2017/593, hereinafter referred to as a **Manufacturer**), the target market assessment in respect of the Mortgage Pandbrieven as of the date hereof has led to the conclusion that: (i) the target market for the Mortgage Pandbrieven is eligible counterparties and professional clients each as defined in Directive 2014/65/EU (as amended, **MiFID II**); and (ii) all channels for distribution of the Mortgage Pandbrieven to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Mortgage Pandbrieven (a **“Distributor”**) should take into consideration each Manufacturer’s target market assessment. A distributor subject to MiFID II is, however, responsible for undertaking its own target market assessment in respect of the Mortgage Pandbrieven (by either adopting or refining a Manufacturer’s target market assessment) and determining appropriate distribution channels.

PROHIBITION OF SALES TO EEA RETAIL INVESTORS – The Mortgage Pandbrieven are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area (**EEA**). For these purposes, a retail investor means a person who is one (or more) of (i) a retail client as defined in point (11) of Article 4(1) of MiFID II; (ii) a customer within the meaning of Directive 2002/92/EC, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in Directive 2003/71/EC, as amended (**Prospectus Directive**). Consequently, no key information document required by Regulation (EU) No 1286/2014 (the **PRIIPs Regulation**) for offering or selling the Mortgage Pandbrieven or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Mortgage Pandbrieven or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

PROHIBITION OF SALE TO CONSUMERS IN BELGIUM - The Mortgage Pandbrieven are not intended to be offered, sold or otherwise made available, and will not be offered, sold or otherwise made available, in Belgium to “consumers” within the meaning of the Belgian Code of Economic Law dated 28 Februari 2013, as amended.

The Base Prospectus referred to below (as completed by these Final Terms) has been prepared on the basis that any offer of Mortgage Pandbrieven in any Member State of the European Economic Area which has implemented the Prospectus Directive (2003/71/EC) (each, a **Relevant Member State**) will be made pursuant to an exemption under the Prospectus Directive, as implemented in that Relevant Member State, from the requirement to publish a prospectus for offers of the Mortgage Pandbrieven. Accordingly any person making or intending to make an offer in that Relevant Member State of the Mortgage Pandbrieven may only do so in circumstances in which no obligation arises for the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive, in each case, in relation to such offer. Neither the Issuer nor any Dealer has authorised, nor do they authorise, the making of any offer of Mortgage Pandbrieven in any other circumstances.

[[*specify benchmark*] is provided by [*administrator legal name*]][repeat as necessary], [[*administrator legal name*] appears]/[does not appear]][*repeat as necessary*] on the register of administrators and benchmarks established and maintained by the European Securities and Markets Authority (**ESMA**) pursuant to article 36 of the Benchmark Regulation (Regulation (EU) 2016/1011) (the **BMR**).

[As far as the Issuer is aware, [[*insert benchmark(s)*] does/do] not fall within the scope of the BMR by virtue of Article 2 of that regulation] **OR** [the transitional provisions in Article 51 of the BMR apply], such that [*insert names(s) of administrator(s)*] [is/are] not currently required to obtain authorisation or registration (or, if located outside the European Union, recognition, endorsement or equivalence).]]¹

PART A - CONTRACTUAL TERMS

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions set forth in the Base Prospectus dated [*date*] [and the supplement to the Base Prospectus dated [*date*]] (the **Base Prospectus**) which [together] constitute[s] a base prospectus for the purposes of the Prospectus Directive (Directive 2003/71/EC) (the **Prospectus Directive**) as amended and/or supplemented and/or replaced from time to time (which includes the amendments made by Directive 2010/73/EU (the **2010 PD Amending Directive**) to the extent that such amendments have been implemented in a relevant Member State). This document constitutes the final terms of the Mortgage Pandbrieven described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with the Base Prospectus [as so supplemented]. Full information on the Issuer and the offer of the Mortgage Pandbrieven is only available on the basis of the combination of this Final Terms and the Base Prospectus. The Base Prospectus [and the Supplement to the Base Prospectus] is available for viewing at the Issuer's website (www.ing.be/investor-relations) and copies may be attained from ING Belgium SA/NV, Avenue Marnixlaan 24, 1000 Brussels, Belgium.

[The following alternative language applies if the first Tranche of an issue which is being increased was issued under a Base Prospectus with an earlier date.]

Terms used herein shall be deemed to be defined as such for the purposes of the Terms and Conditions (the **Conditions**) set forth in the Base Prospectus dated [*original date*] [and the supplement to the Base Prospectus dated [*date*]] (the **Base Prospectus**). This document constitutes the final terms of the Mortgage Pandbrieven described herein for the purposes of Article 5.4 of the Prospectus Directive (Directive 2003/71/EC) (the **Prospectus Directive**) as amended and/or supplemented and/or replaced from time to time (which includes the amendments made by Directive 2010/73/EU (the **2010 PD Amending Directive**) to the extent that such amendments have been implemented in a relevant Member State and must be read in conjunction with the Base Prospectus dated [*current date*] [and the supplement to the Base Prospectus dated [*date*]], which [together] constitute[s] a base prospectus for the purposes of the Prospectus Directive, including the Terms and Conditions incorporated by reference in the Base Prospectus. Full information on the Issuer and the offer of the Mortgage Pandbrieven is only available on the basis of the combination of these Final Terms and the Base Prospectus dated [*original date*] and [*current date*] [and the supplement to the Base Prospectus dated [*date*]]. The Base Prospectus [and the Supplement to the Base Prospectus] is available for viewing at the Issuer's website (www.ing.be/investor-relations) and copies may be attained from ING Belgium SA/NV, Avenue Marnixlaan 24, 1000 Brussels, Belgium.

[The following alternative language applies if no prospectus is required in accordance with the Prospectus Directive.]

¹ For benchmarks other than EURIBOR and LIBOR this legend and the relevant final term will be included.

The Final Terms do not constitute final terms for the purposes of Article 5.4 of Directive 2003/71/EC (as amended and/or supplemented and/or replaced from time to time, including the amendments of Directive 2010/73/EU) (the **Prospectus Directive**). The Issuer is not offering the Mortgage Pandbrieven in any jurisdiction in circumstances which would require a prospectus pursuant to the Prospectus Directive. Nor is any person authorised to make such an offer of the Mortgage Pandbrieven on behalf of the Issuer in any jurisdiction. In addition, no application has been made (nor is it proposed that any application will be made) for listing the Mortgage Pandbrieven on any stock exchange.

[Include whichever of the following apply or specify as "Not Applicable" (N/A). Note that the numbering should remain as set out below, even if "Not Applicable" is indicated for individual paragraphs or subparagraphs.]

[When completing any final terms, or adding any other final terms or information, consideration should be given as to whether such terms or information constitute "significant new factors" and consequently trigger the need for a supplement to the Base Prospectus under Article 16 of the Prospectus Directive.]

- | | | |
|---|---|---|
| 1 | Issuer: | ING Belgium SA/NV |
| 2 | (a) Series Number: | [•] |
| | (b) Tranche Number: | [•] |
| | | <i>(If fungible with an existing Series, details of that Series, including the date on which the Mortgage Pandbrieven become fungible).</i> |
| 3 | Specified Currency: | [•] |
| 4 | Aggregate Nominal Amount of Mortgage Pandbrieven: [admitted to trading] | [•] |
| | (a) [Series: | [•]] |
| | (b) [Tranche: | [•]] |
| 5 | Issue Price: | [•]% of the Aggregate Nominal Amount [plus accrued interest from [insert date] (in the case of fungible issues only, if applicable)] |
| 6 | Specified Denominations: | [•] |
| 7 | (a) Issue Date: | [•] |
| | (b) Interest Commencement Date: | [•] |
| 8 | (a) Maturity Date: | <i>[Fixed rate - specify date/Floating Rate - Interest Payment Date falling in or nearest to the relevant month and year]</i> |
| | (i) Business Day Convention for Maturity Date: | [Following Business Day Convention/Preceding Business Day Convention/ Not Applicable] |
| | (ii) Additional Business Centre(s): | [•] (please specify other financial centres required for the Business Day definition) |

- (b) Extended Maturity Date: [Not Applicable][*Fixed rate – specify date/Floating rate – Interest Payment Date falling in or nearest to [specify month and year, in each case falling one year after the Maturity Date]*]
- (i) Business Day Convention for Extended Maturity Date: [Following Business Day Convention/ Preceding Business Day Convention/ Not Applicable]
- (ii) Additional Business Centre(s): [•] (*please specify other financial centres required for the Business Day definition*)
- 9 Interest Basis:
- (a) Period to (but excluding) Maturity Date: [[•]% Fixed Rate]
[Floating Rate]
[Zero Coupon]
(further particulars specified below)
- (b) Period from Maturity Date to (but excluding) Extended Maturity Date: [[•]% Fixed Rate]
[Floating Rate]
[Zero Coupon]
(further particulars specified below)
- 10 Redemption/Payment Basis: [Redemption at par]/[Specify others]
- 11 Change of Interest Basis: [Applicable. The Interest Basis changes from fixed to floating from and including [•]]/Not Applicable]
- 12 (a) Status of the Mortgage Pandbrieven: *Belgische pandbrieven/ Lettres de gage Belges*
- (b) Date [Board (or similar)] approval for issuance of Mortgage Pandbrieven obtained: [•]
(N.B Only relevant where Board (or similar) authorisation is required for the particular tranche of Mortgage Pandbrieven)
- 13 Method of Distribution: [Syndicated/Non-syndicated]

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

- 14 Fixed Rate Mortgage Pandbrief Provisions: [Applicable/Not Applicable][to and including [•]]
- (a) To Maturity Date: [Applicable/Not Applicable]
- (b) From Maturity Date to Extended Maturity Date: [Applicable/Not Applicable]
(If (a) and (b) are not applicable, delete the remaining sub-paragraphs of this paragraph)
- (c) Rate[(s)] of Interest:

- (i) To Maturity Date: [●]% per annum [payable [annually/semi-annually/quarterly/monthly/other (specify)] in arrear]
- (ii) From Maturity Date to [Not Applicable] [●]% per annum [payable [annually/semi-annually/quarterly/monthly/other (specify)] in arrear]
Extended Maturity Date:
- (d) Interest Period End Date(s):
- (i) To Maturity Date: [●] in each year, starting on [●], up to and including the [●]
- (ii) From Maturity Date to [Not Applicable][●] in each year, starting on [●],
Extended Maturity Date: up to and including [●]
- (NB: This will need to be amended in the case of long or short coupons)*
- (e) Business Day Convention for Interest Period End Dates:
- (i) To Maturity Date: [Following Business Day Convention/Preceding Business Day Convention/Not Applicable]
- (ii) From Maturity Date to [Not Applicable] [Following Business Day
Extended Maturity Date: Convention/Preceding Business Day Convention/Not Applicable]
- (f) Interest Payment Date(s):
- (i) To Maturity Date: [[●] in each year up to and including the Maturity Date]/[Interest Payment Dates will correspond to Interest Period End Dates]
- (ii) From Maturity Date to [Not Applicable] [[●] in each year up to and
Extended Maturity Date: including the Extended Maturity Date, if applicable]/[Interest Payment Dates will correspond to Interest Period End Dates]
- (g) Fixed Coupon Amount[(s)]:
- (i) To Maturity Date: [●] per 100,000 of Principal Amount Outstanding
- (ii) From Maturity Date up to [Not Applicable] [●] per 100,000 of Principal
Extended Maturity Date: Amount Outstanding
- (h) Broken Amount(s):
- (i) To Maturity Date: [●] per Calculation Amount payable on the Interest Payment Date falling [in/on] [●]
- (ii) From Maturity Date up to [Not Applicable] [●] per Calculation Amount
Extended Maturity Date: payable on the Interest Payment Date falling [in/on] [●]

- (i) Business Day Convention for Interest Payment Dates:
- (i) To Maturity Date: [Following Business Day Convention/Preceding Business Day Convention/Not Applicable]
- (ii) From Maturity Date to Extended Maturity Date: [Not Applicable] [Following Business Day Convention/Preceding Business Day Convention/Not Applicable]
- (j) Additional Business Centre(s):
- (i) To Maturity Date: [●] (*please specify other financial centres required for the Business Day definition*)
- (ii) From Maturity Date to Extended Maturity Date: [Not Applicable] [●] (*please specify other financial centres required for the Business Day definition*)
- (k) Day Count Fraction:
- (i) To Maturity Date: (*Specify one of the options listed below*)
- [Actual/Actual (ICMA)]
- [[Actual/Actual] or [Actual/Actual] (ISDA)]
- [Actual/365 (Fixed)]
- [Actual/360]
- [30/360] or [360/360] or [Bond Basis]
- [[30E/360] or [Eurobond Basis]]
- [30E/360] (ISDA)
- 1/1
- (ii) From Maturity Date to Extended Maturity Date: [Not Applicable] (*Specify one of the options listed below*)
- [Actual/Actual (ICMA)]
- [[Actual/Actual] or [Actual/Actual] (ISDA)]
- Actual/365 (Fixed)
- Actual/360
- [30/360] or [360/360] or [Bond Basis]
- [[30E/360] or [Eurobond Basis]]
- [30E/360] (ISDA)
- 1/1
- (*see Condition [●] for alternatives*)

- (l) Determination Date:
- (i) To Maturity Date: [●] in each year
- (ii) From Maturity Date to Extended Maturity Date: [Not Applicable] [●] in each year
- [Insert regular Interest Period End Dates, ignoring issue date or maturity date in the case of a long or short first or last coupon]*
- (This will need to be amended in the case of regular Interest Period End Dates which are not of equal durations)*
- (N.B. Only relevant where Day Count Fraction is Actual/Actual (ICMA))*
- (m) Other terms relating to the method of calculating interest for Fixed Rate Mortgage Pandbrieven: [●]
- 15 Floating Rate Mortgage Pandbrief Provisions: [Applicable/Not Applicable] [from and including [●]]
- (a) To Maturity Date: [Applicable/Not Applicable]
- (b) From Maturity Date to Extended Maturity Date: [Applicable/Not Applicable]
- (If (a) and (b) are not applicable, delete the remaining sub-paragraphs of this paragraph)*
- (c) Interest Period End Dates:
- (i) To Maturity Date: [●] in each year, starting on [●], up to and including the [●]
- (ii) From Maturity Date to Extended Maturity Date: [Not Applicable][●] in each year, starting on [●], up to and including [●]
- (NB: This will need to be amended in the case of long or short coupons)*
- (d) Business Day Convention for Interest Period End Dates:
- (i) To Maturity Date: [Floating Rate Convention/Following Business Day Convention/Preceding Business Day Convention/Not Applicable]
- (ii) From Maturity Date to Extended Maturity Date: to [Not Applicable] [Floating Rate Convention/Following Business Day Convention/Preceding Business Day Convention/Not Applicable]
- (e) Interest Payment Dates:

- (i) To Maturity Date: [[●] in each year, starting on [●], up to and including the Maturity Date] [Interest Payment Dates will correspond to Interest Period End Dates]
- (ii) From Maturity Date to Extended Maturity Date: [Not Applicable] [[●] in each year, starting on [●], up to and including the Extended Maturity Date] [Interest Payment Dates will correspond to Interest Period End Dates]
- (f) Business Day Convention for Interest Payment Dates:
- (i) To Maturity Date: [Floating Rate Convention/Following Business Day Convention/Preceding Business Day Convention/Not Applicable]
- (ii) From Maturity Date to Extended Maturity Date: [Not Applicable] [Floating Rate Convention/Following Business Day Convention/Preceding Business Day Convention/Not Applicable]
- (g) Additional Business Centre(s):
- (i) To Maturity Date: [●] (*please specify other financial centres required for the Business Day definition*)
- (ii) From Maturity Date to Extended Maturity Date: [Not Applicable] [●] (*please specify other financial centres required for the Business Day definition*)
- (h) Manner in which the Rate(s) of Interest is/are to be determined:
- (i) To Maturity Date: [Screen Rate Determination / ISDA Determination]
- (ii) From Maturity Date to Extended Maturity Date: [Not Applicable] [Screen Rate Determination / ISDA Determination]
- (i) Party responsible for calculating the Rate of Interest and Interest Amount:
- (i) To Maturity Date: (*Give name and address*)
- (ii) From Maturity Date to Extended Maturity Date: [Not Applicable] (*Give name and address*)
- (j) Screen Rate Determination: [Applicable/Not Applicable]
- (i) To Maturity Date:
- Reference Rate: [●]/[Specify Others]
- (*Insert Euribor*)

Interest Determination Date(s): [•] [*the second day on which the TARGET2 System is open prior to the start of each Interest Period*]

Relevant Screen Page: [•]
(In the case of EURIBOR, if not Reuters EURIBOR 01 ensure it is a page which shows a composite rate or amend the fallback provisions appropriately)

Relevant Time: [•]

Relevant Financial Centre: [•]

(ii) From Maturity Date to [Not Applicable]
Extended Maturity Date:

Reference Rate: [•]/[Specify others]

(Insert relevant Euribor)

Interest Determination Date(s): [•] [*the second day on which the TARGET2 System is open prior to the start of each Interest Period*]

N.B. Specify the Interest Determination Date(s) up to and including the Extended Maturity Date, if applicable

Relevant Screen Page: [•]
(In the case of EURIBOR, if not Reuters EURIBOR 01 ensure it is a page which shows a composite rate or amend the fallback provisions appropriately)

(k) ISDA Determination:

(i) To Maturity Date: [•]

Floating Rate Option: [•]

Designated Maturity: [•]

Reset Date: [•]

(ii) From Maturity Date to [Not Applicable]
Extended Maturity Date:

Floating Rate Option: [•]

Designated Maturity: [•]

Reset Date: [•]

- (l) Margin(s):
- (i) To Maturity Date: [+/-][●]% per annum
- (ii) From Maturity Date to [Not Applicable] [+/-][●]% per annum
Extended Maturity Date:
- (m) Minimum Rate of Interest:
- (i) To Maturity Date: [Not Applicable] [●]% per annum *(this Minimum Rate of Interest cannot be below zero)*
- (ii) From Maturity Date to [Not Applicable] [●]% per annum *(this Minimum Rate of Interest cannot be below zero)*
Extended Maturity Date:
- (n) Maximum Rate of Interest:
- (i) To Maturity Date: [Not Applicable] [●]% per annum
- (ii) From Maturity Date to [Not Applicable] [●]% per annum
Extended Maturity Date:
- (With respect to any Interest Period, insert (i) Minimum Rate of Interest to floor the Rate of Interest; (ii) Maximum Rate of Interest to cap the Rate of Interest and (iii) Minimum Rate of Interest and Maximum Rate of Interest to collar the Rate of Interest)*
- (o) Day Count Fraction:
- (i) To Maturity Date: *(Specify one of the options listed below)*
- [Actual/ Actual] or [Actual/Actual] (ISDA)
- Actual/365 (Fixed)
- Actual/360
- [30/360] or [360/360] or [Bond Basis]
- [30E/360] or [Eurobond Basis]
- 30E/360 (ISDA)
- 1/1
- (ii) From Maturity Date to [Not Applicable] *(Specify one of the options listed below)*
Extended Maturity Date:
- [Actual/ Actual] or [Actual/Actual] (ISDA)
- Actual/365 (Fixed)
- Actual/360
- [30/360] or [360/360] or [Bond Basis]
- [30E/360] or [Eurobond Basis]

30E/360 (ISDA)

1/1

(See Condition [•] for alternatives)

16 Zero Coupon Mortgage Pandbrief Provisions: [Applicable/Not Applicable][up to and including the Maturity Date]

(If not applicable, delete the remaining subparagraphs of this paragraph)

(a) Accrual Yield: [•]% per annum

(b) Reference Price: [•]

(c) Business Day Convention: [Floating Rate Convention/Following Business Day Convention/Preceding Business Day Convention/[specify other]]

(d) Additional Business Centre(s): [•] (please specify other financial centres required for the Business Day definition)

(e) Day Count Fraction in relation to Early Redemption Amounts and late payments: Conditions [•] and [•] apply/specify other]

17 Final Redemption Amount of each Mortgage Pandbrief: Principal Amount Outstanding/specify other/[•] per Calculation Amount

18 Early Redemption Amount:

Early Redemption Amount(s) per 100,000 of Principal Amount Outstanding payable on redemption for taxation reasons, illegality or on event of default or other early redemption: [[•]/Condition [•] applies]

Notice Period: [•]

GENERAL PROVISIONS APPLICABLE TO THE MORTGAGE PANDBRIEVEN

19 Form of Mortgage Pandbrieven: [Dematerialised Mortgage Pandbrieven / Registered Mortgage Pandbrieven]

20 Additional Financial Centre(s) or other special provisions relating to [Interest Payment Days]: [Not Applicable/give details]. Mortgage Pandbrief that this item relates to the date and place of payment, and not interest period end dates, to which items [15 (j)]relate]

- 21 Redenomination, renominatisation and reconventioning provisions: [Redenomination [not] applicable]
(If redenomination is applicable, specify the terms of the redenomination in an annex to the Final Terms)
- 22 [Consolidation provisions:] [Not Applicable/The provisions [in Condition [•] (/•)] apply]
- 23 Other final terms: [Not Applicable/give details] *(When adding any other final terms consideration should be given as to whether such terms constitute “significant new factors” and consequently trigger the need for a supplement to the Base Prospectus under Article 16 of the Prospectus Directive.)*

DISTRIBUTION

- 24 (a) If syndicated, names of Managers: [Not Applicable/give names, addresses and underwriting commitments]
- (b) Date of Subscription Agreement: [•]
- (c) Stabilising Manager(s) (if any): [Not Applicable/give name and address]
- 25 If non-syndicated, name of relevant Dealer: [Not Applicable/give name and address]
- 26 U.S. Selling Restrictions: [The C Rules are applicable / The C Rules are not applicable]
- 27 Additional selling restrictions: [Not Applicable/give details]

PURPOSE OF FINAL TERMS

These Final Terms comprise the final terms required for the issue [and admission to trading on [the regulated market of Euronext Brussels][*specify relevant regulated market*] of the Mortgage Pandbrieven described herein pursuant to the EUR 10,000,000,000 Residential Mortgage Pandbrieven Programme of ING Belgium SA/NV.

STABILISATION

In connection with this issue, [*insert name of Stabilising Manager(s)*] (the **Stabilising Manager(s)**) (or any person acting for the Stabilising Manager(s)) may over-allot or effect transactions with a view to supporting the market price of the Mortgage Pandbrieven at a level higher than that which might otherwise prevail for a limited period. However, there may be no obligation on the Stabilising Manager(s) (or any agent of the Stabilising Manager(s)) to do this. Such stabilising, if commenced, may be discontinued at any time and must be brought to an end after a limited period. Such stabilising shall be in compliance with the applicable recommendation of the International Capital Markets Association (ICMA).

RESPONSIBILITY

The Issuer accepts responsibility for the information contained in these Final Terms. [*Relevant third party information*] has been extracted from [*specify source*]. The Issuer confirms that such information has been accurately reproduced and that, so far as it is aware, and is able to ascertain from information published by (*specify source*), no facts have been omitted which would render the reproduced information inaccurate or misleading.

Signed on behalf of the Issuer:

By: _____
Duly authorised

PART B – OTHER INFORMATION

1 LISTING AND ADMISSION TO TRADING

- (a) Admission to trading: [Application has been made by the Issuer (or on its behalf) for the Mortgage Pandbrieven to be admitted to trading on the regulated market of the [specify relevant regulated market (for example Euronext Brussels, the Bourse de Luxembourg, the London Stock Exchange's Regulated Market or the Regulated Market of the Irish Stock Exchange) and if relevant, admission to an official list (for example, the Official List of the U.K. Listing Authority)] with effect from [•].] [Application is expected to be made by the Issuer (or on its behalf) for the Mortgage Pandbrieven to be admitted to trading on the [specify relevant regulated market (for example Euronext Brussels, the Bourse de Luxembourg, the London Stock Exchange's Regulated Market or the Regulated Market of the Irish Stock Exchange) and if relevant, admission to an official list (for example, the Official List of the U.K. Listing Authority)] with effect from [•].] [Not Applicable.]
- (b) Listing: (Where documenting a fungible issue need to indicate that original Mortgage Pandbrieven are already admitted to trading.)
- (c) Estimate of total expenses related to admission to trading: [•]

2 RATINGS

- Ratings: The Mortgage Pandbrieven to be issued have been rated:
- Fitch
- Moody's
- [[Other]: [•]]
- (The above disclosure should reflect the rating allocated to Mortgage Pandbrieven of the type being issued under the Programme generally or, where the issue has been specifically rated, that rating.)
- [Moody's/Fitch] [is/are] established in the European Union and [is/are] registered for the purposes of the EU Regulation on credit rating agencies (Regulation (EC)No.1060/2009) (the CRA Regulation), as amended from time to time. As such [•/•] [is/are] included in the list of credit rating agencies published by the European Securities and Markets Authority on its website in accordance with such Regulation.

(if applicable) [Other] is established in the European Union and [has made an application to be (but as at the date hereof is not)]/[is] registered for the purposes of the EU Regulation on credit rating agencies (Regulation (EC)No.1060/2009), as amended

3 [HEDGING AGREEMENT

Hedging Agreement Provider: [•]

Nature of Hedging Agreement: [•]

4 [INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE ISSUE/OFFER]

[Include a description of any interest, including conflicting ones, that is material to the issue/offer, detailing the persons involved and the nature of the interest. May be satisfied by the inclusion of the following statement:

"Save as discussed in ["Subscription and Sale"], so far as the Issuer is aware, no person involved in the offer of the Mortgage Pandbrieven has an interest material to the offer." Amend as appropriate if there are other interests

[(When adding any other description, consideration should be given as to whether such matters described constitute "significant new factors" and consequently trigger the need for a supplement to the Base Prospectus under Article 16 of the Prospectus Directive.)]

5 REASONS FOR THE OFFER, ESTIMATED NET PROCEEDS AND TOTAL EXPENSES

Reasons for the offer: [•]

Estimated net proceeds: [•]

Estimated total expenses: [•]

6 YIELD (Fixed Rate Mortgage Pandbrieven Only)

Indication of yield: [•]

[The yield is calculated on the basis of the Issue Price, the Rate of Interest applicable from and including the Interest Commencement Date until and excluding the Maturity Date, and the Final Redemption Amount. It is not an indication of future yield.]

7 OPERATIONAL INFORMATION

ISIN Code: [•]

Common Code: [•]

(insert here any other relevant codes such as CINS codes): [•]

Any clearing system(s) other than the Securities Settlement System, Euroclear Clearstream Luxembourg, SIX SIS Switzerland and Monte Titoli, Italy and any other NBB Investor (I)CSDs the relevant identification number(s):	[Not Applicable/give name(s) and number(s)]
Delivery:	Delivery [against/free of] payment
Names and addresses of Registrar (if different than Issuer):	[•]
Names and addresses of initial Paying Agent(s):	ING Belgium SA/NV, Avenue Marnix 24, 1000 Brussels, Belgium
Names and addresses of additional Paying Agent(s) (if other than the Issuer):	[•]/Not Applicable
Name and address of the Calculation Agent (if any):	[•]
Names and addresses of the Fiscal (if any):	ING Belgium SA/NV, Avenue Marnix 24, 1000 Brussels, Belgium
Intended to be held in a manner which would allow Eurosystem eligibility:	[Yes][No] [Note that the designation "yes" simply means that the Mortgage Pandbrieven to be held in a manner which would allow Eurosystem eligibility and does not necessarily mean that the Mortgage Pandbrieven will be recognised as eligible collateral for Eurosystem monetary policy and intraday credit operations by the Eurosystem either upon issue or at any or all times during their life. Such recognition will depend upon the ECB being satisfied that Eurosystem eligibility criteria have been met.]
[Relevant Benchmark[s]]:	[Not applicable]/ Applicable/[<i>specify benchmark</i>] is provided by [<i>administrator legal name</i>]. As at the date hereof, [<i>administrator legal name</i>][appears]/[does not appear] in the register of administrators and benchmarks established and maintained by ESMA pursuant to Article 36 (<i>Register of administrators and benchmarks</i>) of the BMR.]/[As far as the Issuer is ware, as at the date hereof, [<i>specify benchmark</i>] does not fall within the scope of the BMR.]

USE OF PROCEEDS

The net proceeds from each issue of Mortgage Pandbrieven will be applied by the Issuer for its general corporate purposes. If in respect of any particular issue, there is a particular identified use of proceeds, this will be stated in the applicable Final Terms.

OVERVIEW OF BELGIAN HOUSING AND MORTGAGE MARKET

Demographics

Belgium has 11.2 million inhabitants on a surface of only 30,528 km², thereby being the third most densely populated country in Europe after Malta and the Netherlands. The number of households increased by approximately 37.700 per annum over the past decade and is expected to grow by approximately 27.800 per annum in 2020-2060. However, due to the refugee crisis, the Planbureau is expecting the number of households to increase by 46.000 a year in 2016-2018². The number of households though has been growing faster than the population, reflecting a trend towards more single-person households and elderly people living independently (Source: Eurostat and Belgostat).

Especially the regions of Brussels and Flanders are densely populated. This has led to a scarcity of building plots. As a consequence the average size of building plots sold for construction has decreased by 7% since 2002. However, this drop in size did not compensate for a quickly increasing land price (price per square meters has multiplied by four in Flanders between 2000 and 2012)³. The same kind of movement has been observed in Wallonia, but at a lower scale, especially as some southern provinces remain rural and far from economic centres. These two regions are therefore very different from that point of view.

Belgian economic situation⁴

During the last decade, the Belgian economy performed reasonably well. After the 2008-09 crisis (-2.3% gross domestic product (GDP) growth in 2009), Belgium performed quite strongly in the two subsequent years, as economic activity picked up supported by supportive macroeconomic policies and by the strong trade relation with Germany (that performed well). However, the economic picture changed once again in 2012-13, as the Eurozone debt crisis hit the economic dynamic of the Monetary Union. To be sure, during the second wave of the economic crisis during the period 2011-2013, Belgium was not hit as much as many other Eurozone countries. (0.2% GDP growth in both years.⁵

After this second wave of the economic crisis in the Euro area, the Belgian economy recovered gradually, reaching positive levels. Considering the 1.7% GDP growth last year, 2017 can certainly be considered as another recovery year for the Belgian economy. The functioning of the economy is sound, with positive growth in all sectors of the economy, large job creation (63,000 in 2017), growing disposable income of households and profit margins of companies and still high level of confidence.

Despite all these positive elements, some disappointment remains, as the current growth level stands clearly below its long term average, while activity used to grow fast in a recovery period. Moreover, GDP grew at the same time by 3.2% in The Netherlands, 2.2% in Germany and even 1.8% in France. This means that the Belgian economy performs worse than its neighbours, which is quite unusual. Finally, the GDP growth was not as strong as confidence indicators tended to signal.

In the beginning of 2018, nothing seems to have changed: Belgian economic activity grew by 0.4% compared to the previous quarter (QoQ), or 1.6% year-on-year, while soft data tended to indicate a much stronger number, to the tune of 0.7% QoQ. Without any detail of the GDP components, it is difficult to explain why growth was, once again, so moderate. That said, with other Eurozone countries feeling some slowdown since the beginning of 2018, activity in the Belgian export sector could have been hit.

² Source: Projections démographiques 2016-2060 de mars 2016 : http://www.plan.be/databases/database_det.php?lang=fr&ID=49

³ Source: ADSEI/DGSIE house price database: http://economie.fgov.be/nl/modules/publications/statistiques/economie/downloads/bouw_en_industrie_verkoop_onroerende_gederen.jsp

⁴ Source: ING evaluation based on NBB figures.

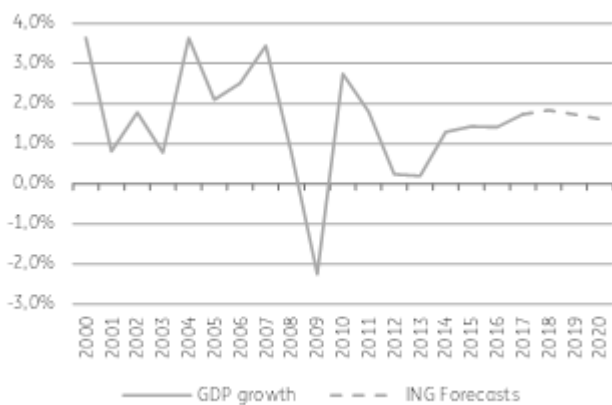
⁵ Source: National Economic statistic database of the NBB: <http://stat.nbb.be>

More importantly, while Belgium has always been considered as a country of savers, the positive growth of private consumption has been supported between 2010 and 2016 by a decrease of the saving ratio (from 14.9% in 2010 to 11.3% last year), falling below the Eurozone average. As job creation has boosted disposable income since 2017, it seems that households preferred to keep their consumption moderate in order to save more. That's probably quite sound from a financial stability point of view, but the price to pay is a softer domestic demand. Indeed, private consumption has, in 2017, shown some signs of weakness. The Q1 GDP number maybe reflects some further weakness from that side of the economy.

Looking ahead, the key question is to know if any strong acceleration is likely in the coming quarters. At this stage, the answer seems to be negative. First, the general sentiment about the economic situation in the Eurozone is more mixed than last year, and even if activity could accelerate somewhat in the two coming quarters, ING had to revise downward the full year GDP growth forecast for the Eurozone. As a small open economy, Belgium will have some difficulties to boost its activity in a weaker global economic context. Second, higher oil prices started probably to affect real disposable income of household. As a consequence, any stronger recovery of private consumption could be somewhat postponed.

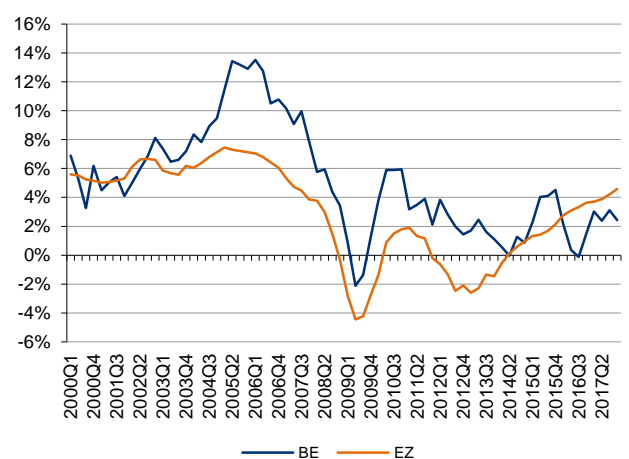
To be sure, ING is far from expecting a recession. Even if most of economic indicators have levelled off recently, they remain consistent with an activity expansion. In particular, the very high degree of capacity utilisation in the industry sector suggests that further investments could support domestic demand. All in all, economic growth is likely to remain in a 0.4% - 0.6% range in the coming quarters. But on the back of the first quarter figure and these expectations, ING fears that 2.0% GDP growth for Belgium is, once again, out of reach, unless an unexpected positive shock sets in.

Fig 1 Belgian growth remains subdued



Source: Thomson Reuters, ING

Fig 2 Eurozone (EZ) and BE home prices (nominal - % YoY)



Source: ECB

The government continues implementing several reforms in order to keep public finances on track. Moreover, the deficit reduction from -2.5% of GDP in 2016 to -1.0% of GDP in 2017 came as a good surprise, including for the federal government. It seems that tax revenues combined with a decrease of total expenditures (from 53.3% of GDP to 52.4%) allowed the deficit to be reduced more than expected. To be sure, public finances benefited also from the interest charge reduction thanks to the decreasing implicit rate on the total public debt.

Despite this good news, reaching a budget balance in 2019, as previously expected, remains doubtful. One possible explanation for this is the necessity of taking additional structural measures to reach this target, while local elections this year (October) and federal, regional and European elections next year will make any political consensus more difficult. Moreover, one has to remember that the cost of ageing increases each year: without any new measure, the public finances are structurally deteriorating. In its stability program, the government has actually delayed further significant structural deficit reduction until 2020, when a new government will take the reins.

ING does not consider this as a big problem in the short run, as the effort made in the past and the further positive economic growth allow the debt/GDP ratio to decrease. It could already decrease below the psychological threshold of 100% next year.

Belgium's headline inflation currently fluctuates around 1.5%. Its recent slight increase is mainly due to higher oil prices, affecting the cost of transport and the energy cost of housing. On top of that, there was also higher food price inflation, but this can be temporary as it depends on weather conditions. As a consequence, contrary to what headline inflation tends to show, the underlying dynamic of prices is probably decelerating. As an example, the inflation of services has decreased from 1.9% in March to 1.3% in April. Looking ahead, the moderate growth will probably not push up inflation, meaning that it will be mainly influenced by oil price dynamics. ING therefore expects a full year inflation of 1.7% in 2018. In this context, an automatic wage indexation could happen in August, compensating households' disposable income for inflation, but increasing companies' labour cost by the same proportion.

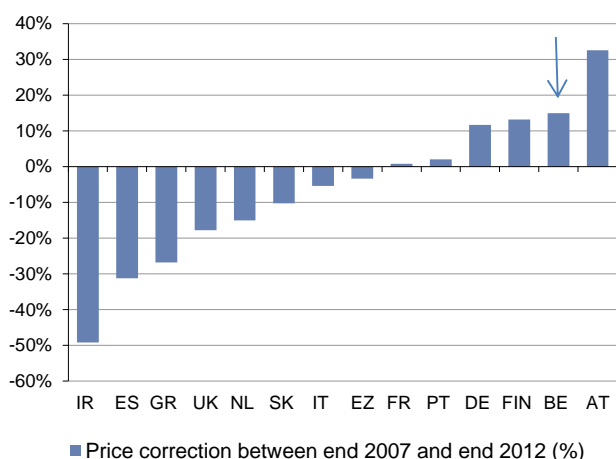
Mortgage market actors

In the nineties, the Belgian banking landscape changed from being dominated by public credit institutions to a consolidated environment controlled by a handful of major banking groups. The four biggest players, Belfius Bank, BNP Paribas Fortis, ING and KBC Bank, control about 70% of the mortgage lending market, whereas other credit and financial institutions (smaller banks, insurance companies, savings banks) and mortgage facilitators cover the remainder. Since 1999, foreign lending institutions have been authorised to grant mortgage credit in Belgium. However, the entrance of new participants has not intensified the competition, as low margins (common among the local institutions) appear to have discouraged foreign competitors.

The Belgian real estate market

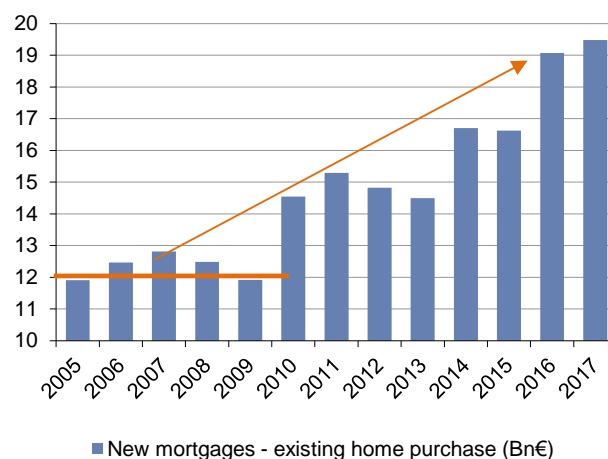
Among European real estate markets, the Belgian real estate market has shown some resistance in recent years. Though it evolves in line with the European cycle (Cf. Fig. 2), it avoided a straightforward correction until now. Moreover, it is one of the few real estate markets where real prices actually increased since 2007 by 0.6% a year on average. In nominal terms, prices have gained 29% since 2007 (2017 compared to 2007 average) and are double their 2002 value.

Fig 3 Belgian prices continued to grow during the first 5Y of the crisis



Source: ECB housing price database: <https://sdw.ecb.europa.eu/browse.do?node=2120781>

Fig 4 Recent mortgage market development



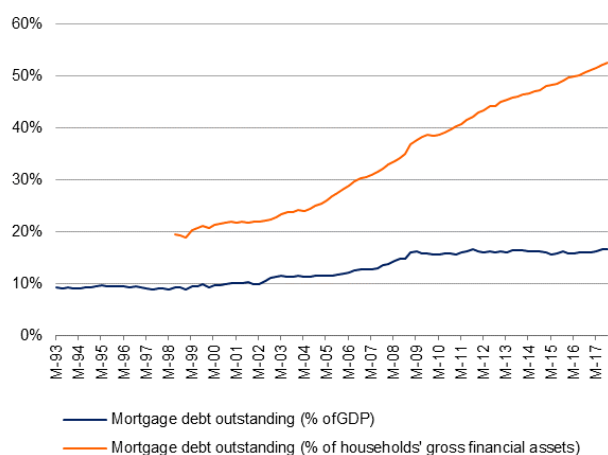
Source: National economic statistic database of the NBB: <http://stat.nbb.be/> (Survey on mortgage destination)

Since 2008, home price growth has been subdued from a historical point of view: there was a 5.6% price correction between mid-2008 and mid-2009, which was recouped by 2010. Prices then increased by 3.7% (equal to the inflation rate) in 2011. In 2012 and 2013, nominal prices increased by 2.3% per year, but growth scaled back to only 0.8% in 2014. Exceptional interest rate conditions brought a rebound of almost 4% in 2015 which was not repeated in 2016 and 2017 (respectively +0.8% and +2.6%) despite growing mortgages. Since 2008, the yearly growth average has been 2.6% while it was 9.2% in the decade 1998-2007.

The Belgian mortgage market (for existing home purchase)⁶

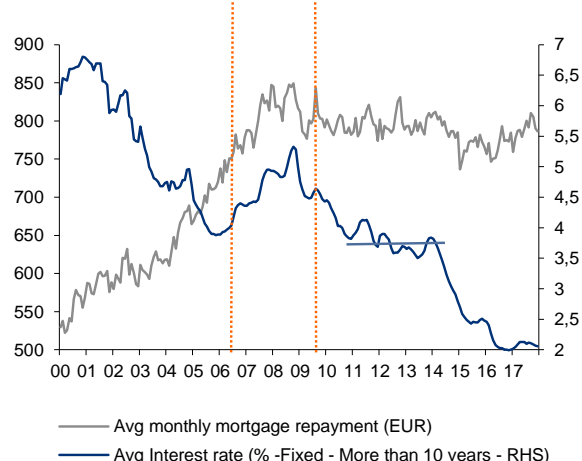
The main subsector of the Belgian mortgage market continues to be the mortgage market for existing home purchases (57% of new mortgage loans in 2017). In 2017, 126,900 of these mortgages were provided by the banking sector, 17% above the average of the previous 10 years, which makes 2017 the best year of production ever after 2016. Volumes reached 19.5 bn€, 50% more than before the crisis (Cf. Figure 4). Low interest rates are believed to be the main factor behind this exceptional situation which contrasts starkly with the previous years: for example, 2014 was special because of a fiscal change in Flanders (December 2014 saw twice as much transactions as a normal month, which accidentally put the number of new mortgages produced in 2014 well above average). Without this phenomenon, 2014 would have been (together with 2009) the weakest year of production since 1995.

Fig 5 Mortgages, prices and financial assets



Source: Stat.NBB, ECB, ING

Fig 6 Monthly repayments and rates



Source: Stat.NBB, DGSIE, ING

On the new building mortgage market: low interest rates pushed the number of new mortgages up by one third (to around 32,000) in 2016 and 2017, which almost entirely explains the increase in volumes, by 38% (to 5.3 Bn€ in 2017, a record) for new building projects. For renovation projects, the number of mortgages which had remained stable (around 70,000 and 3Bn€) in 2016, declined by 22% to 53,500 in 2017, its lowest level since 2008. That said, with lower interest rates, the average amounts borrowed jumped by 14% for renovation projects while the increase was more moderated in house purchase and new building projects (+2.8% and +6.8% respectively).

It has however to be noted that the building sector has still not recovered from the crisis with building volumes in 2017 still being under 2006 levels in the three regions, and especially in Wallonia (respectively 13%, 33%, 58% lower than in 2006 in Flanders, Wallonia, and Brussels). Finally, one has to note that mortgage refinancing, which reached unprecedented levels in 2015 with 10.2Bn€ of refinanced mortgages (more than the three previous years taken together), remained elevated in 2016 (6.8 Bn€) but decreased strongly in 2017 (3.4Bn€). In the last five years, 26.6 Bn€ of mortgages have been refinanced, the equivalent of 12.3% of the outstanding mortgage stock.

⁶ Source: National economic statistic database of the NBB: <http://stat.nbb.be/> (Survey on mortgage destination)

Important capital transfers towards the real estate market also underline that Belgium is a country with one of the highest savings rates in Europe (11.3% in 2017)⁷. This is particularly important as the borrower bears full responsibility for the mortgage on all of his/her assets and not just the underlying property. As Belgian households' assets are among the highest in Europe, this makes the total mortgage market relatively small compared to the financial assets of Belgians: total long term liabilities of Belgian households increased as a share of their gross financial assets from 9% at the end of 1999 towards 16% in 2012 and has been stable since then while it was increasing in terms of GDP (Cf. Figure 5). Even if this is historically high for Belgium, it is one of the lowest rates in the Eurozone.

This explains the relatively low default rate: at the beginning of 2017, only 30,875 mortgage loans (out of 3,089,858 existing contracts or 1.1%⁸) were delinquent. This rate has been stable for more than a decade, even if a minority of riskier categories (longer maturities with higher loan to value ratios) have default rates thought to be higher.

Housing market outlook

The Belgian real estate market is regularly top-listed by the OECD World Economic Outlook as the most overvalued in the industrial world (in the range of 20 to 25%) because the price-to-income and price-to-rent ratios have never been so high above their historical average. According to ING's measure of real estate affordability, it has never been as difficult to purchase a home for a Belgian resident as in 2008. This has raised worries of a potential correction among investors and mortgage issuers in Belgium ever since, to the point that the National Bank of Belgium itself is now calling for even more caution from lenders, although they already are among the most cautious in the world. It should be noted that thanks to stagnating prices and declining interest rates, affordability has increased somewhat since 2008 (and can now be compared at the 2010 market conditions following ING's affordability index).

As one of the main mortgage issuers in the country, ING⁹ has developed a view on this situation, which mitigates the OECD perspective and is summarized hereafter. It is possible to explain the growing gap between income and prices through several factors that were responsible for exceptional price developments in the 2000s. However, the current situation is certainly at a fragile equilibrium, because of those very factors.

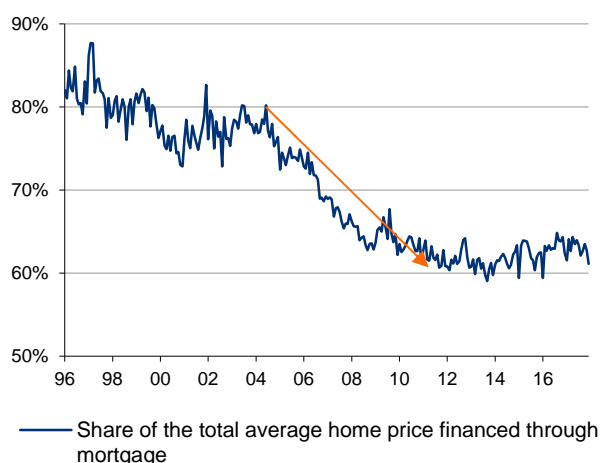
During the years 2000-2008, house price increases saw an acceleration. This exceptional period of high growth rates (responsible for most of today's measures of overvaluation) can be explained by three factors. Firstly, financial conditions were easier in the 2000s (interest rates were decreasing and maturities were lengthening from less than 20 years towards 25) and households used this to increase their leverage so that their monthly repayments increased throughout the period (by 38% between 2002 and 2008 – Cf. Fig 6). Even in the period 2008-2014, they have been decreasing very slowly (by less than 0.5% per year) because of stagnating incomes and despite lower interest rates. Secondly, fiscal conditions were easier in the 2000s for borrowers and investors (who were favored by the DLU (*Déclaration Libératoire Unique*) – a fiscal operation consisting of repatriating undeclared money in Belgium at a special tax rate which was lower if this money was invested in real estate). (*More details to be found in the section "Tax system"*). Thirdly, starting in 2004 (when the tax law on donations was revised), buyers continuously increased their own capital contribution: from 20% of the average sold home value in 2004, it reached an average of 40% in 2013 and has remained elevated ever since (Cf. Fig 7), making it even more difficult for those without enough savings to access the real estate market. The market stability is therefore also due to the large saving reserves that Belgian households have accumulated throughout the years: Belgium has one of the highest net financial wealth of Europe in terms of GDP, which will be a market stabilizer as long as they remain keen on having bricks in their portfolios.

⁷ Source: National economic statistic database of the NBB: <http://stat.nbb.be/> (Sector Accounts)

⁸ Source: National economic statistic database of the NBB: <http://stat.nbb.be> (Financial Statistics).

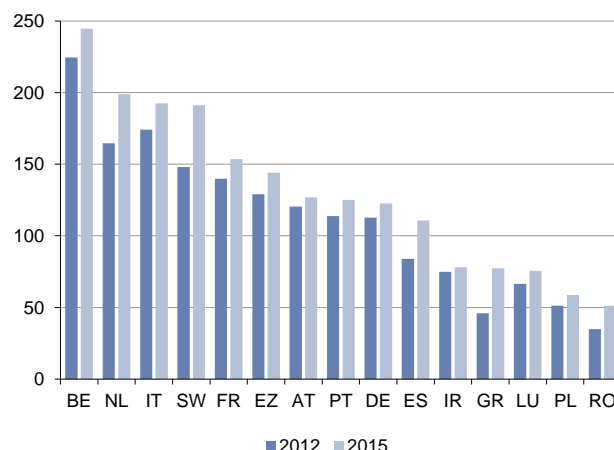
⁹ The ING Focus real estate is an ING research publication released twice a year and available on <https://about.ing.be/Over-ING/Publicaties/Publicaties/ING-Focus-Belgian-Real-Estate-BRE.htm>.

Fig 7 Personal capital contribution has been growing



Source: NBB, DGSIE, ING

Fig 8 Net financial wealth of European households (% of GDP)



Source: Eurostat database: <http://ec.europa.eu/eurostat/data/database> (nasa10_f_bs)

These three factors fully explain why prices have been able to distance themselves from incomes during the booming years (until 2008). Since then, own capital contributions have remained elevated, without growing further while interest rates reached a first kind of floor between November 2011 and March 2014 (an historical low of 3.7% on fixed mortgage interest rates of more than 10 years). These stagnations explain why house price growth has remained quite limited between 2009 and 2014 (0.8% per year on average in real terms).

Since March 2014 however, ECB's monetary policy pushed long-term interest rates even lower, with the average fixed mortgage interest rates (of more than 10 years) dropping by 170bp to 2.0% in December 2015. Last time a more than 100bp drop in interest was observed, it was in early 2006 and price growth was roaring at more than 11% a year. This time around, the effect has not been entirely translated into prices. Indeed, the average monthly repayment significantly decreased in 2015/2016 for the first time since the early nineties, leaving space for only a limited jump in average mortgage amounts. These increased significantly for the first time since 2006 though, by 3.7% per year in 2014-2016, before slowing down to 2.8% in 2017. This gave rise to a 4% price rebound in 2015. This has already triggered a warning by the NBB, saying that the price increase of 2015, coupled with the lower borrowing capacity of households due to the fiscal changes, had probably increased the market price overvaluation. As price dynamics were more subdued in 2016 and 2017 (+0.8% and +2.6% respectively), the NBB recently scaled down this measure towards 8% (June 2017 NBB Economic Review).

Looking forward, financial conditions are not going to improve any longer: maturities are shortened and the costs of Basel III will have to be incorporated in interest margins. Moreover, reference interest rates could also be raised in Frankfurt at some point in 2019.¹⁰ All these elements point to higher interest rates on mortgage loans, which are currently at an all-time low of 2.0% on average (fixed rates, maturities longer than 10Y, source: NBB). It is estimated that for each 100bp of higher rates, the borrower loses 9% of purchasing power. A 9% (per 100bp increase) can be translated into a drop in prices when the home owner is not able to compensate this loss with their own capital contribution.

¹⁰ ING's views on major interest rates developments are updated every month in an international publication available here: <https://about.ing.be/About-ING/Publications/Publications/Monthly-Economic-Update.htm>.

Capital contribution will therefore have to increase if interest rates move upwards (if households prove unable to increase their monthly repayments because of their budget constraint, they will have to bring in more capital than before to complete a given purchase). However, there is a concern that the scope for further capital contribution growth is limited. Indeed, the share of borrowers that actually have a considerable capital contribution is approximately one third (of all home buyers). This means that this third engine of house prices (capital contribution growth) relies mainly on investors who have already made a large capital contribution (that a tighter fiscal environment could discourage, together with a return of risk appetite). It also relies strongly on future (young) owners' parents (who help their children when they buy a home), which are also discouraged by the lengthening of their life expectation and the rise in their living expenses.

To conclude, the Belgian real estate market has proven to be resilient to the economic shocks of the last years and has been continuously seen by many as a safe-haven investment opportunity. However, the risks for the future are on the downside, especially for the 2019-2020 period which, ING Economic Department believes, will bring an unfavourable mix of investor discouragement, higher mortgage interest rates and a less favourable fiscal environment (see below). In this context, ING does not believe that the 1999-2008 historical price development will be repeated any time soon and that a moderate correction - in real terms – is likely over the current decade.

Household debt and net financial asset position

The overall debt ratio of Belgian households increased to 65% of GDP in Q3 2017, from 47% at the end of 2007. Outstanding mortgages represented 52.5% of GDP. According to the National Bank of Belgium (NBB Financial Stability Review 2014 (pp112-151)), three main factors have contributed to this increased indebtedness: (i) an increase in the number of mortgage loans outstanding, (ii) an increase in the average amount of new mortgage loans, and (iii) a decline in the rate of amortisation of the outstanding stock.

Belgian households have a very high net financial asset position, in comparison with other Euro area countries. The net financial asset position is calculated as the difference between the financial assets and the financial liabilities of households. 'Financial assets' comprise deposits and savings accounts, investments in bonds, etc. Real estate is not taken into account. 'Financial liabilities' refer to loans, debit amounts on an account, etc. Please see "Financial Stability Review" as published by the NBB for more information and Figure 5.

Tax system

For a large part, Belgian households live in their own properties, which is due to a tax system that encourages home ownership. In 2011, it had an owner occupation rate of more than 70%, which is higher than the EU average of 68.9% in 2009.

The tax system has since long been promoting home ownership, but between 2005 and 2014 the system had become even more favourable for Belgians' primary residence. Interest payments, principal redemptions and insurance premiums were all deductible for up to EUR 2,300 per person per year (amount for the tax year 2013). On top of this, this ceiling is increased by EUR 730 per person per year (amount for the tax year 2013) in the first ten years of the mortgage loan.

This system led to more mortgage financing for house purchases. Before 2005, around 80% of purchases of existing homes were financed at least in part by a mortgage loan. Since 2005, this has increased to more than 90%. (Source: National economic statistic database of the NBB: <http://stat.nbb.be/> (Survey on mortgage destination))

However, fiscal conditions have changed dramatically on January 1st 2015. Indeed, as part of the political agreement on a State reform reached in 2011, the Regions (i.e., Flanders, Wallonia and Brussels) became competent for tax incentives (including tax reductions and tax credits for mortgage loans) regarding the purchase of own dwellings as of July 2014. Flanders decided to limit the deductible amount to 2280 EUR during the first 10 years (minus 730 EUR after 10 years) and to change the deduction rate to 40% (before, it was linked to the marginal tax rate, 50% or 45% in most cases).¹¹ Wallonia decided to change the deduction rate to 40% for the year 2015. This should have an impact of 10%-15% (in Flanders) on most buyers' ability to borrow. ING expects that this effect will be partly transmitted to home price growth during the next few years. In 2015 however, lower interest rates should still have helped buyers to mitigate the effects.

More changes intervened in Wallonia in 2016 which considerably increased its budget cuts by changing the form of the fiscal advantage. It becomes the 'cheque habitat', a fiscal reduction (each borrower can have 20 cheques during his/her lifetime) that depends on people's incomes (the larger the income, the lower the cheque) and the house value.¹² The shock on people's ability to borrow should range from 10% (for lowest incomes) to 20% (for higher income), affecting prices already in 2016.

In Brussels, the fiscal advantage has disappeared altogether in 2017, which brings a net present value cost of around 50,000€ for every future borrower compared with the system valid until 31/12/2016.¹³ This loss is compensated partially (and not for all types of buyers) by a reduction in registration tax of around 15,000€. The effects on the Brussels market remain to be evaluated.

In recent years, there was also a favourable treatment for other properties (for example second homes). This change in the mortgage deduction was preceded by a tax amnesty in 2004. Illegal offshore money could be legalised by paying a fee of 9%. The fee was lowered to 6% if the money was reinvested in certain assets. Money reinvested in the purchase, construction or renovation of real estate also qualified for the lower fee of 6%. This tax amnesty led to a surge in house prices in 2004-2005, as legalised money was largely invested in Belgian real estate.

Between 1 January 2009 and 31 December 2011, another tax incentive led to a sharp increase in the number of mortgage loans. As part of a fiscal stimulus package, a favourable tax regime for "green loans" was introduced. The sole purpose of these loans was the financing of pre-defined energy-saving investments (e.g. replacing or maintenance of heating system; solar panels; double glazed windows; insulation of roofs, floor or walls; thermostatic valves; energy audits; etc.). For loan amounts between EUR 1,250 and EUR 15,000 per person/house/year, households could benefit from an interest rate reduction of 1.5% and a tax reduction of 40% (30% since 2012) of the remaining interest rate costs. Most of the loans under this "green loans" agreement were made in the form of a(n) (additional) mortgage loan. The number of new loans for renovation purposes surged from an annual average of 36,000 in the period 2000-2008 to an annual average of 100,000 in the years 2009-2011. The large number of loans in these three years resulted in new production totalling EUR 8.7 billion. The end of the fiscal advantage (at the end of 2011) triggered a drop in mortgage production for transformation purposes of 57.5% in 2012 and 7.1% in 2013. It is only in 2014 that volumes recovered somewhat helped by lower interest rates, without catching up 2011's peak. (see above).

Registration tax

Another important element of the Belgian house market is the high level of registration taxes on the purchase of a real estate property.¹⁴ Registration tax differs between regions. In Flanders, policy is recently reformed and should be in place from June 2018 onwards. The registration tax on family homes will equal 7%. For homes that costs less than 200,000€ there is an exemption on the first tranche of 80.000€. For homes in Flemish core cities and the 'Vlaamse Rand' (Municipalities neighbouring Brussels), the level to get the exemption is 220.000€. This exemption yields 5600€.

¹¹ Source: Regeerakkoord Vlaamse regering 2014-2019 – p91: http://static.tijd.be/upload/Het_regeerakkoord_Vlaamse_Regering_2014_2019_5032071-1501415.pdf

¹² Source : Walloon Government <http://www.wallonie.be/fr/actualites/cheque-habitat-le-nouvel-avantage-fiscal-lie-au-logement>.

¹³ Source: Brussels Capital region Government <http://fiscalite.brussels/reforme-fiscale-2>

¹⁴ An overview of the system can be found on the website of the National Notary Association: <https://www.notaire.be/acheter-louer-emprunter/1-droits-d-enregistrement>.

In Brussels, it is at 12.5% of the sale value, with a tax-free amount for the first EUR 60,000. On the 01/01/2017, the first 175,000€ (of home value) will be freed of tax (for values below 500,000€). In Wallonia, it is at 12.5% of the sale value, that could even be increased to 15% (after the second residence) in 2017. However, there are also several special regimes in Wallonia, notably for low incomes (where the rate is not 12.5% but 5%, and even 0% for some ecological projects) or modest homes (the tax rate of the first 150,000€ can be lowered to 6% under some conditions).

As a consequence of these registration taxes, the turnover on the Belgian residential real estate market remains quite low compared to other countries. Though the registration tax is now transferable in the Flanders region, this has not yet led to a sizeable increase in turnover.

Mortgage mandates – a Belgian particularity

There is also a tax in Belgium on the mortgage registration, which amounts to 1% of the size of the mortgage. In order to reduce mortgage registration fees and taxes, a mortgage mandate (*hypothecair mandaat/mandat hypothécaire*) is frequently used. A mortgage mandate is an agreement between the borrower and a proxy whereby the borrower gives the proxy an irrevocable and unconditional power of attorney to unilaterally (no further involvement of the borrower required) create a mortgage on a predefined property in favour of the lender (up to a certain predefined amount). This mandate can be exercised at any time.

It is market practice in Belgium to grant a residential mortgage loan partially covered by a mortgage (frequently up to the maximum tax benefit) and partially by a mandate. This way the borrower avoids part of the mortgage registration fees it needs to pay.

Main characteristics of Belgian mortgage loans

Over the past years, Belgian households have shown a strong preference for fixed rate loans, or rates which are fixed for relatively long periods. However, there are occasional surges in mortgage loans which are reset more frequently, if the yield curve is favourable.

The law imposes a large set of restrictions on resettable mortgage rates that protect the debtor against large interest rate shocks. The reference interest rates are the Belgian 12-month T-bill and longer-term OLO yields. The minimum reset frequency is 1 year. The margin is fixed at origination. After the first year, the interest rate may increase by maximum one percentage point compared to the original interest rate. After the second year, the interest rate may increase by maximum two percentage points compared to the original interest rate. Over the whole duration of the mortgage loan, the interest rate may increase to maximum the double of the original interest rate.

The maturity of a mortgage inscription is capped at 30 years by law. Therefore, real estate loans exceeding 30 years are rare. The share of mortgage loans with an original maturity exceeding 20 years has increased strongly in recent years.

Most mortgage loans are reimbursed in constant annuities, with also a small part in constant principal reimbursement (linear amortisation). The share of interest-only loans remains low.

Mortgage amounts by reimbursement type and vintage

In 2017, borrowers predominantly preferred to take out a longer fixed rate period mortgage loan. 78.2% of mortgage loans were fixed permanently and 10.3% are fixed for the first ten years of the loan.

There are a limited amount of short-term variable rate loans originated. Approximately 4.6% were variable in a time period of one to five years in 2017.

Average mortgage loan for the purchase of a home in 1Q18 was approximately 157.000 euros. The average mortgage loan for the purchase of a house and renovation was approximately 184,000 euros.¹⁵

The majority of mortgage loans are taken out for the purchase of an existing property (61.2% of total loans in 2017), as opposed to new construction (13.3% of total loans in 2017).¹⁶

¹⁵ Source: Credit Professionals Union – UPC/BVK – Press release of 2th May 2018).

¹⁶ Source: National economic statistic database of the NBB: <http://stat.nbb.be> (Survey on mortgage destination).

DESCRIPTION OF THE ISSUER

References to certain pages in this section explicitly refer to documents included in “*Annex I – Annual Financial Statements*” to this Prospectus.

1. Statutory Auditors

KPMG Bedrijfsrevisoren BV CVBA, member of the “*Institut des Réviseurs d’Entreprises*” in Belgium, represented by Olivier Macq, Partner, has audited the consolidated accounts for the financial years 2016 and 2017 and has issued unqualified opinions on these financial statements.

Such Auditors have not resigned, been removed nor failed to be re-appointed during the period covered by the historical financial information. Their reports are incorporated therein by reference (see “*Annex I – Annual Financial Statements*”).

2. Risk Factors

For the risk factors concerning the Issuer, please consult the “*Risk Factors*” section.

3. History and general information about the Issuer

The Issuer was formed under the name Bank Brussels Lambert S.A. through a merger of Banque de Bruxelles and Banque Lambert, which was effected on June 30, 1975 as a further development of the holding companies of the two banks which took place in 1972. An Extraordinary General Meeting held on April 17, 2003 adopted a resolution to change the name into ING Belgium SA/NV as from April 22, 2003.

Banque de Bruxelles was founded in 1871 and during the next 60 years acquired interests in other banks in the main cities in Belgium. By 1931, these banks had been absorbed into a single entity, whose operations included not only traditional banking activities, but the management of an industrial portfolio with interests in Belgium and Africa. Following the Belgian banking reforms of 1934-35, the Bank’s activities were transferred to a new company, bearing the same name, which was formed on January 30, 1935. This achieved the separation of the holding company’s banking activities from its industrial interests, as required by the reforms.

Banque Lambert had its origin in the banking business founded by the Lambert family, active bankers in Belgium since Belgian independence in 1830. Banque Lambert expanded its banking activities rapidly after 1945 by successive mergers with various privately owned banks.

The Issuer is a public company with limited liability (*Naamloze Vennootschap/Société Anonyme*) existing for an unlimited duration under Belgian law. Its registered office is at Avenue Marnixlaan 24, B-1000 Brussels, Belgium.

The Issuer is recognised as a credit institution under the provisions of the Law of 25 April 2014 on the legal status and supervision of credit institutions.

Since the beginning of 1998, the Issuer has been a wholly owned subsidiary of ING Bank as defined below.

Legal name:	ING Belgium SA/NV
Commercial Name:	ING
Registered office:	Avenue Marnix 24, B-1000 Brussels, Belgium Switchboard: +32 2 547 21 11; Fax: +32 2 547 38 44
Website	https://about.ing.be/NL/About-ING.htm
General postal address:	Cours Saint-Michel 60, B-1040 Brussels
Company registration:	Brussels company register (<i>registre des personnes morales – rechtspersonen-register</i>) under number 0403.200.393
Legal Form:	<i>Société Anonyme/Naamloze Vennootschap</i>
Country of Incorporation:	Kingdom of Belgium
Date of Incorporation:	30 January 1935
Legislation applicable:	Belgian Law

There are no recent events particular to the Issuer which, to a material extent, are relevant to the evaluation of the Issuer's solvency.

4. Business Overview

ING in Belgium

ING Group is a global financial institution of Dutch origin offering banking services through its operating company ING Bank. ING Bank's more than 51,000 employees offer retail and wholesale banking services to customers in over 40 countries.

ING Belgium NV/SA is a financial institution focusing its core activities on Retail & Private Banking and Wholesale Banking. The bank caters over 2.9 million clients in Belgium with a wide range of financial products via the distribution channel of their choice.

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

Strategy

The purpose of ING is to empower people to stay a step ahead in life and in business.

The purpose guides ING in everything it does. It's founded on its belief that ING's role as a financial institution is to support and promote economic, social and environmental progress, and at the same time generate healthy returns for shareholders.

Our strategy

ING's strategy is built around empowerment and the promise to customers to make banking clear and easy, available anytime and anywhere and to keep getting better.

But banking is changing. It's being disrupted by newcomers using new technologies like blockchain, robotics and artificial intelligence. Customer expectations are changing too, shaped by their experiences online and on their smartphones: personal, instant, relevant and seamless.

It's tech companies like Google, Facebook and Amazon that are setting the standard for how people interact with the brands they love. To remain relevant and continue delivering a differentiating experience for customers, ING has to be where they are: on the digital platforms where they are shopping, socialising and doing business.

ING has to find ways to empower people and businesses on their preferred platforms with a clear and easy experience – or become a platform business themselves.

Like ING, platforms are empowering and put people in the driving seat of their own situation. But their real advantage is their mastery of data. Knowing what people want and need helps them to drive value for themselves and their users. This attracts more users, which in turn attracts more businesses to the platform. A virtuous circle.

The other thing about platforms is that they are scalable, open and borderless, offering their users the same experience everywhere. With little to differentiate one bank's products from another, ING believes its customer experience that will set ING apart.

To create this superior customer experience, ING is focusing on four strategic priorities: using their advanced data capabilities to understand its customers better and meet their changing needs, innovating faster, thinking beyond traditional banking to develop new services and business models and earning the primary relationship. By this ING means increasing the number of Retail customers with more than one ING product (including a current account into which their salary is paid), and growing its share of Wholesale Banking clients with anchor products such as lending and transaction services.

ING will do this by simplifying and standardising its products and processes, being operationally excellent, enhancing its company's performance culture and expanding its lending capabilities, so that all its customers everywhere will have the same empowering ING experience.

Strategy of ING Belgium

New business model

The year 2017 was marked by the start of the transformation towards the new business model. For every individual at ING, it was an intense year.

Redeployment process on track

5,000 colleagues were in scope of the redeployment process (applying for a function in the new organisation). ING strived for a maximal number of matches, which has so far resulted in almost 90% being matched. Several options have been developed to allow people to leave the company. In short:

- 138 have left the organization by means of the 'early leave' measure (55+), another 759 have decided to make use of this arrangement before the end of 2021;
- 55 employees have decided to 'start their own business' with ING support;
- 448 employees were granted voluntary or recognized leave;
- ING was able to limit the number of dismissals to 120 in 2017.

Training employees in the One Agile way of working

In 2017 about 2,200 employees were trained on the principles of the One Agile way of working. This to prepare them for the Agile way of working that is the norm for the delivery organization of ING as from January 2018. This new way of working has as a consequence that teams are organized in a completely different way with Agile squads instead of hierarchical vertical structures:

- Autonomous and self-steering;
- Maximum nine multidisciplinary members;
- Advantage that innovation can be deployed more quickly for customers.

New distribution model

Bankers fully focused on advice: The launch of the new retail organization will be in effect as from March 2018. It will allow ING to completely change the direction of the branch concept, with the local bankers fully focused on advice;

Revision of the branch network: In 2017 the first ING Client House was officially opened. A new branch concept that aims to be a reflection of what is happening in society: far-reaching digitization + an urge for personal contact and local anchoring. In April 2018, Record Bank, a former 100% subsidiary of ING which serves retail and small business customers with a full range of safe, simple and transparent products in daily banking, lending, savings and investments, has joined forces with ING. Record Bank customers experience a larger network coverage and an improved service using the digital ING platform;

Customer Loyalty Teams: With the Customer Loyalty Teams (CLT's), ING is also aiming resolutely for a differentiating customer experience. The deployment of the CLT's will take place as from March 2018.

Staff evolution

In the course of 2017, the total number of staff (in full time equivalent, or FTE's) of ING Belgium SA/NV consolidated decreased by 6% from 9,843 FTE's to 9,236 FTE's.

While overall staffing members declined in 2017, the bank was able to continue to recruit new staff equal to 446 FTE's to meet its strategic goal.

Retail Belgium

Retail Belgium includes ING in Luxembourg. It represents income from retail and private banking activities in Belgium (including Luxembourg), including the SME and mid-corporate segments.

The underlying result before tax of Retail Belgium fell 18.3 percent to EUR 785 million in 2017, compared with EUR 961 million in 2016. The decline mainly reflects lower net interest income and higher expenses, partly offset by lower risk costs and increased fee income.

Underlying income decreased to EUR 2,473 million from EUR 2,573 million in 2016. The interest result declined 4.9 percent to EUR 1,842 million, mainly due to lower margins on savings and current accounts, and lower prepayment and renegotiation fees on mortgages; this was partly offset by volume growth in lending. The net production in customer lending (excluding Bank Treasury) was EUR 4.7 billion, of which EUR 3.2 billion was in mortgages and EUR 1.5 billion in other lending. The net inflow in customer deposits was EUR 1.4 billion compared with year-end 2016. Commission income rose 6.0 percent, predominantly higher investment product fees. Investment and other income fell by EUR 29 million, as 2016 included a gain on the sale of Visa shares.

Operating expenses rose by EUR 146 million, or 10.2 percent to EUR 1,584 million, mainly due to higher expenses related to the transformation programmes and the EUR -95 million oneoff expense adjustment in 2016.

Risk costs dropped by EUR 71 million to EUR 104 million, or 30 basis points of average risk-weighted assets. The decrease was fully in business lending, while risk costs for mortgages and consumer lending were broadly stable.

Wholesale Banking

Through the Wholesale Banking business ING also serves corporate clients and financial institutions. For corporate clients and financial institutions ING provides specialised lending, tailored corporate finance and debt and equity markets solutions. ING also offers working capital, payments and cash management and trade and treasury services to help them achieve their business goals. One of ING's strengths is its international Wholesale Banking network, which spans over 40 countries in Europe, Asia and the Americas.

Foreign Branches

The activities of Wholesale Banking Switzerland are part of the legal perimeter of the Issuer.

5. Risk Management

Information on Risk management can be found in the Issuer's Annual Report 2017 on page 79 onwards (see "*Annex I – Annual Financial Statements*").

6. Management of the Issuer (Board of Directors)

Eric Boyer de la Giroday, Chairman of the Board of Directors

Erik Van Den Eynden, Chief Executive Officer

Tanate Puthrakul, Managing Director

Krista Baetens, Managing Director

Emmanuel Verhoosel, Managing Director¹⁷

Philippe Wallez, Managing Director

Frank Stockx, Managing Director

Johan Kestens, Managing Director

Baron Luc Bertrand, Chairman of the Executive Board, Ackermans & van Haaren¹⁸

Baron Philippe de Buck van Overstraeten, Member of the European Economic and Social Committee¹⁸

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

Roland Boekhout, Non-executive Director, Member of the MBB of ING Bank N.V.

Paul Mousel, Independent Non-executive Director

Christian Jourquin, Independent Director¹⁸

Pinar Abay, Non-executive Director, CEO, ING Bank Turkey

Swee-Im Ung, Independent Non-executive Director

¹⁷ until 30 June 2018

¹⁸ until 25 April 2018

Sonja Rottiers, Independent Non-executive Director

Ingrid De Poorter, Independent Non-executive Director¹⁹

7. Key figures

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

ING Belgium NV/SA – Consolidated assets

In EUR millions	2017	2016	%
Cash and balances with central banks	9,558	5,009	+ 90.8%
Amounts due from banks	10,216	9,885	+ 3.3%
Financial assets at fair value through profit and loss	8,292	13,176	- 37.1%
Investments	15,162	17,949	- 15.5%
Loans and advances to customers	106,444	101,633	+ 4.7%
Remaining assets	2,146	2,767	- 22.4%
Total Consolidated assets	151,818	150,419	+ 0.9%

ING Belgium NV/SA – Consolidated liabilities and Equity

In EUR millions	2017	2016	%
Deposits from banks	16,645	13,334	+ 24.8%
Customer deposits	100,896	97,046	+ 4.0%
Financial liabilities at fair value through profit and loss	10,916	16,672	- 34.5%
Remaining liabilities	13,175	13,077	+ 0.7%
Shareholder's equity	10,168	10,268	- 1.0%
Minority interests	18	21	- 14.3 %
Total Consolidated Liabilities and Equity	151,818	150,419	+ 0.9%

ING Belgium NV/SA – Consolidated Income statement

In EUR millions	2017	2016	%
Financial and operational income/expenses	3,351	3,455	-3.0%
<i>of which: net interest income</i>	<i>2,393</i>	<i>2,547</i>	<i>-6.0%</i>
<i>Of which: commissions and fees</i>	<i>626</i>	<i>560</i>	<i>+11.7%</i>

¹⁹ As from 15 July 2018.

<i>Of which: other income</i>	332	348	- 4.5%
Total expenses	-2,187	-2,686	- 18.6%
<i>of which: staff expenses</i>	-1,086	-1,053	+ 3.2%
<i>of which: administration expenses</i>	-609	-393	+ 55.0%
<i>of which: bank levies</i>	-218	-221	- 1.3%
<i>of which: depreciations</i>	-105	-116	- 10.1%
<i>of which: loan loss provisioning</i>	-165	- 209	- 21.0%
<i>of which: other provisions and impairments</i>	-5	-695	- 99.3%
Profit before taxes	1,164	769	+ 51.3%
Taxation	-425	-196	+ 117.0%
Profit after tax	739	573	+ 28.9
Third-party interest	2	-1	-232.2%
Consolidated net profit	741	572	+29.5%

ING Belgium NV/SA – CET1 Capital Ratio

CET1 Fully loaded (2016, actuals): 14.54%

CET1 Phased in (2016, actuals): 14.27%

8. Trend Information

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

9. Profit Forecasts or Estimates

The Board of Directors does not formulate any forecasts for the results for the period under review, in line with the position drawn up by the Executive Board of ING Group.

10. Administrative, Management and Supervisory Bodies

10.1 Members of the administrative, management and supervisory bodies

Information on the administrative, management and supervisory bodies of the Issuer can be found in the Issuer's Annual Report 2017 on page 14 onwards. (see "*Annex I – Annual Financial Statements*").

All members of these bodies have elected domicile at the registered office of the Issuer, Avenue Marnixlaan 24 at B-1000 Brussels for the purpose of their functions within the Issuer.

10.2 Potential conflicts of interest

The Issuer confirms that, to the best of its knowledge, at the date of this Base Prospectus, there are no conflicts of interests, potential or not, between any duties to the Issuer of the persons referred to in the Issuer's Annual Report 2017 at pages 15 to 18 and their private interests and/or other duties (see "*Annex I – Annual Financial Statements*").

11. Board Practices

11.1 Audit Committee

The Board of Directors has set up, from among its members, an Audit Committee. The members of the Audit Committee of ING Belgium are:

- Count Diego du Monceau de Bergendal, Chairman
- Baron Philippe de Buck van Overstraeten (until 25 April 2018)
- Christian Jourquin (until 25 April 2018)
- Sonja Rottiers
- Swee-Im Ung

11.2 Risk Committee

The Board of Directors has set up, from among its members, a Risk Committee. The members of the Risk Committee of ING Belgium are:

- Count Diego du Monceau de Bergendal, Chairman
- Baron Philippe de Buck van Overstraeten (until 25 April 2018)
- Christian Jourquin (until 25 April 2018)
- Sonja Rottiers
- Swee-Im Ung

11.3 Nomination Committee

The Board of Directors has set up, from among its members, a Nomination Committee. The members of the Nomination Committee of ING Belgium are:

- Eric Boyer de la Giroday, Chairman
- Roland Boekhout
- Paul Mousel

11.4 Remuneration Committee

The Board of Directors has set up, from among its members, a Remuneration Committee. The members of the Remuneration Committee of ING Belgium are:

- Eric Boyer de la Giroday, Chairman
- Roland Boekhout
- Paul Mousel

11.5 Corporate governance

See 'ING Belgium SA and the rules of corporate governance' on pages 14 to 18 of the Issuer's Annual Report 2017 (see "*Annex I – Annual Financial Statements*").

12. Major Shareholders

There are for the time being no arrangements known to the Issuer which might result in a subsequent change of control of the Issuer.

13. Financial Information

13.1 Historical financial information

The audited consolidated accounts 2016 are prepared according to International Financial Reporting Standards (**IFRS**), and are to be found in the Issuer's Annual Report 2017 from page 19 onwards (see "*Annex I – Annual Financial Statements*").

13.2 Financial statements

The consolidated financial statements 2017 are included in the Issuer's Annual Report 2017 from page 21 onwards (see "*Annex I – Annual Financial Statements*").

13.3 Auditing of historical annual financial information

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

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

No other information in this Prospectus has been audited by the Issuer's Auditors.

13.4 Age of latest financial information

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

14. Governmental, legal and arbitration proceedings

ING Belgium and its subsidiaries are involved in legal proceedings in Belgium and abroad involving claims by and against them which arise in the ordinary course of their business, including in connection with their activities as lenders, investors and taxpayers. In certain of such proceedings, large or indeterminate amounts are claimed, including damages. While it is not feasible to predict or determine the ultimate outcome of all pending or threatened proceedings, management does not believe that their outcome will have a material adverse effect on ING Belgium's financial position or operating results, taking into account provisions made for some of these cases.

The bank has been summoned by some customers who subscribed (or intended to subscribe) floating rate credit facilities with ING or another bank and who signed an IRS contract (**Interest Rate Swap**) with ING Belgium in 2007-2008 in order to hedge the increase of the interest rates which had been announced. ING has obtained favourable judgments in first degree in all the cases. The appeal procedure is ongoing for some cases. One case resulted in a judgment of the Court of Appeal, in favour of ING.

ING Belgium has also been summoned by an IT services supplier with whom an agreement was concluded on the outsourcing of the conservation and the execution of orders relating to financial instruments. The performance of this contract by the supplier being unsatisfactory, ING Belgium terminated the agreement in accordance with its terms. This termination was disputed by the supplier. ING won in the first instance. The IT services supplier lodged appeal.

Record Bank, a former subsidiary of ING Belgium which was merged into ING in April 2018, has received multiple summons from clients of some of its independent agents. Without knowledge of Record Bank, these independent agents have received funds from their clients to be invested with a third party with whom Record Bank has neither a link nor a business relationship. This third party has since gone bankrupt. Criminal proceedings have been opened, in which Record Bank is no longer prosecuted. A first judgment, favorable to ING, has been rendered in 2017.

In Luxembourg, ING Luxembourg is confronted with several litigations about an alleged responsibility of the bank for fraud by an ex-employee for fraudulent fund collection before 2005. ING Luxembourg is also involved in two cases concerning so called fraudulent operations regarding cash companies before 2002. In these cases, ING Luxembourg and an ex-employee are pursued before the criminal and civil court in Belgium. In one of these criminal cases, ING Luxembourg and its ex-employee have on the other hand been convicted in first instance. An appeal against the judgment has been lodged

15. Significant change in the Issuer's financial or trading position

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

17. Additional information

16.1 Share Capital

Since 30 June 2006, the Issuer's share capital amounts to EUR 2.35 billion represented by 55,414,550 ordinary shares without par value. The Issuer has not issued any other class of shares.

Since 6 August 2004 all the Issuer's shares have been held by ING Group.

16.2 Articles of Association and Purpose

Under Article 3 of its Articles of Association, the company's activity is to carry out, on its own behalf or on behalf of third parties, in Belgium or abroad, any business associated with a banking service, in the broadest sense of the term. This includes, but is not necessarily limited to, all transactions relating to deposits of cash and securities, credit transactions of any nature, financial business, stock-market operations, foreign exchange, issuance, intermediation and brokerage.

The company is also authorised to conduct any other business activities that banks are, or may be, allowed to carry out in Belgium or abroad, such as, inter alia, those relating to the commission and brokerage of insurance services, finance leasing and other leasing services in any form, as well as asset, property, advisory or consultancy services on behalf of third parties within the context of these activities.

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

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

16.3 Material Contracts

There are no material contracts outside the ordinary course of the Issuer's business, which could result in being under an obligation or entitlement that is material to the Issuer's ability to meet its obligation to the Pandbrieven Holders in respect of the Mortgage Pandbrieven being issued.

16.4 Third party information and statement by experts and declarations of any interest

There is no third party information nor statement by experts nor declaration of any interest.

16.5 Documents on display

So long as Mortgage Pandbrieven may be issued or are outstanding under the Programme, copies of the following documents will, when published, be available from the registered office of the Issuer and from the specified office of the Paying Agents:

- the Articles of Association of the Issuer;
- all reports, letters, and other documents, historical financial information, valuations; and
- statements prepared by any expert at the Issuer's request any part of which is included or referred to in the Programme, and the historical financial information of the Issuer for each of the two financial years preceding the date of publication of this Prospectus.

16.6 Consolidated supervision

ING Belgium SA/NV is subject to consolidated supervision by the ECB on the basis of the consolidated financial situation of ING Belgium SA/NV, which covers among other things solvency, pursuant to Articles 165 and following of the Credit Institutions Supervision Law. ING Belgium SA/NV is also subject to the supplementary supervision of the ECB, according to Directive 2011/89/EU of 16 November 2011 amending Directives 98/78/EC, 2002/87/EC, 2006/48/EC and 2009/138/EC as regards the supplementary supervision of financial entities in a financial conglomerate (implemented in Articles 185 and following of the Credit Institutions Supervision Law). The supplementary supervision relates to, among other things, solvency, risk concentration and intra-group transactions and to enhanced reporting obligations.

The consolidated supervision and the supplementary supervision may be aligned as much as possible by the ECB (in conjunction with the other relevant competent authorities) in accordance with Article 170, §2 and §3 of the Credit Institutions Supervision Law.

TAXATION

Belgium

The following summary describes the principal Belgian tax considerations of acquiring, holding and selling the Mortgage Pandbrieven. This information is of a general nature and does not purport to be a comprehensive description of all Belgian tax considerations that may be relevant to a decision to acquire, to hold or to dispose of the Mortgage Pandbrieven. In some cases, different rules may apply. This summary does not describe the tax consequences for a holder of Mortgage Pandbrieven that are redeemable in exchange for, or convertible into assets, of the exercise, settlement or redemption of such Mortgage Pandbrieven or any tax consequences after the moment of exercise, settlement or redemption. Furthermore, this description is based on current legislation, published case law and other published guidelines and regulations as in force at the date of this document and remains subject to any future amendments, which may or may not have retroactive effect.

Prospective holders of Mortgage Pandbrieven are urged to consult their own professional advisers with respect to the tax consequences of an investment in the Mortgage Pandbrieven, taking into account their own particular circumstances and the possible impact of any regional, local or national laws.

General

For the purpose of the below summary, a Belgian resident is (i) an individual subject to Belgian personal income tax (i.e., an individual who has his domicile in Belgium or has his seat of wealth in Belgium, or a person assimilated to a Belgian resident), (ii) a legal entity subject to Belgian corporate income tax (ie a company that has its registered office, its main establishment, its administrative seat or its seat of management in Belgium), or (iii) a legal entity subject to Belgian legal entities tax (i.e. an entity other than a legal entity subject to corporate income tax having its registered office, its main establishment, its administrative seat or its seat of management in Belgium).

A non-resident is a person or entity that is not a Belgian resident. For Belgian income tax purposes, interest includes (i) periodic interest income, (ii) any amounts paid by the Issuer in excess of the issue price (upon full or partial redemption whether or not at maturity, or upon purchase by the Issuer), (iii) if the Mortgage Pandbrieven qualify as "fixed income securities" (in the meaning of article 2, §1, 8° of the Belgian Income Tax Code 1992) in case of a sale of the Mortgage Pandbrieven between two interest payment dates to any third party, excluding the Issuer, the pro rata of accrued interest corresponding to the detention period. "Fixed income securities" are defined as bonds, specific debt certificates issued by banks ('kasbon' / 'bon de caisse') and other similar securities, including securities where income is capitalised or securities which do not generate a periodic payment of income but are issued with a discount corresponding to the capitalised interest up to the maturity date of the security.

Belgian withholding tax

General

The interest component of payments on the Mortgage Pandbrieven made by or on behalf of the Issuer is as a rule subject to Belgian withholding tax, currently at a rate of 30 per cent on the gross amount of such interest. Both Belgian domestic tax law and applicable tax treaties may provide for a lower or zero rate subject to certain conditions.

X/N clearing system of the NBB

The holding of the Mortgage Pandbrieven in the X/N clearing system of the NBB (the **Securities Settlement System**) permits investors to collect interest on their Mortgage Pandbrieven free of Belgian withholding tax if and as long as at the moment of payment or attribution of interest the Mortgage Pandbrieven are held by certain types of investors (the **Eligible Investors**, see below) in an exempt securities account (**X-account**) that has been opened with a financial institution that is a direct or indirect participant (a **Participant**) in the Securities Settlement System of the Nationale Bank van België/Banque Nationale de Belgique. Euroclear, Clearstream, Luxembourg, SIX SIS (Switzerland) or Monte Titoli (Italy) are directly or indirectly Participants for this purpose.

Holding the Mortgage Pandbrieven through the Securities Settlement System enables Eligible Investors to receive the gross interest income on their Mortgage Pandbrieven and to transfer the Mortgage Pandbrieven on a gross basis.

Eligible Investors are those entities referred to in article 4 of the Belgian Royal Decree of 26 May 1994 on the deduction of withholding tax (*koninklijk besluit van 26 mei 1994 over de inhouding en de vergoeding van de roerende voorheffing/arrêté royal du 26 mai 1994 relatif à la perception et à la bonification du précompte mobilier*), which includes *inter alia*:

- (i) Belgian resident companies referred to in article 2, §1, 5°, b) Belgian Income Tax Code of 1992 (*wetboek van inkomstenbelastingen 1992 / code des impôts sur les revenus 1992*) (**BITC**);
- (ii) Without prejudice to article 262,1° and 5° of the BITC, the institutions, associations or companies referred to in article 2, §3 of the law of 9 July 1975 on the control of insurance companies other than those referred to in 1° and 3°;
- (iii) Semi-governmental institutions (*institutions parastatales / parastatalen*) for social security or institutions assimilated therewith, as referred to in article 105, 2° of the Royal Decree of 27 August 1993 implementing the BITC (**RD/BITC**);
- (iv) Non-resident investors referred to in article 105, 5° RD/BITC;
- (v) Investment funds referred to in article 115 of the RD/BITC;
- (vi) Investors referred to in article 227, 2° BITC, that are subject to non-resident income tax (*belasting van niet-inwoners / impôt des non-résidents*) in accordance with article 233 of the BITC and which have used the Mortgage Pandbrieven for the exercise of their professional activities in Belgium;
- (vii) The Belgian State, in respect of investments which are exempt from withholding tax in accordance with article 265 BITC;
- (viii) Investment funds governed by foreign law (such as *fonds de placement / beleggingsfondsen*) that are an undivided estate managed by a management company for the account of the participants, provided the funds units are not publicly issued in Belgium or traded in Belgium; and
- (ix) Belgian resident companies, not referred to under (i), whose sole or principal activity consists of the granting of credits and loans.

Eligible Investors do not include, *inter alia*, Belgian resident individuals and Belgian non-profit organisations, other than those mentioned under (ii) and (iii) above.

Participants to the Securities Settlement System must keep the Mortgage Pandbrieven which they hold on behalf of non-Eligible Investors in a non-exempt securities account (**N-account**). In such instance all payments of interest are subject to withholding tax, currently at a rate of 30 per cent. This withholding tax is withheld by the NBB from the interest payment and paid to the tax authorities.

Transfers of Mortgage Pandbrieven between an X-account and an N-account give rise to certain adjustment payments on account of withholding tax:

- A transfer from an N-account (to an X-account or N-account) gives rise to the payment by the transferring non-Eligible Investor to the NBB of withholding tax on the accrued fraction of interest calculated from the last interest payment date up to the transfer date.
- A transfer from an X-account (or N-account) to an N-account gives rise to the refund by the NBB to the transferee non-Eligible Investor of withholding tax on the accrued fraction of interest calculated from the last interest payment date up to the transfer date.
- Transfers of Mortgage Pandbrieven between two X-accounts do not give rise to any adjustment on account of withholding tax.

When opening an X-account for the holding of Mortgage Pandbrieven, an Eligible Investor will be required to certify its eligible status on a standard form approved by the Belgian Minister of Finance and send it to the participant to the Securities Settlement System where this account is kept. This statement needs not be periodically reissued (although Eligible Investors must update their certification should their eligible status change). Participants to the Securities Settlement System are however required to annually report to the NBB as to the eligible status of each investor for whom they hold Mortgage Pandbrieven in an X-account during the preceding calendar year.

These identification requirements do not apply to Mortgage Pandbrieven held with Euroclear or Clearstream, Luxembourg, SIX SIS (Switzerland) or Monte Titoli (Italy) acting as Participants to the Securities Settlement System, provided that they only hold X-accounts and that they are able to identify the holders for whom they hold Mortgage Pandbrieven in such account. Moreover, the contracts concluded by Euroclear, Clearstream, Luxembourg, SIX SIS (Switzerland) or Monte Titoli (Italy) should contain the commitment that all of their clients-accountholders qualify as Eligible Investors.

Belgian income tax and capital gains

Belgian resident individuals

For individuals who are Belgian residents for tax purposes, i.e., who are subject to the Belgian personal income tax (*personenbelasting/impôt des personnes physiques*), payment of the 30 per cent. interest withholding tax fully discharges them from their personal income tax liability with respect to interest received on the Mortgage Pandbrieven (*précompte mobilier libérateur/bevrijdende roerende voorheffing*). This means that they do not have to report the interest obtained from the Mortgage Pandbrieven in their personal income tax return, provided that Belgian withholding tax was in fact levied on the interest.

Belgian resident individuals may nevertheless elect to report the interest in their personal income tax return. Where the beneficiary opts to report the interest, interest payments will normally be taxed at withholding separate tax rate of 30 per cent. (or at the progressive personal tax rates taking into account the taxpayer's other reported income, whichever is more beneficial). If the interest payment is reported, any Belgian withholding tax retained may be credited.

Capital gains realised on the sale of the Mortgage Pandbrieven are in principle tax exempt, unless the capital gains are realised outside the scope of the management of the transferor's private estate or unless the capital gains qualify as interest (as defined above). Capital losses are in principle not tax deductible.

Different tax rules apply to Belgian resident individuals who do not hold the Mortgage Pandbrieven as a private investment.

Belgian resident companies

Interest attributed or paid to corporate Pandbrieven Holders who are Belgian residents for tax purposes, i.e. who are subject to Belgian corporate income tax (*vennootschapsbelasting / impôt des sociétés*), as well as capital gains realised upon disposal of the Mortgage Pandbrieven are taxable at the ordinary corporate income tax rate of in principle 29.58 per cent. as of assessment year 2019 linked to a taxable period starting at the earliest on 1 January 2018. Furthermore, small and medium-sized companies are taxable at the reduced corporate income tax rate of 20.4 per cent. for the first EUR 100,000 of their taxable base. As of assessment year 2021 linked to a taxable period starting at the earliest on 1 January 2020, the ordinary corporate income tax rate will be 25 per cent., and the reduced corporate income tax rate 20 per cent.

Any Belgian interest withholding tax retained will generally, subject to certain conditions, be creditable against any corporate income tax due and the excess amount will be refundable. Capital losses realised upon disposal of the Mortgage Pandbrieven are in principle tax deductible.

Other tax rules apply to investment companies within the meaning of Article 185bis of the Belgian Income Tax Code.

Belgian legal entities

Belgian legal entities subject to the Belgian legal entities tax (*rechtspersonenbelasting / impôt des personnes morales*) which do not qualify as Eligible Investors (as defined in the Section “*Belgian Withholding Tax – X/N clearing system of the NBB*”) and/or which do not hold the Mortgage Pandbrieven through an X-account in the Securities Settlement System are subject to a withholding tax of 30 per cent. on any interest payments received under the Mortgage Pandbrieven. Such withholding tax then generally constitutes the final taxation in the hands of the relevant beneficiaries.

Belgian legal entities which do qualify as Eligible Investors (as defined in the section “*Belgian Withholding Tax – X/N clearing system of the NBB*”) and which hold the Mortgage Pandbrieven through an X-account in the Securities Settlement System, and which consequently have received gross interest income on the Mortgage Pandbrieven, are required to report and pay the 30 per cent. withholding tax to the Belgian tax authorities themselves.

Capital gains realised on the sale of the Mortgage Pandbrieven are in principle tax exempt, unless the capital gain qualifies as interest (as defined above). Capital losses are in principle not tax deductible.

Organisation for Financing Pensions

Interest and capital gains derived by Organisations for Financing Pensions (**OFP**) in the meaning of the Law of 27 October 2006 on the activities and supervision of institutions for occupational retirement provision, are in principle not included in the OFP's corporate income tax base and are therefore, as a rule, not subject to corporate income tax at the level of the latter. Subject to certain conditions, any Belgian withholding tax that may have been levied on the interest due under the Mortgage Pandbrieven can be credited against any corporate income tax due and any excess amount is in principle refundable.

Belgian non-residents

Pandbrieven Holders who are non-residents of Belgium for Belgian tax purposes and are not holding the Mortgage Pandbrieven through a Belgian establishment and do not invest the Mortgage Pandbrieven in the course of their Belgian professional activity generally will not incur or become liable for any Belgian tax on income or capital gains by reason only of the acquisition, ownership or disposal of the Mortgage Pandbrieven, provided that they qualify as Eligible Investors and hold their Mortgage Pandbrieven through an X-account in the Securities Settlement System.

If the Mortgage Pandbrieven are not entered into an X-account by the Eligible Investor, withholding tax on the interest is in principle applicable at the current rate of 30 per cent., possibly reduced pursuant to Belgian domestic tax law or applicable tax treaties, on the gross amount of the interest.

Tax on stock exchange transactions and tax on sales with a forward purchase

A tax on stock exchange transactions (*beurstaks/taxe sur les opérations de bourse*) will be due on the purchase and sale in Belgium of the Mortgage Pandbrieven on a secondary market through a professional intermediary. The rate applicable for secondary sales and purchases in Belgium through a professional intermediary is 0.12 per cent. with a maximum amount of EUR 1,300 per transaction and per party. The tax is due separately from each party to any such transaction, i.e. the seller (transferor) and the purchaser (transferee), both collected by the professional intermediary. The acquisition of the Mortgage Pandbrieven upon their issuance (primary market) is not subject to the tax on stock exchange transactions.

Following the Law of 25 December 2016, the scope of application of the tax on stock exchange transactions has been extended as from 1 January 2017 in the sense that as from that date, transactions that are entered into or carried out by an intermediary that is not established in Belgium are considered to be entered into or carried out in Belgium if the order to execute the transaction is directly or indirectly given by either a natural person that has its habitual residence in Belgium or by a legal entity on behalf of its registered office or establishment in Belgium. In such a scenario, foreign intermediaries have the possibility to appoint a Belgian tax representative that is responsible for collecting the stock exchange tax due and for paying it to the Belgian treasury on behalf of clients that fall within one of the aforementioned categories (provided that these clients do not qualify as exempt persons for stock exchange tax purposes – see below). If no such permanent representative is appointed, the relevant parties themselves are responsible for the filing of a stock exchange tax return and for the timely payment of the amount of stock exchange tax due.

A *taxe sur les reports* (tax on a sale combined with a forward purchase) at the rate of 0.085 per cent. (subject to a maximum of EUR 1,300 per party and per transaction) will in principle be due from each party to any such transaction in which a professional intermediary acts for either party.

However, neither the tax on stock exchange transactions nor the *taxe sur les reports* will be payable by exempt persons acting for their own account including investors who are not Belgian residents provided they deliver an affidavit to the financial intermediary in Belgium confirming their non-resident status and certain Belgian institutional investors as defined in Article 126.1 2° of the Code of various duties and taxes (*Code des droits et taxes divers / Wetboek diverse rechten en taksen*).

On 14 February 2013, the EU Commission adopted a draft Directive on a financial transactions tax (**FTT**). The draft Directive currently stipulates that once the FTT enters into force, the participating Member States shall not maintain or introduce taxes on financial transactions other than the FTT (or VAT as provided in the Council Directive 2006/112/EC on 28 November 2006 on the common system of value added tax). For Belgium, the above mentioned transfer taxes should thus be abolished if and once the FTT enters into force. The draft Directive is still subject to negotiation between the participating Member States and may therefore be changed at any time (and may even never be introduced at all).

Annual tax on securities accounts

Pursuant to the law of 7 February 2018 introducing a tax on securities accounts, a tax of 0.15 per cent. will be levied on Belgian resident and non-resident individuals on their share in the average value of the qualifying financial instruments (including but not limited to shares, notes and units of undertakings for collective investment) held on one or more securities accounts during a reference period of twelve consecutive months starting on 1 October and ending on 30 September of the subsequent year (**Tax on Securities Accounts**). The first reference period starts on the day of entry into effect of the Law (i.e., 10 March 2018) and ends on 30 September 2018.

No Tax on Securities Accounts will be due provided the holder's share in the average value of the qualifying financial instruments on those accounts amounts to less than EUR 500,000. If, however, the holder's share in the average value of the qualifying financial instruments on those accounts amounts to EUR 500,000 or more, the Tax on Securities Accounts will be due on the entire share of the holder in the average value of the qualifying financial instruments on those accounts (and, hence, not only on the part which is at least equal to the EUR 500,000 threshold).

Qualifying financial instruments held by non-resident individuals only fall within the scope of the Tax on Securities Accounts provided they are held on securities accounts with a financial intermediary established or located in Belgium. Note that pursuant to certain double tax treaties, Belgium has no right to tax capital. Hence, to the extent the Tax on Securities Accounts is viewed as a tax on capital within the meaning of these double tax treaties, treaty protection may, subject to certain conditions, be claimed.

A financial intermediary is defined as (i) a credit institution or a stockbroking firm as defined by Article 1, §2 and §3 of the Law of 25 April 2014 on the status and supervision of credit institutions and investment companies and (ii) the investment companies as defined by Article 3, §1 of the Law of 25 October 2016 on access to the activity of investment services and on the legal status and supervision of portfolio management and investment advice companies, which are, pursuant to national law, admitted to hold financial instruments for the account of customers.

The Tax on Securities Accounts is in principle due by the financial intermediary established or located in Belgium if (i) the holder's share in the average value of the qualifying financial instruments held on one or more securities accounts with said intermediary amounts to EUR 500,000 or more or (ii) the holder instructed the financial intermediary to levy the Tax on Securities Accounts due (e.g. in case such holder holds qualifying financial instruments on several securities accounts held with multiple intermediaries of which the average value does not amount to EUR 500,000 or more, but of which the holder's share in the total average value of these accounts amounts to at least EUR 500,000 EUR). Otherwise, the Tax on Securities Accounts would have to be declared and would be due by the holder itself unless the holder provides evidence that the Tax on Securities Accounts has already been withheld, declared and paid by an intermediary which is not established or located in Belgium. In that respect, intermediaries located or established outside of Belgium could appoint a Tax on the Securities Accounts representative in Belgium, subject to certain conditions and formalities (**Tax on the Securities Accounts Representative**). Such a Tax on the Securities Accounts Representative will then be liable towards the Belgian Treasury for the Tax on the Securities Accounts due and for complying with certain reporting obligations in that respect.

Belgian resident individuals will have to report in their annual income tax return various securities accounts held with one or more financial intermediaries of which they are considered as a holder within the meaning of the Tax on Securities Accounts. Non-resident individuals have to report in their annual Belgian non-resident income tax return various securities accounts held with one or more financial intermediaries established or located in Belgium of which they are considered as a holder within the meaning of the Tax on Securities Accounts.

Prospective investors are urged to consult their own tax advisors as to the tax consequences of the application of this new tax on their investment in Mortgage Pandbrieven.

Exchange of information: Common Reporting Standard

The Mortgage Pandbrieven are subject to the Directive on Administrative Cooperation (DAC2) (2014/107/EU) of 9 December 2014. Under this Directive (and the Belgian law implementing this Directive ("*Wet tot regeling van de mededeling van inlichtingen betreffende financiële rekeningen, door de Belgische financiële instellingen en de FOD Financiën in het kader van automatische uitwisseling van inlichtingen op internationaal niveau en voor belastingdoeleinden*" of 16 December 2015), Belgian financial institutions holding Mortgage Pandbrieven for tax residents in another CRS contracting state, shall report financial information regarding the Mortgage Pandbrieven (income, gross proceeds,..) to the Belgian competent authority, who shall communicate the information to the competent authority of the state of the tax residence of the beneficial owner.

Exchange of information: FATCA (U.S. *Foreign Account Tax Compliance Act*)

Under the Belgian law implementing FATCA, (*Wet tot regeling van de mededeling van inlichtingen betreffende financiële rekeningen, door de Belgische financiële instellingen en de FOD Financiën in het kader van automatische uitwisseling van inlichtingen op internationaal niveau en voor belastingdoeleinden* of 16 December 2015.), Belgian financial institutions holding Mortgage Pandbrieven for “US accountholders “ and for “Non US owned passive Non Financial Foreign entities” shall report financial information regarding the Mortgage Pandbrieven (income, gross proceeds,..) to the Belgian competent authority, who shall communicate the information to the US tax authorities

SUBSCRIPTION AND SALE

The Dealers have in a programme agreement, originally dated 22 November 2013 as amended and/or supplemented and/or restated from time to time (the **Programme Agreement**) agreed with the Issuer a basis upon which they or any of them may from time to time agree to purchase Mortgage Pandbrieven. Any such agreement will extend to those matters stated under “*Form of the Mortgage Pandbrieven*” and “*Terms and Conditions of the Mortgage Pandbrieven*” above. In the Programme Agreement, the Issuer has agreed to reimburse the Dealers for certain of their expenses in connection with the establishment of the Programme and the issue of Mortgage Pandbrieven under the Programme and to indemnify the Dealers against certain liabilities incurred by them in connection therewith.

General

Each Dealer has agreed and each further Dealer appointed under the Programme will be required to agree that it will (to the best of its knowledge and belief) comply with all applicable securities laws and regulations in force in any jurisdiction in which it purchases, offers, sells or delivers Mortgage Pandbrieven or possesses or distributes this Base Prospectus and will obtain any consent, approval or permission required by it for the purchase, offer, sale or delivery by it of Mortgage Pandbrieven under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, offers, sales or deliveries. None of the Issuer nor any other Dealer shall have any responsibility therefor.

None of the Issuer nor any of the Dealers represents that Mortgage Pandbrieven may at any time lawfully be sold in compliance with any applicable registration or other requirements in any jurisdiction, or pursuant to any exemption available thereunder, or assumes any responsibility for facilitating such sale.

In particular (but without limiting the generality of the above), subject to any amendment or supplement which may be agreed with the Issuer in respect of the issue of any Tranche, each Dealer has agreed, and each further Dealer appointed under the Programme will be required to agree, to comply with the following provisions except to the extent that, as a result of any change in, or the official interpretation of, any applicable laws and/or regulations, non-compliance would not result in any breach of the applicable laws and/or regulations.

Prohibition of sales to consumers in Belgium

The Mortgage Pandbrieven are not intended to be offered, sold or otherwise made available, and will not be offered, sold or otherwise made available, in Belgium to “consumers” within the meaning of the Belgian Code of Economic Law dated 28 February 2013.

Prohibition of sales to EEA Retail Investors

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Mortgage Pandbrieven which are the subject of the offering contemplated by this Base Prospectus as completed by the Final Terms in relation thereto to any retail investor in the European Economic Area.

For the purposes of this provision:

- (a) the expression **retail investor** means a person who is one (or more) of the following:
 - (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, MiFID II); or
 - (ii) a customer within the meaning of Directive 2002/92/EC (as amended, the **Insurance Mediation Directive**), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or

- (iii) not a qualified investor as defined in the Prospectus Directive; and
- (b) the expression **offer** includes the communication in any form and by any means of sufficient information on the terms of the offer and the Mortgage Pandbrieven to be offered so as to enable an investor to decide to purchase or subscribe the Mortgage Pandbrieven.

Public Offering Selling Restriction Under the Prospectus Directive

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each a **Relevant Member State**), each of the Dealers has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that, with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the **Relevant Implementation Date**), it has not made and will not make an offer of Mortgage Pandbrieven which are the subject of the offering contemplated by this Base Prospectus as completed by the relevant final terms in relation thereto to the public in that Relevant Member State, except that it may, with effect from and including the Relevant Implementation Date, make an offer of such Mortgage Pandbrieven to the public in that Relevant Member State:

- (a) at any time to any legal entity which is a qualified investor as defined in the Prospectus Directive;
- (b) at any time to fewer than 100, or, if the Relevant Member State has implemented the relevant provision of the 2010 PD Amending Directive, 150, natural or legal persons (other than qualified investors as defined in the Prospectus Directive), as permitted under the Prospectus Directive, subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the Issuer for any such offer; or
- (c) at any time in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer shall require the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expression an “**offer of Mortgage Pandbrieven to the public**” in relation to any Mortgage Pandbrieven in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Mortgage Pandbrieven to be offered so as to enable an investor to decide to purchase or subscribe the Mortgage Pandbrieven, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression “Prospectus Directive” means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State), and includes any relevant implementing measure in each Relevant Member State and the expression “2010 PD Amending Directive” means Directive 2010/73/EU.

United States

The Mortgage Pandbrieven have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act and that would not result in the Issuer becoming subject to registration under the Investment Company Act of 1940, as amended, or to regulation under the Commodity Exchange Act.

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that, it will not offer, sell or deliver Mortgage Pandbrievien (i) as part of their distribution at any time or (ii) otherwise until 40 days after the completion of the distribution as determined and certified by the relevant Dealer or, in the case of an issue of Mortgage Pandbrievien on a syndicated basis, the relevant lead manager, of all Mortgage Pandbrievien of the Tranche of which such Mortgage Pandbrievien are a part, within the United States or to, or for the account or benefit of, U.S. persons. Each Dealer has further agreed and each further Dealer appointed under the Programme will be required to agree that it will send to each dealer to which it sells any Mortgage Pandbrievien during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Mortgage Pandbrievien within the United States or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meanings given to them by Regulation S under the United States Securities Act of 1933, as amended (the **Securities Act**).

Until 40 days after the commencement of the offering of any Series of Mortgage Pandbrievien, an offer or sale of such Mortgage Pandbrievien within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with an available exemption from registration under the Securities Act.

The Mortgage Pandbrievien are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. treasury regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986, and treasury regulations thereunder.

Each issuance of Fixed Rate Mortgage Pandbrievien or Floating Rate Mortgage Pandbrievien shall be subject to such additional U.S. selling restrictions as the Issuer and the relevant Dealer or Dealers may agree as a term of the issuance and purchase of such Mortgage Pandbrievien, which additional selling restrictions shall be set out in the applicable Final Terms.

United Kingdom

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

- in relation to any Mortgage Pandbrievien which have a maturity of less than one year, (i) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business and (ii) it has not offered or sold and will not offer or sell any Mortgage Pandbrievien other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or as agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of the Mortgage Pandbrievien would otherwise constitute a contravention of Section 19 of the Financial Services and Markets Act 2000 (the **UK FSMA**) by the Issuer;
- it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of Section 21 of the UK FSMA) received by it in connection with the issue or sale of any Mortgage Pandbrievien in circumstances in which Section 21(1) of the UK FSMA would not, if the Issuer was not an authorised person, apply to the Issuer; and
- it has complied and will comply with all applicable provisions of the UK FSMA with respect to anything done by it in relation to any Mortgage Pandbrievien in, from or otherwise involving the United Kingdom.

Switzerland

The Mortgage Pandbrieven may not be publicly offered, sold or advertised, directly or indirectly, in or from Switzerland. Neither this Base Prospectus nor any other offering or marketing material relating to the Mortgage Pandbrieven constitutes a prospectus as such term is understood pursuant to article 652a or article 1156 of the Swiss Federal Code of Obligations or a listing prospectus within the meaning of the listing rules of the SIX Swiss Exchange Ltd., and neither this Base Prospectus nor any other offering or marketing material relating to the Mortgage Pandbrieven may be publicly distributed or otherwise made available in Switzerland.

Japan

The Mortgage Pandbrieven have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended; the **FIEA**) and each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered and sold and will not offer or sell any Mortgage Pandbrieven, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organised under the laws of Japan), or to others for re-offering or resale, directly or indirectly, in Japan or to, or for the benefit of, a resident of Japan except pursuant to an exemption from the registration requirements of, and otherwise in compliance with the FIEA and any other applicable laws, regulations and ministerial guidelines of Japan.

GLOSSARY OF DEFINED TERMS

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GENERAL INFORMATION

Authorisation

The establishment of the Programme and the initial issue of Mortgage Pandbrieven have been duly authorised by resolutions of the Issuer's Executive Committee dated respectively 19 February 2013 and 5 November 2013.

Listing and admission to trading of Mortgage Pandbrieven on Euronext Brussels

This document constitutes a base prospectus for the purposes of Article 29 of the Belgian Prospectus Law and Article 5.4 of the Prospectus Directive (as defined herein) and has been approved by the Financial Services and Markets Authority (*Autoriteit voor Financiële Diensten en Markten/Autorité des services et marchés financiers*) (the **FSMA**) in its capacity as competent authority under article 23 of the Belgian Law dated 16 June 2006 concerning the public offer of investment securities and the admission of investment securities to trading on a regulated market (the **Belgian Prospectus Law**) as a base prospectus (the **Base Prospectus**). This approval is not and should not be considered to be a judgement as to the appropriateness or the merits of any issue under the Programme, nor of the situation of the Issuer.

Application has also been made to Euronext Brussels for the Mortgage Pandbrieven to be listed on Euronext Brussels. References in the Base Prospectus to the Mortgage Pandbrieven being listed (and all related references) shall mean that the Mortgage Pandbrieven have been listed on Euronext Brussels and admitted to trading on Euronext Brussels' regulated market. Euronext Brussels' regulated market is a regulated market for the purposes of Directive 2014/65/EU of the European Parliament and of the Council on markets in financial instruments (as amended, supplemented or replaced from time to time, **MIFID II**).

Documents Available

For the period of 12 months following the date of this Base Prospectus, copies of the following documents will be available during normal business hours at the registered office of the Issuer and from the specified office of the Paying Agent (where applicable, with an English translation thereof):

- (i) the constitutional documents of the Issuer;
- (ii) the Special Estate Administration Agreement;
- (iii) the Mortgage Pandbrieven Holder Representative Agreement; and
- (iv) the Agency Agreement (including its Schedules).

For the period of 12 months following the date of this Base Prospectus, copies and, where appropriate, English translations of the following documents will be available on the website of the Euronext Brussels at <https://www.euronext.com/fr/category/tags/euronext-brussels> and during normal business hours at the registered office of the Issuer:

- (i) this Base Prospectus;
- (ii) the Mortgage Pandbrieven Holder Representative Agreement;
- (iii) the audited annual consolidated financial statements of the Issuer in respect of the financial years ended 31 December 2015, 31 December 2016 and 31 December 2017; and
- (iv) any future prospectuses, base prospectuses, information memoranda and supplements including Final Terms relating to Mortgage Pandbrieven which are listed on Euronext Brussels or offered in a Member State of the European Economic Area in circumstances where a prospectus is required to be published under the Prospectus Directive (whether or not listed on Euronext Brussels).

Copies of each Final Terms (together with the relevant Base Prospectus) relating to Mortgage Pandbrieven which are either admitted to trading on any other regulated market in the European Economic Area or offered in any other Member State of the European Economic Area in circumstances where a prospectus is required to be published under the Prospectus Directive will be available for viewing in accordance with Article 14(2) of the Prospectus Directive and the rules and regulations of the relevant regulated market. Copies of each Final Terms relating to any other Mortgage Pandbrieven (together with the relevant Base Prospectus) will only be available for viewing by a holder of such Mortgage Pandbrieven upon production of evidence satisfactory to the Issuer as to the identity of such holder.

Clearing Systems

The Dematerialised Mortgage Pandbrieven have been accepted for clearance through the Securities Settlement System, Euroclear, Clearstream, Luxembourg, SIX SIS (Switzerland) and Monte Titoli (Italy). The appropriate Common Code and ISIN for each Tranche will be specified in the applicable Final Terms. If the Dematerialised Mortgage Pandbrieven are to clear through an additional or alternative clearing system the appropriate information will be specified in the applicable Final Terms.

The address of the NBB is De Berlaimontlaan 14, 1000 Brussels, the address of Euroclear is 3 Boulevard du Roi Albert III, B.1210 Brussels, Belgium, the address of Clearstream, Luxembourg is 42 Avenue J. F. Kennedy, L-1855 Luxembourg, the address of SIX SIS (Switzerland) is SIX SIS Ltd, Baslerstrasse 100, CH-4600 Olten, Switzerland and the address of Monte Titoli (Italy) is Monte Titoli S.p.A, piazza degli Affari 620123 Milan, Italy.

Conditions for Determining Price

The price and amount of Mortgage Pandbrieven to be issued under the Programme will be determined by the Issuer and the relevant Dealer at the time of issue in accordance with prevailing market conditions.

Significant or Material Change

There has been:

- (i) no significant change in the financial or trading position of the Issuer since 31 December 2017; and
- (ii) no material adverse change in the financial position, business or prospects of the Issuer since 31 December 2017.

Statutory Auditors

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

The reports of the Auditors of the Issuer are included or incorporated in the form and context in which they are included or incorporated, with the consent of the Auditors who have authorised the contents of that part of this Base Prospectus.

Post-issuance information

The Issuer will provide Investor Reports detailing, among other things, compliance with the Statutory Tests. This information will be available at www.ing.be/investor-relations.

Dealers transacting with the Issuer

Certain of the Dealers and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform services to the Issuer and its affiliates in the ordinary course of business. In addition, in the ordinary course of their business activities, the Dealers and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of the Issuer or its affiliates. Certain of the Dealers or their affiliates that have a lending relationship with the Issuer routinely hedge their credit exposure to the Issuer consistent with their customary risk management policies. Typically, such Dealers and their affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in securities, including potentially the Mortgage Pandbrieven issued under the Programme. Any such short positions could adversely affect future trading prices of Mortgage Pandbrieven issued under the Programme. The Dealers and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

ANNEX I - ANNUAL FINANCIAL STATEMENTS

ING Belgium
Annual Report
2016

Accelerating
thinkforward

ING Belgium nv/sa
Annual Report
2016

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Information about the company on 31 December 2016

Registered name

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

Registered office

Avenue Marnix / Marnixlaan 24
B-1000 Brussels, Belgium

Company registration

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

Form of incorporation, Articles of Association and their publication

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

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

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

Duration

The company has been established for an unlimited duration.

Corporate object

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

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

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

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

Who we are - continued

Issued share capital

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

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

External functions exercised by directors and senior management of the bank

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

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

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

Supervisory and Executive bodies

Composition of the Board of Directors ⁽¹⁾

Eric Boyer de la Giroday Chairman of the Board of Directors	(2018)	Baron Luc Bertrand Non-executive Director Chairman of the Board, Ackermans & van Haaren	(2018)
Rik Vandenberghe Chief Executive Officer Managing Director	(until 28 February 2017)	Baron Philippe de Buck van Overstraeten Non-executive Director Director of companies Member of the European Economic and Social Committee	(2018)
Erik Van Den Eynden (as from 1 March 2017) Chief Executive Officer Managing Director	(2023)	Count Diego du Monceau de Bergendal Non-executive Director Managing Director, Rainyve	(2017)
Michael Jonker Managing Director	(until 31 October 2016)	Michèle Sioen Non-executive Director CEO, Sioen Industries nv	(until 30 November 2016)
Krista Baetens (as from 1 October 2016) Managing Director	(2017)	Christian Jourquin Independent Non-executive Director Member of the Royal Academy of Belgium	(2018)
Colette Dierick Managing Director	(until 15 July 2016)	Paul Mousel Independent Non-executive Director President, Arendt & Medernach Lawyers	(2020)
Philippe Wallez (as from 15 October 2016) Managing Director	(2020)	Koos Timmermans ⁽²⁾ Non-executive Director Vice Chairman Supervisory Board, ING Bank NV	(2017)
Frank Stockx Managing Director	(2019)	Pinar Abay (as from 15 July 2016) Non-executive Director CEO, ING Bank Turkey	(2017)
Johan Kestens Managing Director	(2020)		
Emmanuel Verhoosel Managing Director	(2020)		
Tanate Phutrakul Managing Director	(2022)		

⁽¹⁾ Normal expiry dates are shown opposite each Director's name

⁽²⁾ Non-Executive Director who represents the sole shareholder

Composition of the Audit Committee

Situation per 31 December 2016

Chairman	Diego du Monceau de Bergendal	Members	Philippe de Buck van Overstraeten Christian Jourquin ⁽³⁾
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⁽³⁾ Member of the Audit Committee independent of the legal organ of administration within the meaning of article 526ter of the Companies Code and independent in accounting and/or auditing

Composition of the Remuneration Committee

Situation per 31 December 2016

Chairman	Eric Boyer de Giroday	Members	Paul Mousel Koos Timmermans
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Who we are - continued

Composition of the Risk Committee

Situation per 31 December 2016

Chairman	Diego du Monceau de Bergendal	Members	Philippe de Buck van Overstraeten Christian Jourquin
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Composition of the Nomination Committee

Situation per 31 December 2016

Chairman	Eric Boyer de Giroday	Members	Paul Mousel Koos Timmermans
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Composition of the Executive Committee

Areas of responsibility per 31 December 2016

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

Who we are - continued

Registered auditor

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

Report of the Management Board

Brussels
24 March 2017
Financial Report 2016

Comments on Financial Statements

Changes in scope during 2016

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

Highlights

Good business performance in a challenging market environment

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

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

Acceleration of Think Forward: from bank to banking

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

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

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

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

Report of the Management Board - continued

Resilient commercial results in a challenging market environment

ING Belgium delivered a good business performance, notwithstanding the many challenges during 2016:

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

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

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

Solvency

All of the above happens while maintaining a strong capital basis:

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

Consolidated balance sheet**Assets**

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

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

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

The loan portfolio of the bank grew in 2016 with EUR 8.8 billion. This increase is located in several client segments and products:

- mortgage loans given to retail clients increased by EUR +1.7 billion;
- investment credits, straight loans and roll-overs mainly given to midsize and corporate clients increased by EUR 6.0 billion;
- credits to (local) authorities increased by EUR +1.0 billion.

Liabilities and equity

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

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

Report of the Management Board - continued

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

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

Consolidated income statement

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

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

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

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

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

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

Profile of the company

ING in Belgium

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

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

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

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

Staff evolution

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

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

Risk management

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

Post-balance-sheet events

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

Information on branches

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

Research and development

Not applicable.

Information concerning the use of financial instruments

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

Report of the Management Board - continued

Outlook

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

Legal stipulations regarding the composition of the Audit Committee

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

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

The rules of Corporate Governance

Current state of affairs

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

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

ING Belgium's position regarding the Belgian Corporate Governance Code

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

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

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

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

Corporate Governance and the Board of Directors

Composition

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

Responsibilities

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

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

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

Provisions in the Articles of Association relating to terms of office

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

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

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

Age limit

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

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

Board decisions

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

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

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

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

Remuneration

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

Specific committees

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

Risk committee

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

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

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

Audit committee

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

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

Remuneration committee

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

Nomination committee

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

Corporate Governance and the Executive Committee

Composition and responsibility

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

Assignment of responsibilities & decision-making

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

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

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

Remuneration

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

Activities

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

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

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

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

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

Corporate Governance and Special Committees

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

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

Consolidated annual accounts

Consolidated Balance sheet

Assets			
In EUR thousands	Note	2016	2015
Cash and balances with central banks	1	5,008,639	4,267,049
Loans and advances to banks	2	9,885,421	12,668,906
Financial assets at fair value through profit and loss	3	13,175,766	19,018,491
<i>of which: trading assets</i>		8,674,772	14,504,727
<i>of which: non-trading derivatives</i>		4,413,044	4,419,223
<i>of which: designated as at fair value through profit and loss</i>		87,950	94,541
Investments	4	17,948,820	19,767,926
<i>of which: available-for-sale</i>		17,022,923	18,809,053
<i>of which: held-to-maturity</i>		925,897	958,873
Loans and advances to customers	5	101,632,669	92,800,051
Investments in associates	6	67,431	78,211
Real estate investments	7	48,358	47,812
Property and equipment	8	801,750	900,903
Intangible assets	9	102,483	149,142
Current tax assets		59,643	87,425
Deferred tax assets	10	192,419	16,583
Other assets	11	1,495,319	2,186,578
Assets held for sale		0	0
TOTAL ASSETS		150,418,720	151,989,077
Liabilities			
In EUR thousands	Note	2016	2015
Deposits from banks	12	13,333,629	10,741,946
Customer deposits	13	97,046,298	96,791,727
Financial liabilities at fair value through profit and loss	14	16,672,317	21,570,497
<i>of which: trading liabilities</i>		8,808,874	13,129,450
<i>of which: non-trading derivatives</i>		6,074,113	6,069,523
<i>of which: designated as at fair value through profit and loss</i>		1,789,330	2,371,524
Current tax liabilities		53,467	60,824
Deferred tax liabilities	15	177,090	241,693
Provisions	16	780,794	145,876
Other liabilities	17	2,787,720	2,619,503
Debt securities in issue	18	7,743,252	8,502,448
Subordinated loans	18	1,440,429	1,423,471
Liabilities held for sale		0	0
Share capital repayable on demand	19	94,002	99,027
TOTAL LIABILITIES		140,128,998	142,197,013
Equity			
In EUR thousands	Note	2016	2015
Shareholder's equity	20	10,268,413	9,771,673
<i>of which: Share capital and share premium</i>		2,801,511	2,801,511
<i>of which: Other reserves</i>		207,226	292,932
<i>of which: Retained earnings</i>		7,259,676	6,677,230
Non-controlling interests		21,309	20,392
TOTAL EQUITY		10,289,722	9,792,065
TOTAL LIABILITIES AND EQUITY		150,418,720	151,989,077

Consolidated annual accounts - continued

Consolidated Income Statement

Consolidated profit and loss account			
In EUR thousands	Note	2016	2015
Interest income		5,720,674	6,621,309
Interest expenses		-3,173,888	-3,978,549
Interest result	21	2,546,786	2,642,761
Investment income	22	49,763	18,006
Commission income		839,760	842,715
Commission expenses		-279,408	-282,817
Commission result	23	560,351	559,898
Valuation results on non-trading derivatives	24	4,555	48,960
Net trading income	25	150,204	141,036
Share of profit from associates		29,230	30,292
Other income	26	114,169	56,770
Total income		3,455,059	3,497,723
Addition to loan loss provisions	5	208,584	180,669
Staff expenses	27	1,052,683	1,094,347
Other operating expenses	28	1,424,465	882,808
Total expenses		2,685,732	2,157,824
Result before tax from continuing operations		769,327	1,339,899
Taxation	29	195,917	383,507
Net result from continuing operations		573,410	956,392
PROFIT OR (-) LOSS FOR THE YEAR		573,410	956,392
Net result attributable to Non-controlling interest		1,405	6,125
Net result attributable to Equityholders of the parent		572,005	950,266
Dividend per ordinary share (in euros)		0	20.68
Total amount of dividend paid (in millions of euros)		0	1,146

Consolidated Statement of Comprehensive Income

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

Consolidated annual accounts - continued

Consolidated Cash Flow Statement

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

Consolidated annual accounts - continued

Consolidated Statement of Changes in Equity

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

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

Statement of compliance with IFRS

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

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

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

Corporate information

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

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

Basis of presentation

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Financial statements are prepared on a going concern basis.

Change in IFRS-EU

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

Significant changes in IFRS-EU effective in 2016

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

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

Significant upcoming changes in IFRS-EU after 2016

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

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

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

IFRS 9 'Financial Instruments'

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

IFRS 9 Program governance and status

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

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

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

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

Classification and measurement

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

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

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

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

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

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

Impairment

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

Three stage approach

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

Stage 1: 12 month ECL - performing

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

Stage 2: Lifetime ECL – under-performing

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

Stage 3: Lifetime ECL – non-performing

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

Key concepts

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

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

Measurement

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

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

Impact

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

Hedge accounting

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

IFRS 15 'Revenue from Contracts with Customers'

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

IFRS 16 'Leases'

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

Consolidated annual accounts - continued

Principles of consolidation

Subsidiaries

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

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

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

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

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

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

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

Consolidated annual accounts - continued

Structured entities

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

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

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

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

Associates

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

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

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

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

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

Accounting policies

Foreign currency translation

Functional and presentation currency

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

Translations

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

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

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

Results and financial position of group companies

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

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

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

Recognition and derecognition of financial instruments

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

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

Offsetting of financial assets and liabilities

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

Repurchase and reverse repurchase transactions

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

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

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

Financial assets

Cash and cash balances with central banks

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

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

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

Financial assets held for trading

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

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

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

Financial assets designated at fair value through profit or loss

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

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

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

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

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

Loans and receivables

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

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

Consolidated annual accounts - continued

Financial assets available for sale

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

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

Held-to-maturity investments

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

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

Impairment of financial assets

At each balance sheet date, ING Belgium assesses whether there is objective evidence that a financial asset or a group of financial assets is impaired. Objective evidence that a financial asset or group of assets is impaired includes, but is not limited to:

- the borrower has sought or has been placed in bankruptcy or similar protection, and this avoids or delays repayment of the financial asset;
- the borrower has failed in the repayment of principal, interest or fees, and the payment failure has remained unsolved for a certain period;
- the borrower has given evidence of significant financial difficulty, which will have a negative impact on the future cash flows of the financial asset;
- the credit obligation has been restructured for non-commercial reasons. ING Belgium has granted concessions, for economic or legal reasons relating to the borrower's financial difficulty, the effect of which is a reduction in the expected future cash flows of the financial asset.

Impairment of financial assets designated as available for sale

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

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

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

Impairment of loans

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

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

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

Consolidated annual accounts - continued

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

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

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

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

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

Financial liabilities

Financial liabilities held for trading

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

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

Interest is recorded separately in the income statement

Financial liabilities at fair value through profit or loss

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

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

Financial liabilities at amortized cost

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

Derivatives and hedging activities

Any derivative contract is initially recognised at fair value at the date on which it is entered into and is subsequently remeasured to its fair value. All derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative.

Embedded derivatives are bifurcated from their host contract provided the following conditions are met:

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

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

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

Fair value hedge

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

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

Cash flow hedge

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

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

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

Hedge of a net investment in a foreign operation

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

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

Tangible assets

Property, plant and equipment

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

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

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

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

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

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

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

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

Investment property

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

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

Goodwill and intangible assets

Goodwill

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

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

Consolidated annual accounts - continued

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

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

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

Software

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

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

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

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

Other intangible assets

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

Provisions

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

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

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

Employee benefits: pension obligations

Pension schemes

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

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

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

Consolidated annual accounts - continued

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

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

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

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

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

Other post-retirement obligations

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

Income tax expenses

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

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

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

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

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

Income recognition

Net interest income

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

Consolidated annual accounts - continued

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

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

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

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

Net fee and commission income

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

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

Dividend income

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

Dividend policy description

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

Fiduciary activities

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

Share-based payment transactions

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

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

Consolidated annual accounts - continued

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

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

Financial guarantees

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

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

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

Notes to the Consolidated accounts

Assets

Note 1: Cash and balances with central banks

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

Note 2: Loans and advances to banks

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

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

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

Trading assets

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

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

Consolidated annual accounts - continued

Non-trading derivatives used for risk management purposes

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

Designated as at fair value through profit and loss

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

Note 4: Investments

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

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

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

Consolidated annual accounts - continued

Note 5: Loans and advances to customers

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

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

Changes in loan loss provisions

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

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

Corporate loans include finance lease receivables

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

Consolidated annual accounts - continued

Note 6: Investments in associates

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

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

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

Consolidated annual accounts - continued

Note 7: Real estate investments

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

Note 8: Property and equipment

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

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

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

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

Consolidated annual accounts - continued

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

Note 9: Intangible assets

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

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

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

Consolidated annual accounts - continued

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

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

Note 10: Deferred tax assets

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

See also note 15 about Deferred tax liabilities.

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

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

Consolidated annual accounts - continued

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

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

Note 11: Other assets

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

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

Liabilities and Equity

Note 12: Deposits from banks

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

Note 13: Customer deposits

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

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

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

Trading liabilities

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

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

Consolidated annual accounts - continued

Non-trading derivatives used for risk management purposes

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

Designated as at fair value through profit and loss

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

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

Note 15: Deferred tax liabilities

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

Consolidated annual accounts - continued

Note 16: Provisions

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

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

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

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

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

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

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

Consolidated annual accounts - continued

Note 17: Other liabilities

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

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

Information on pension and other staff-related liabilities

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

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

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

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

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

Consolidated annual accounts - continued

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

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

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

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

Weighted averages of basic actuarial assumptions		
In EUR thousands	2016	2015
Discount rates	1,2%	1,8%
Consumer price inflation	2,0%	2,0%
Expected rates of salary increases (excluding promotional increase)	age based salary scale	age based salary scale

Consolidated annual accounts - continued

Sensitivity analysis: impact of changes in significant actuarial assumptions on the defined benefit obligation 2016

In EUR thousands	Financial impact of increase	Financial impact of decrease
Discount rates - increase/decrease of 1%	-85,215	105,665
Mortality rates - increase/decrease of 1 year	11,057	-11,389
Expected rates of salary increase (excl promotional increase) - increase/decrease of 0.25%	20,745	-19,295
Consumer price inflation - increase/decrease of 0.25%	142	-2,052

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

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

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

Pension investment strategy

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

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

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

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

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

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

Determination of expected return on assets

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

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

Other risks

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

- **Discount rate evolution:**
An increase of the discount rate with 1% would mean a reduction about 10% of the liabilities (69.8 million) while a decrease if the discount rate with 1% would results in an increase of the liabilities with about 12% (82.6 million)
- **Inflation:**
An increase of the inflation with 0.25% p.a. would mean an increase of about 1% of the liabilities (7.8 million) while a decrease of the inflation with 0.25% p.a. would results in an decrease of the liabilities with about 1% (7.5 million)
- **Salary increase:**
An increase of the salary growth (excluding inflation) with 0.25% p.a. would mean an increase with about 3% of the liabilities (18.2 million) while a decrease of salary growth with 0.25% p.a. would results decrease of the liabilities with about 2% (15.3 million)
- **Mortality:**
Assuming current and future beneficiaries would be one year older than they are would results in a decrease of the liability with about 2% (11.2 million) while assuming they would be one year younger would increase the liability with 2% (11.1 million).
This results comes mainly from the pensioners population for who the liability decrease with age.

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

Note 18: Debt securities in issue and subordinated loans

Debt securities in issue includes as of 31 December 2016:

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

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

Note 19: Share capital repayable on demand

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

Consolidated annual accounts - continued

Note 20: Shareholder's equity

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

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

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

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

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

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

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

Consolidated annual accounts - continued

Income statement

Note 21: Interest result

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

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Note 22: Investment income

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

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

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

Note 23: Commission result

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

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

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

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Note 24: Valuation results on non-trading derivatives

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

Note 25: Net trading income

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

Note 26: Other income

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

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

Note 27: Staff expenses

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

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

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Note 28: Other operating expenses

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

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

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

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

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

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

Regulatory costs

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

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Impairment of tangible and intangible assets

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

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

Note 29: Taxation

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

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

Complementary information

Fair value of financial assets and liabilities

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

A three level hierarchy

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

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

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

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

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

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

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

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

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

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

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

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

Classification of Loans

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

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

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

Classification of Real estate

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

Classification of Customer Deposits and Other Funds on Deposit

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

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

Description of the significant unobservable inputs

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

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

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

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

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

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

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

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

Fair value of financial assets

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

Cash and balances with central banks

The carrying amount of cash equals its fair value.

Financial assets at fair value through profit or loss and held for trading

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

Financial assets available for sale

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

Loans and advances

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

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

Other financial assets

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

Fair value of financial liabilities

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

Financial liabilities at amortized cost

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

Financial liabilities at fair value through profit or loss and held for trading

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

Other financial liabilities

The carrying amount of other liabilities approximates their fair value.

Consolidated annual accounts - continued

Offsetting Financial assets and financial liabilities

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

Financial Instruments in scope

The disclosure requirements apply to all financial instruments that are:

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

Disclosure requirements

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

1. Gross amounts of recognized financial assets (or liability):
This cell represents the gross carrying value of items in scope (positive in asset table, negative in liability table), without applying any netting.
2. Gross amounts of recognized financial liabilities (or assets) set off in the balance sheet:
This cell represents the amount of netting that has been applied under IFRS in the IFRS balance sheet. The total amount should be equal in the asset table and the liability table as total netting on assets and liabilities must be the same.
3. Net amounts of financial assets (or liabilities) presented in the balance sheet:
This cell is the sum of the two cells above. It represents the amounts as included in the IFRS balance sheet. However, the amounts in this cell do not have to reconcile with the total amount in the applicable balance sheet line item.
4. Related amounts not set off: financial Instruments:
This cell includes the amount of netting under enforceable master netting agreements. The amounts are limited to the amounts that are subject to set off under the same master netting agreement or similar arrangement.
5. Related amounts not set off: financial collateral received/paid:
This cell includes amounts of cash and fair value of financial instrument collateral that is not set-off in the balance sheet but is associated with netting arrangements.
6. Net amount:
This cell shows the net position after all netting and collateral.

Methods applied in determining fair values of assets - 2016					
In EUR thousands	Comparison		Fair value hierarchy		
	Fair value	Carrying amount	Level 1	Level 2	Level 3
Assets at fair value	30,745,080	30,745,080	15,896,254	14,069,542	779,284
Trading assets	8,674,772	8,674,772	22,935	8,476,904	174,933
Non-trading derivatives	4,413,044	4,413,044		4,413,044	
Financial assets designated as at fair value through P&L	87,950	87,950		85,335	2,615
Available-for-sale investments	17,022,923	17,022,923	15,873,319	1,094,259	55,345
Property in own use	498,033	498,033			498,033
Real estate investments	48,358	48,358			48,358
Assets at amortised cost	119,498,449	117,452,626	9,128,055	281,969	110,088,425
Cash and balances with central banks	5,008,639	5,008,639	5,008,639		
Loans and advances to banks	9,853,827	9,885,421	2,986,190		6,867,637
Held-to-maturity investments	936,353	925,897	936,353		
Loans and advances to customers	103,699,630	101,632,669	196,873	281,969	103,220,788

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

Consolidated annual accounts - continued

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

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

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

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

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

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

Consolidated annual accounts - continued

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

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

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

Consolidated annual accounts - continued

Offsetting financial assets and liabilities

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

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

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

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

Consolidated annual accounts - continued

Assets not freely disposable

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

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

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

Off-balance sheet commitments

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

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

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

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

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

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

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

Consolidated annual accounts - continued

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

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

Share-based payments

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

The main characteristics of Leo are as follows:

Stock options:

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

Performance shares:

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

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

The main characteristics of the LSPP are as follows:

- a 100% share plan;
- vesting is dependent on the ING Group performance target;
- tiered vesting: 1/3 after first year, 1/3 after second year, 1/3 after third year.

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

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

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

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

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

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

Related party disclosures

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

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

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

Legal proceedings

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

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

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

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

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

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

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

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

Consolidated annual accounts - continued

Country by country

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

ING Belgium consolidated 2016, country by country						
In thousands EUR	Nature of activities	Turnover (*)	Number of employees (in FTE)	Profit/loss before tax	Taxes on result	Government grants received
Belgium	Banking, other financial services and real estate	3.027.961	8.836	625.090	144.287	
Luxembourg	Banking, other financial services and insurance	209.246	790	74.685	32.182	
Canada	Other financial services	-29		-86		
USA	Other financial services	-30		-150		
Switzerland	Banking and other financial services	189.007	217	69.788	19.449	

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

SCOPE:Belgium:

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

Luxembourg:

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

Canada:

Belgium Overseas Agencies Ltd

USA:

Belgian Overseas Issuing Corp

Switzerland:

ING Belgium Genève (branch)

Consolidated annual accounts - continued

Auditor's remuneration

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

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

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

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

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

Breakdown of remuneration paid to members of the Board of Directors

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

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

Loans and advances to members of the Board of Directors

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

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

Breakdown of remuneration paid to members of the Executive Committee

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

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

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

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

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

Pension scheme for members of the Executive Committee

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

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

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

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

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

Risk management

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

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

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

Credit risk

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

Policy

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

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

Decision-making structures

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

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

All decisions are taken by a maximum of two mandates:

- o One advisory-level mandate, and
- o One decision-level mandate.

A mandate level consists mostly of ('twins' principle):

- o One 'Approval Signatory' from Front and
- o One 'Approval Signatory' from Risk Management.

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

- **Standardised loans:** The bank has developed an automatic system to assist with the decision-making process for the granting of standardised loans. The system is based on the rating of the client, its reimbursement capacity, internal and/or external notoriety information, total amount of his commitments and some specific rules linked to the type of debtor and product.
- **Securities committees:** They decide on the bank's investment strategy for its own financial instruments portfolios. The Credit Risk Management Department compiles the analyses and documents for the Central Securities Committee.

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

Consolidated annual accounts - continued

Diversification of risks

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

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

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

ING Belgium credit portfolio: breakdown by economic sector ⁽¹⁾		
In % of outstanding	2016	2015
Automotive	1.19%	1.05%
Builders and Contractors	3.72%	3.88%
Central Banks	4.02%	3.49%
Central Governments	7.77%	9.80%
Chemicals, Health and Pharmaceuticals	3.29%	2.93%
Civic, Religious and Social Organizations	0.26%	0.44%
Commercial Banks	7.32%	7.48%
Food, Beverages and Personal Care	3.57%	3.35%
General Industries	5.72%	5.80%
Lower Public Administration	5.56%	5.16%
Media	0.76%	0.79%
Natural Resources	12.44%	10.48%
Non-Bank Financial Institutions	3.69%	4.59%
Private Individuals	15.24%	15.95%
Real Estate	6.27%	6.09%
Retail	2.36%	2.29%
Services	10.41%	10.03%
Technology	0.52%	0.48%
Telecom	0.36%	0.40%
Transportation and Logistics	2.90%	2.94%
Utilities	1.22%	1.18%
Other	1.41%	1.40%
TOTAL	100.00%	100.00%

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

Counterparty risks linked to derivative transactions

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

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

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

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

Consolidated annual accounts - continued

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

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

Minimum capital adequacy requirements – Basel III/CRR

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

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

Credit exposure

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

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

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

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

Consolidated annual accounts - continued

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

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

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

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

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

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

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

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

Country risk

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

Country risk is further divided into economic and transfer risk:

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

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

Consolidated annual accounts - continued

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

⁽¹⁾ Consolidated scope - Based on lending, money market and investment activities: 10 largest

Collateral policies

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

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

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

Cover values

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

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

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

Notes:

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

Consolidated annual accounts - continued

Past due obligations

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

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

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

Financial Assets past due but not yet impaired - 2016					
In EUR thousands	Up to 30 days	Over 30 days up to 90 days	Over 90 days up to 180 days	Over 180 days up to 1 year	Over 1 year
Debt instruments					
Loans and advances	1,740,628	342,805			
Other financial assets					
TOTAL	1,740,628	342,805	0	0	0

Forbearance

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

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

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

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

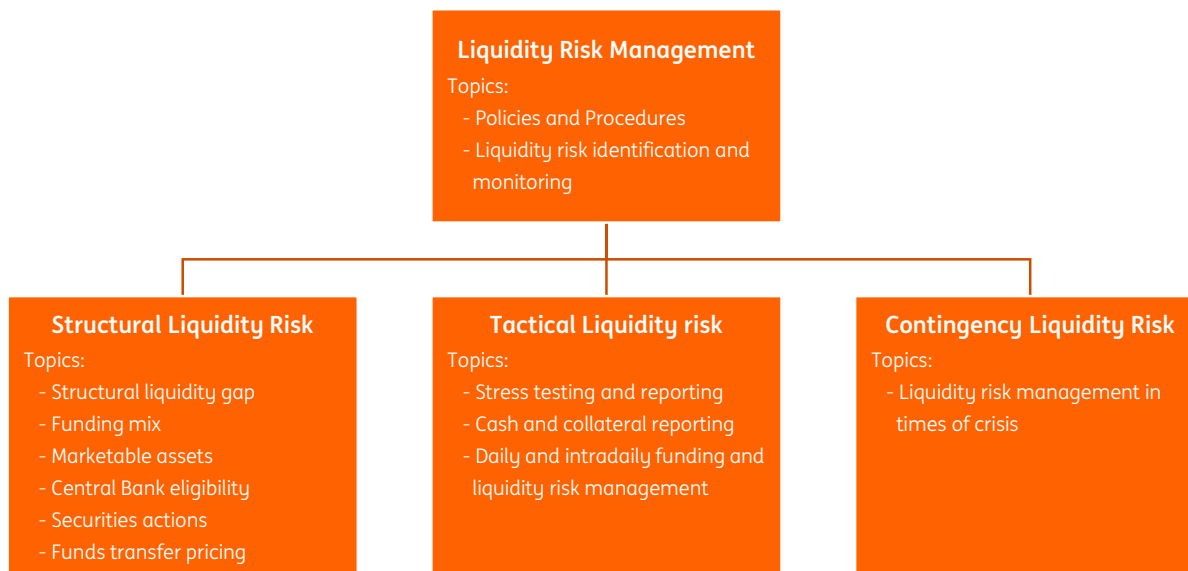
Foreborne assets						
In EUR thousands	2016			2015		
	Foreborne assets	of which: Performing	of which: Non-performing	Foreborne assets	of which: Performing	of which: Non-performing
TOTAL	1,323,122	550,378	772,743	1,317,953	440,877	877,076

Liquidity risk

Definition

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

Liquidity risk framework



Structural Liquidity Risk

Structural liquidity risk is the risk that the structural, long-term balance sheet cannot be financed timely or at a reasonable cost. In this view of liquidity risk, the total on- and off-balance sheet positions are considered from a structural asset and liability management perspective. The main objective is to maintain a sound liquidity profile by:

- maintaining a well-diversified mix of funding sources in terms of instrument types, fund providers, geographic markets and currencies;
- holding a broad portfolio of highly marketable assets that can be used to obtain secured funding;
- maintaining an adequate structural liquidity gap, taking into account the asset mix and both the secured and unsecured funding possibilities of ING Belgium;
- maintaining a funds transfer pricing methodology in which the cost of liquidity is adequately reflected both under a going concern and a contingency perspective.

Tactical Liquidity Risk

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

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

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

Consolidated annual accounts - continued

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

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

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

Contingent liabilities and commitments - 2016							
In EUR thousands	Less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years		Total
Contingent liabilities in respect of:							
- Discounted bills							0
- Guarantees	464,229	510,517	834,185	1,039,847	2,996,185		5,844,963
- Irrevocable letters of credit	1,206,871	3,865,584	767,640	96,240	1,068		5,937,402
- Other							0
Subtotal	1,671,100	4,376,101	1,601,824	1,136,087	2,997,253		11,782,365
- Irrevocable facilities	2,809,627	386,621	2,282,216	12,753,372	4,784,421		23,016,256
TOTAL	4,480,727	4,762,722	3,884,040	13,889,459	7,781,673		34,798,620

Contingency Liquidity Risk

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

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

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

Market risk

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

Decision-making structures and monitoring bodies

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

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

Value at risk

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

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

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

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

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

Consolidated annual accounts - continued

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

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

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

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

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

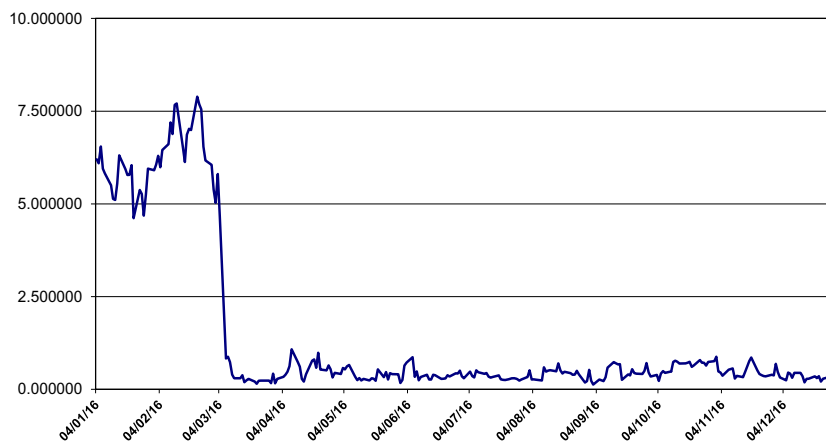
The Incremental Risk Charge (IRC) is defined as an estimate of default and migration risk of un-securitised credit products in the trading books over a one-year capital horizon at a 99.9% confidence level. Default risk is defined as the P&L impact due to an issuer defaulting. Migration risk is defined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

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

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

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

Consolidated Trading Hvar 1d 2016
(in EUR million)



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

Consolidated annual accounts - continued

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

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

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

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

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

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

Interest rate risk in the non-Trading portfolio

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

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

P&L and equity sensitivity for interest rate shocks

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

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

Foreign exchange risk

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

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

Operational risk

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

Scope of operational risks

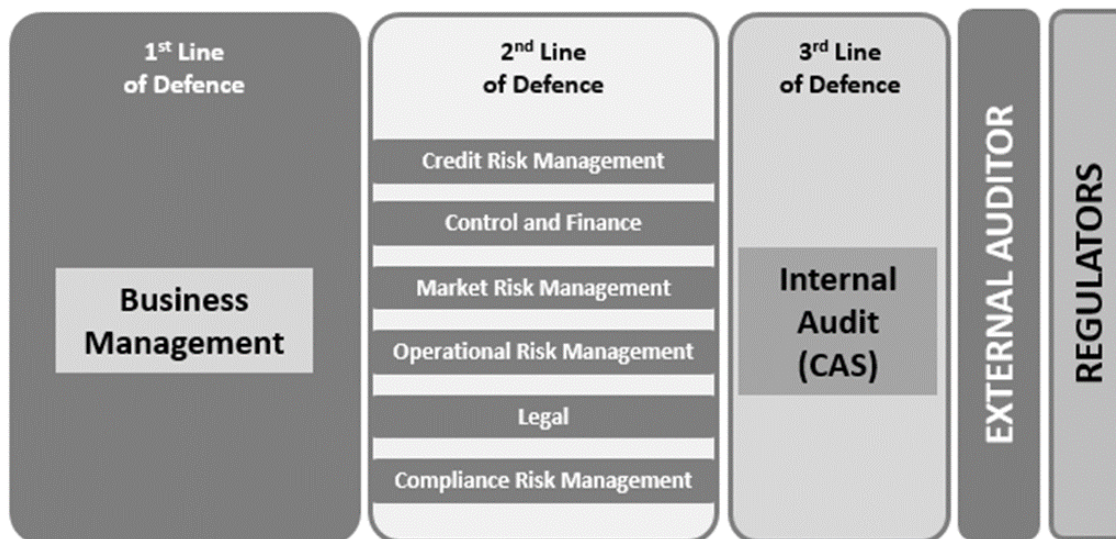
Operational risk is the risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems or from external events. It includes also reputational and legal risk. Strategic risk is not part of operational risk. Operational risk in general is an umbrella category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

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

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

Lines of Defence

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



First line of defence

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

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

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

Consolidated annual accounts - continued

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

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

Second line of defence

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

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

Third line of defence

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

Hierarchical organization

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

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

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

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

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

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

Functional organization

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

Capital management

Objectives

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

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

ING applies the following main capital definitions:

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

Developments

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

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

Policies

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

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

Processes for managing capital

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

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

Capital Adequacy Assessment

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

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

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

Regulatory capital requirements

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

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

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

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

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

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

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

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

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

Consolidated annual accounts - continued

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

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

¹ Intangibles: mainly capitalised software

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

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

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



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

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

Report on the consolidated financial statements - Unqualified opinion

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

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

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

Statutory auditor's responsibility

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



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

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

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

Unqualified opinion

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

Other matter

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



Report on other legal and regulatory requirements

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

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

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

Brussels, 12 April 2017

KPMG Réviseurs d'Entreprises / Bedrijfsrevisoren
Statutory Auditor
represented by

A handwritten signature in blue ink, appearing to read 'Olivier Macq', written over a horizontal line.

Olivier Macq
Réviseur d'Entreprises / Bedrijfsrevisor

Additional information

Basel III (Pillar 3 disclosure)

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

Leverage ratio

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

Capital adequacy - Credit and transfer risk

Introduction

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

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

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

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

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

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

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

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

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

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

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

Additional information - continued

Basis and scope of credit risk presentation

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

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

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

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

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

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

Approaches applied

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

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

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

Additional information - continued

Credit Risk Weighted Assets Migration Analysis

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

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

Excluding equities and ONCOA.

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

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

Advanced IRB and Standardised Approach

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

Exposure classes

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

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

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

Additional information - continued

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

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

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

Credit risk per exposure type and exposure class

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

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

Includes both AIRB and SA portfolios; excludes equities and ONCOA.

Default Fund Contribution to Central Clearing Parties is included under exposure class Institutions.

Additional information - continued

Sovereign credit risk disclosure

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

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

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

Includes both AIRB and SA portfolios; excludes equities, CVA RWA and ONCOA.

* Top 3/top 5 countries/product types determined with 2016 data as reference.

Additional information - continued

Financial institutions credit risk disclosure

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

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

Includes both AIRB and SA portfolios; excludes equities, CVA RWA and ONCOA.

* Top 3/top 5 countries/product types determined with 2016 data as reference.

Additional information - continued

Corporate credit risk disclosure

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

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

Includes both AIRB and SA portfolios; excludes equities, CVA RWA and ONCOA.

* Top 3/top 5 countries/industry types determined with 2016 data as reference.

Additional information - continued

Retail credit risk disclosure

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

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

Includes both AIRB and SA portfolios; excludes equities, CVA RWA and ONCOA.

* Retail class = Residential Mortgages + Other Retail classes

** Top 3 countries/customer segments determined with 2016 data as reference.

Additional information - continued

The Advanced Internal Rating Based approach (AIRB)

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

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

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

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

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

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

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

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

AIRB models per exposure class

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

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

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

Additional information - continued

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

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

AIRB credit exposures by rating model

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

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

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

Additional information - continued

AIRB credit exposures by internal rating grade

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

Exposure (READ) per internal rating grade and corresponding PD, LGD and RWA - 2016											
In EUR millions											
Internal rating grade	PD min	PD max	READ	Average RPD	Number of obligors	Average RLGD	Average maturity	RRWA	Risk weight	REL	External rating equivalent
01. Performing											
1	0.01%	0.01%	6,106	0.01%	28	30.05%	24.63	124	0.02	0	AAA
2	0.02%	0.02%	956	0.03%	25	29.16%	50.33	130	0.14	0	AA+
3	0.03%	0.03%	18,485	0.03%	67,709	31.70%	26.59	1,216	0.07	1	AA
4	0.04%	0.04%	11,534	0.04%	71,901	23.98%	51.16	1,649	0.14	1	AA-
5	0.05%	0.06%	10,408	0.05%	31,202	30.50%	32.91	1,886	0.18	2	A+
6	0.06%	0.08%	3,105	0.06%	12,311	22.69%	32.76	401	0.13	0	A
7	0.09%	0.11%	10,129	0.10%	119,229	22.77%	47.49	1,662	0.16	2	A-
8	0.13%	0.16%	13,908	0.14%	134,599	19.94%	46.55	2,290	0.16	4	BBB+
9	0.18%	0.22%	10,647	0.21%	113,246	25.54%	34.73	2,722	0.26	6	BBB
10	0.29%	0.36%	14,455	0.31%	109,244	22.81%	38.42	3,712	0.26	10	BBB-
11	0.44%	0.56%	16,299	0.46%	137,818	21.93%	41.39	5,076	0.31	16	BB+
12	0.59%	0.95%	11,545	0.81%	98,502	24.01%	39.49	5,038	0.44	22	BB
13	1.09%	1.71%	9,304	1.41%	135,289	21.64%	36.94	4,288	0.46	28	BB-
14	1.90%	3.07%	5,918	2.54%	73,716	20.88%	40.66	3,427	0.58	31	B+
15	3.85%	5.38%	4,635	4.49%	50,109	24.73%	40.45	3,744	0.81	52	B
16	6.11%	11.04%	2,507	8.61%	42,567	20.72%	42.02	1,980	0.79	45	B-
17	15.12%	18.92%	1,883	15.98%	26,051	18.84%	41.04	1,804	0.96	56	CCC
18	23.86%	28.82%	672	25.09%	8,734	16.95%	47.49	632	0.94	28	CC
19	33.68%	52.61%	598	41.22%	10,059	16.70%	45.40	503	0.84	42	C
02. Non-performing											
20	100.00%	100.00%	1,834	100.00%	16,451	17.08%	44.48	2,397	1.31	248	Default
21	100.00%	100.00%	552	100.00%	6,855	26.67%	30.69	702	1.27	131	Default
22	100.00%	100.00%	352	100.00%	1,109	30.58%	20.99	262	0.74	191	Default
TOTAL			155,833	2.86%	1,229,193	24.45%	38.69	45,642	0.29	916	

Includes the AIRB portfolio only; excludes securitisations, CVA RWA, equities and ONCOA.

ING's Probability of Default (PD) rating models are based on a 1-22 scale, which corresponds to the same rating grades that are assigned by external rating agencies. Risk Ratings (PD) for performing loans (1-19) are calculated in ING with regulatory approved models. Risk Ratings for non-performing loans (20-22) are set on the basis of an approved discretionary methodology by the Global or Regional Restructuring unit. Overall the risk weights of the ING Belgium portfolio are a mixture of low risk weights for Sovereigns and Residential Mortgages combined with higher risk weights for Corporates and Securitizations. Mortgages generally benefit from large levels of (over) collateralisation.

As of October 2015, PD values of the ING Masterscale are adjusted using both internal and external default data, covering the period 1981 until 2013. External data from Standard & Poor's is used. Internal default experience is reflected for a better fit of ING's portfolios compared to the predominantly US based Standard & Poor's data.

Additional information - continued

Disclosures of model outcomes

The table next, shows the PD, LGD, READ, RWA and RWA density per exposure class.

Model approaches per exposure class for the AIRB portfolio							
In EUR millions	Sovereigns	Institutions	Corporate	Residential mortgages	Other retail	Total 2016	Total 2015
Average RPD	0.04%	0.10%	3.28%	4.49%	5.71%	2.86%	2.94%
Average RLGD	29.61%	27.13%	28.23%	10.48%	26.67%	24.45%	24.41%
READ	22,067	21,107	66,608	32,395	13,657	155,833	149,990
RRWA	1,271	3,887	29,998	6,124	4,363	45,642	35,707
RRWA density (RRWA/READ)	5.76%	18.42%	45.04%	18.90%	31.94%	29.29%	23.81%

Includes the AIRB portfolio only; excludes securitisations, CVA RWA, equities and ONCOA.

Standardised Approach

A subset of the ING Belgium portfolio is treated with the Standardised Approach. The SA approach applies fixed risk weights to each exposure class, split into credit quality steps (based on external ratings) as dictated by the Capital Requirement Directive (CRD). The SA Approach is the least sophisticated of the CRR/CRD IV methodologies and is not as risk sensitive as the risk-based AIRB Approach.

Exposures before and after risk mitigation for the SA portfolio

The table below shows how credit risk mitigation (CRM) in the SA portfolio is distributed over the exposure classes. There are two principal methods for reducing or mitigating Credit Risk: i) by reduction of Credit Risk through the acceptance of pledged financial assets as collateral or ii) mitigation or shifting of credit risks to a lower risk weighting group by accepting guarantees from unrelated third parties. ING uses both methods to take CRM effects into account. For financial collateral, ING uses the Financial Collateral Comprehensive Method to allow for mitigation effects.

Exposures and RWA before and after risk mitigation and conversion factors						
In EUR millions	Exposures before CCF and CRM [a]		CRM and CCF effects on exposures [b]		RWA & RWA density	
	On balance sheet amount	Off balance sheet amount	On balance sheet amount	Off balance sheet amount	RWA [c]	RWA density [c/(a-b)]
Regional governments or local authorities	4	1	-0	-0	1	16.45%
Institutions	26	0	4	0	6	26.91%
Corporates	1,088	146	-5	-73	1,143	87.15%
Retail	109	1	-0	-0	63	57.06%
Secured by mortgages on immovable property	0	0	-0	0	0	41.69%
Exposures in default	142	1	-13	-0	192	122.99%
TOTAL 2016	1,368	148	-15	-74	1,405	87.52%
Total 2015	1,142	302	-40	-147	1,184	72.60%

Risk weights per exposure class

The table below gives more insight in how the SA portfolio per exposure class is broken down into the regulatory risk weight buckets.

Exposures per risk weight bucket per exposure class										
SA exposure class	0%	10%	20%	35%	50%	75%	100%	150%	Others	Total
Regional governments or local authorities			4							4
Institutions			30							30
Corporates							1,156			1,156
Retail						110				110
Secured by mortgages on immovable property				0			0			0
Exposures in default							2	127		129
TOTAL 2016			34	0		110	1,158	127		1,428
Total 2015			11		3	141	1,098	3		1,257

Note that the Bank of International Settlements (BIS) requires an exposure class breakdown in this table which differs from the ING Bank exposure classes shown in previous tables.

Additional information - continued

Exposure by industry and geographic area

ING uses a common industry classification methodology based on the NAICS system (North American Industry Classification System). This methodology has over 1,500 detailed industry descriptions, which are aggregated into 22 industry classes at the highest level.

The tables below show the non-performing exposure per NAICS industry and per main geographic area for the total portfolio, for portfolios and for defaulted portfolios.

Total portfolio

Total exposure (READ) by industry								
In EUR millions	Sovereigns	Institutions	Corporate	Residential mortgages	Other retail	SEC	Total 2016	Total 2015
1. Private Individuals	0	0	113	19,878	2,753	0	22,744	21,923
2. Natural Resources	0	0	17,190	19	54	0	17,263	14,042
3. Services	104	424	7,580	5,501	2,767	0	16,375	14,504
4. Commercial Banks	399	11,456	815	58	8	0	12,736	14,298
5. Central Governments	10,653	45	0	305	43	0	11,047	13,029
6. Real Estate	44	186	9,448	46	589	0	10,313	9,283
7. Lower Public Administration	2,684	5,727	0	611	98	0	9,120	7,878
8. General Industries	0	2	4,515	3,485	908	0	8,911	8,468
9. Central Banks	7,490	0	0	2	0	0	7,492	6,863
10. Food, Beverages & Personal Care	0	1	5,429	355	971	0	6,755	7,586
11. Non-Bank Financial Institutions	0	1,035	2,506	111	171	2,671	6,493	8,123
12. Chemicals, Health & Pharmaceuticals	536	1,250	3,534	334	683	0	6,336	5,088
13. Builders & Contractors	25	105	4,470	310	1,019	0	5,929	5,547
14. Transportation & Logistics	0	3	4,112	206	261	0	4,582	4,609
X. Other	137	903	8,053	1,174	3,568	0	13,834	12,975
TOTAL	22,071	21,136	67,765	32,395	13,894	2,671	159,932	154,215

Includes both AIRB and SA portfolios; excludes equities and ONCOA.

Total exposure (READ) by geographic area								
In EUR millions	Sovereigns	Institutions	Corporate	Residential mortgages	Other retail	SEC	Total 2016	Total 2015
1. Belgium	13,480	8,678	36,118	30,068	12,854	0	101,198	97,038
2. Luxembourg	2,025	657	4,848	1,755	692	36	10,013	9,351
3. Netherlands	793	5,461	2,404	65	24	1,382	10,128	11,583
X. Other Europe	5,714	4,722	15,959	414	280	815	27,906	27,122
1. America	0	1,196	4,412	26	18	438	6,090	5,252
2. Asia	39	379	3,001	40	9	0	3,468	2,844
Y. Rest of world	20	43	1,022	27	17	0	1,129	1,025
TOTAL	22,071	21,136	67,765	32,395	13,894	2,671	159,932	154,215

Includes both AIRB and SA portfolios; excludes equities and ONCOA.

Additional information - continued

SME exposure classes

SME exposure classes include companies, classified as Corporate or Retail, where the total annual sales for the consolidated group for which the firm is part is less than EUR 50 million.

SME Exposure (READ) by industry					
In EUR millions	Corporate	Retail	Mortgages	Total 2016	Total 2015
1. Private Individuals	39	43	243	325	301
2. Natural Resources	438	24	25	488	610
3. Services	2,951	777	1,370	5,098	5,501
4. Commercial Banks	0	1	2	3	2
5. Central Governments	0	1	1	2	2
6. Real Estate	3,958	116	468	4,542	5,271
7. Lower Public Administration	0	1	2	3	3
8. General Industries	1,265	166	204	1,635	1,854
9. Central Banks	0	0	0	0	0
10. Food, Beverages & Personal Care	1,056	321	592	1,969	2,254
11. Non-Bank Financial Institutions	266	78	79	424	543
12. Chemicals, Health & Pharmaceuticals	715	232	410	1,357	1,650
13. Builders & Contractors	2,242	396	586	3,225	3,365
14. Transportation & Logistics	708	106	126	940	1,030
X. Other	2,543	860	2,573	5,976	6,261
TOTAL	16,182	3,124	6,680	25,986	28,648

Includes both AIRB and SA portfolios; excludes securitisations, equities and ONCOA.

SME Exposure (READ) by geographic area					
In EUR millions	Corporate	Retail	Mortgages	Total 2016	Total 2015
1. Belgium	15,750	2,965	6,428	25,143	27,700
2. Luxembourg	110	129	149	388	382
3. Netherlands	75	6	6	86	70
X. Other Europe	180	19	82	281	357
1. America	1	2	12	14	14
2. Asia	40	0	1	42	29
Y. Rest of world	26	3	3	32	97
TOTAL	16,182	3,124	6,680	25,986	28,648

Includes both AIRB and SA portfolios; excludes securitisations, equities and ONCOA.

Additional information - continued

Non-performing

Non-performing exposure (READ) by industry							
In EUR millions	Sovereigns	Institutions	Corporate	Residential mortgages	Other retail	Total 2016	Total 2015
1. Private Individuals				424	185	609	635
2. Services			222	183	64	469	439
3. General Industries			128	185	33	346	367
4. Builders & Contractors			217	13	68	298	315
5. Real Estate			231	1	29	261	297
6. Retail			95	56	46	197	170
7. Food, Beverages & Personal Care			114	14	51	179	189
8. Natural Resources			128	0	2	130	127
9. Transportation & Logistics		0	45	15	24	84	95
10. Chemicals, Health & Pharmaceuticals			45	10	9	64	69
11. Unknown			8		50	58	69
12. Automotive			32	4	10	46	53
13. Media			25	3	9	37	44
14. Lower Public Administration		0		29	1	30	29
X. Other	0	1	32	11	16	60	75
TOTAL	0	1	1,322	947	596	2,867	2,974

Includes both AIRB and SA portfolios; excludes securitisations, equities and ONCOA.

Non-performing exposure (READ) by geographic area							
In EUR millions	Sovereigns	Institutions	Corporate	Residential mortgages	Other retail	Total 2016	Total 2015
1. Belgium	0	1	1,149	887	567	2,605	2,675
2. France		0	21	25	13	59	56
3. Luxembourg		0	23	8	10	40	59
X. Other Europe			6	25	4	35	55
1. Africa			88	1	1	89	86
2. America			36	1	1	38	41
Y. Rest of world				1	0	1	2
TOTAL	0	1	1,322	947	596	2,867	2,974

Includes both AIRB and SA portfolios; excludes securitisations, equities and ONCOA.

Past due loans

The calculation of days past due vary depending on the type of exposure. ING Belgium considers past due loans to be those loans where any payment of interest of principal is more than one day past due on the reporting date (usually monthly). The number of days past due is based on the number of payments overdue. A number of "months in arrears" for each loan, being the total arrear in principal amount (thus including capital and normal monthly interests, but excluding overdue interests and fees) divided by the amount of the current monthly instalment. For accounts and cards however the number of days past due is calculated as the real number of days in arrears. This methodology is currently being reviewed in anticipation of IFRS9.

Additional information - continued

The table below is based on the country of residence of the obligor and on credit risk outstandings. Credit Risk outstandings include amounts associated with both on- and off- balance sheet products, but exclude amounts related to unused limits.

Past due but not non-performing consumer loans by geographic area (based on outstandings)							
In EUR millions	Sovereigns	Institutions	Corporate	Residential mortgages	Other retail	Total 2016	Total 2016
1. Belgium			2	901	546	1,449	1,729
2. Luxembourg				1	52	53	54
3. France				16	1	17	20
X. Other Europe				4	1	5	5
1. Asia				0	0	0	0
2. Africa				0	0	0	0
Y. Rest of world				1	0	1	1
TOTAL	0	0	2	923	600	1,525	1,810

Includes both AIRB and SA portfolios; excludes securitisations, equities and ONCOA.

Aging Analysis

The table below gives insight in the aging of the Consumer exposures and includes both the performing and non-performing portfolio. All exposures which are not past due have been excluded. The bucket 0-3 months comprises mainly of performing exposures.

Aging analysis of past due Consumers exposures						
In EUR millions	0-3 months *	> 3-6 months	> 6-9 months	> 9-12 months	> 12-24 months	> 24 months
Residential Mortgages	1,300	89	37	25	44	183
Other Retail	702	29	17	12	21	51
Corporate	3	0	0	0	0	0
TOTAL 2016	2,005	118	54	37	65	234

Excludes the business portfolio, includes both AIRB and SA portfolios; excludes securitisations, equities and ONCOA.

* excl. 0 days

Counterparty credit risk

The main activities that qualify under counterparty credit risk are derivatives trading activities and securities financing. As part of these activities, ING Belgium enters into master agreements such as ISDA master agreements and Global Master Repurchase Agreements (GMRA). Under the terms contained in sections related to Minimum Threshold Amounts and Minimum Transfer Amounts of Credit Support Annexes (CSA) or other similar clauses, both ING Belgium and its counterparties may agree to pledge additional collateral to each other in the event that either party is downgraded by one of the established rating agencies. ING has determined that under prevailing market conditions, a one notch downgrade would only have a limited effect on the amount of additional collateral that ING would be required to pledge under these agreements. However, the actual amount that ING Belgium may be required to pledge in the future may vary based on ING Belgium's portfolio composition of both derivatives and securities pledged in securities financing transactions, market circumstances, the number of downgrade notches as well as the terms and conditions of future CSAs or other similar agreements entered into.

CVA risk

Basel III introduced an additional regulatory capital charge for material increases in the CVA, the market price of the credit risk of derivatives. In particular, as credit spreads of ING Belgium's counterparties increase, CVA will increase as well and ING Belgium will incur a loss. ING Belgium follows the standardised approach for calculation of the capital charge to cover CVA Risk (CVA Capital) in accordance with the CRR/CRD IV. The scope of the products and counterparties that the CVA Capital charge is applied to also follows those regulations. The most important factors in the calculation of CVA Capital according to the standardised approach are the CVA Exposure, the CVA Risk Weight and the Maturity. The CVA exposure is similar to the READ, but includes collateral held under collateral agreements. The CVA Risk Weight is prescribed in regulation and depends directly on the risk rating of the counterparty. The Maturity is similar to the Maturity used in the calculation of Counterparty Default Risk, but contrary to its use there not capped at 5 years.

Additional information - continued

In order to make CVA comparable to credit RWA, we use in the table below the concept of "CVA RWA", which is the product of CVA capital requirement by 12.5.

CVA Risk					
In EUR millions	Derivatives Product Buckets	2016			CVA RWA
		CVA Exposure	Average CVA Risk Weight	Average Maturity	
	Interest Rate Derivatives	1,484	0.80%	5.7	1,304
	Equity Derivative	381	0.93%	4.6	294
	FX Derivative	116	0.82%	4.2	78
	Commodity Derivative	25	0.80%	4.6	18
	Inflation Linked Derivatives	6	0.81%	5.3	5
	Fixed Income Derivative	2	0.80%	10.5	2
	Credit Derivative	1	0.88%	6.0	1
	TOTAL 2016	2,014	0.83%	5.2	1,702
	Total 2015	2,985	0.83%	5.2	2,034

Includes both AIRB and SA portfolios; excludes securitisations, equities and ONCOA.

Derivatives by product type

The table below is based on the market-to-market (MtM) plus (regulatory) add-on methodology used for calculating CRR/CRD IV RWA for determining the gross exposures. This means that the READ figure listed hereunder is significantly below the notional amount. The market-to-market plus (regulatory) add-on is recalculated daily to reflect both changes in the markets as well as portfolio composition. The Current Exposure Method (the methodology to calculate the READ) together with the other building blocks (PD, LGD and Maturity), allow ING Belgium to classify a large part of its derivatives exposures under the AIRB approach.

Derivatives by product type in READ								
In EUR millions	Derivatives Product Buckets	2016					Total 2015	
		Sovereigns	Institutions	Corporate	Residential mortgages	Other Retail		Total
	Interest Rate Derivatives	351	2,272	812		1	3,437	5,056
	Equity Derivative	3	412	256		9	680	751
	FX Derivative	9	122	336		1	468	1,021
	Commodity Derivative	4	21	220		0	245	182
	Inflation Linked Derivatives	0	6	0			6	5
	Fixed Income Derivative		2				2	3
	Credit Derivative		1				1	0
	Exchange Traded						0	736
	TOTAL	368	2,836	1,624	0	11	4,838	7,755

Includes both AIRB and SA portfolios; excludes securitisations, equities and ONCOA.

Capital adequacy - Market risk

In general

Economic Capital for market risk is the economic capital necessary to withstand unexpected value movements due to changes in market variables, such as interest rates, equity prices, foreign exchange rates, real estate prices and volatility in these rates and prices. Economic Capital for market risk is calculated for exposures both in trading portfolios and non-trading portfolios.

Measurement

Economic Capital for market risk is calculated using internally developed methodologies with a 99.95% confidence interval and a horizon of one year, which represent extreme events and ING's desired rating. The Economic Capital for market risk for non-trading portfolios is calculated for each risk type, while for trading portfolios it is calculated on a portfolio level. The calculations for Economic Capital market risk include foreign exchange rate risk, equity price risk, interest rate risk and real estate risk.

Additional information - continued

For the direct market risks, the actual VaR (measured at a 99% confidence interval and a one-day holding period) of the trading and non-trading portfolios is taken as a starting point for the Economic Capital calculations for market risk. To arrive at the Economic Capital for market risk, a simulation-based model is used which includes scaling to the required confidence interval and holding period. In determining this scaling factor, several other factors are also taken into account such as the occurrence of large market movements (events) and management interventions. Economic Capital for market risk for the large non-trading portfolios is calculated for embedded option risk (e.g. the prepayment option in mortgages).

The model risk is calculated by stressing the underlying assumptions in the models for behavioural assets and liabilities. For example, for the model applied to mortgage portfolios, the quality of the hedge depends on assumptions with respect to the prepayment behaviour. If these assumptions are wrong, the funding may be either too long or too short-term.

Similar to the above, the Economic Capital for model risk is based on the estimated 99% confidence interval for the prepayment model error and the 99% confidence interval for adverse interest rate movements. It is assumed that combining these two 99% confidence levels results in a 99.95% confidence level for the mortgage loan portfolio value change as a result of the prepayment modelling error. The prepayment model risk for mortgage loans and the model risk for on-demand client deposits are included in the Business Risk category.

Buildings owned by ING that are not managed by ING Real Estate are referred to as 'Property In Own Use'. Economic Capital for Property in Own Use is included in the Economic Capital for market risk. While aggregating the different Economic Capital market risk figures for the different types of risks, diversification benefits are taken into account, as it is not expected that all extreme market movements will appear at the same moment. The nature of market risk Economic Capital, which evaluates the impact of extreme stress with a 99.95% confidence level, can sometimes be difficult to evidence in a statistically sound manner with the available historical data. The Economic Capital figures disclosed by ING Belgium are a best-effort estimate based on available data and expert opinions.

Capital adequacy - Operational risk

While operational risk can be limited through management controls some incidents still have a substantial impact on the profit and loss account of financial institutions. As for the other risk domains, regulatory and economic capital for operational risk is calculated and maintained.

ING has chosen for the "Advanced Measurement Approach (AMA)" for the calculation of the regulatory and economic capital, called the AMA 2.0 model.

The goal of the modelling is to estimate appropriate risk parameters for a Unit of Measurement (UoM). A risk refers to a set of frequency and severity distributions. When modelling a risk, a distinction is made between body risk and tail risk. The point of the split between body and tail is denoted as tail threshold. Body risk describes the high frequency - low severity events. In contrast, the tail risk describes the low frequency - high severity events.

Additional information - continued

Lack of sufficient internal loss events makes the use of Internal Loss Data (ILD) for tail severity modelling difficult. Therefore, other sources of data more appropriate for tail are used. External data (ELD/ORX) and scenarios (SA) are two available alternatives. In the modelling approach both data sets will be used as complementary inputs.

Capital requirements				
In million EUR	2016		2015	
	Regulatory Capital	Risk-Weighted Assets	Regulatory Capital	Risk-Weighted Assets
	CRR/CRD IV phased in 2015 rules		CRR/CRD IV phased in 2014 rules	
Credit risk				
Total portfolios subject to standard approach	112.4	1,404.8	94.7	1,184.1
Portfolios subject to AIRB approach				
- Sovereigns	27.9	348.4	39.7	496.1
- Institutions	302.0	3,774.5	384.5	4,806.6
- Corporate	2,400.4	30,005.4	1,743.8	21,797.5
- Residential mortgages	626.4	7,829.7	469.8	5,871.9
- Other Retail	212.5	2,656.6	219.6	2,745.0
Total portfolios subject to AIRB approach	3,569.2	44,614.6	2,857.4	35,717.1
Credit Value Adjustment	136.1	1,701.6	162.7	2,034.3
Securitisation exposures	28.2	352.5	37.3	466.2
Equity portfolios in the banking book under the simple risk weight approach	21.0	263.0	27.7	346.8
Other non credit-obligation assets	272.0	3,400.4	494.9	6,185.8
Other own fund requirement	73.8	922.5	203.0	2,538.0
Total Credit Risk	4,212.8	52,659.4	3,877.8	48,472.3
Market Risk				
Internal models approach - trading book	13.3	166.1	175.2	2,190.3
Total Market risk	13.3	166.1	175.2	2,190.3
Operational risk				
Advanced measurement approach	473.5	5,918.8	533.8	6,672.7
Total Operational Risk	473.5	5,918.8	533.8	6,672.7
Total Basel III required Regulatory Capital	4,699.5	58,744.3	4,586.8	57,335.3
Basel I floor¹	6,577.1	82,213.8	6,262.1	78,276.7

¹ The floor is 80% of Basel I required Regulatory Capital

ING Belgium nv/sa

Avenue Marnix / Marnixlaan 24
B-1000 Brussels
Belgium

www.ing.be

Register of legal persons n° 0403 200 393



ING Belgium NV/SA
Annual Report
2017

Transformation
towards **Unite**

**ING Belgium NV/SA
Annual Report
2017**

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Information about the company on 31 December 2017

Registered name

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

Registered office

Avenue Marnix / Marnixlaan 24
B-1000 Brussels, Belgium

Company registration

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

Form of incorporation, Articles of Association and their publication

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

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

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

Duration

The company has been established for an unlimited duration.

Corporate object

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

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

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

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

Issued share capital

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

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

External functions exercised by directors and senior management of the bank

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

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

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

Supervisory and Executive bodies

Composition of the Board of Directors ⁽¹⁾

Situation per 31 December 2017

Eric Boyer de la Giroday Chairman of the Board of Directors	(2018)	Count Diego du Monceau de Bergendal Non-executive Director Managing Director, Rainyve NV/SA	(2020)
Erik Van Den Eynden Chief Executive Officer Managing Director	(2023)	Christian Jourquin Independent Non-executive Director Member of the Royal Academy of Belgium	(2018)
Krista Baetens Managing Director	(2023)	Paul Mousel Independent Non-executive Director President, Arendt & Medernach Lawyers	(2020)
Philippe Wallez Managing Director	(2020)	Koos Timmermans ⁽²⁾ (until 1 September 2017) Non-executive Director Vice Chairman of the Supervisory Board, ING Bank NV	
Frank Stockx Managing Director	(2019)	Roland Boekhout ⁽²⁾ (as from 1 September 2017) Non-executive Director Member of the Management Board, ING Bank NV	(2023)
Johan Kestens Managing Director	(2020)	Pinar Abay Non-executive Director CEO, ING Bank Turkey	(2022)
Emmanuel Verhoosel Managing Director	(2020)	Sonja Rottiers (as from 1 July 2017) Independent Non-executive director Director of companies	(2023)
Tanate Phutrakul Managing Director	(2022)	Swee-Im Ung (as from 1 July 2017) Independent Non-executive director Director of companies	(2023)
Baron Luc Bertrand Non-executive Director Chairman of the Board, Ackermans & van Haaren	(2018)		
Baron Philippe de Buck van Overstraeten Non-executive Director Senior Executive Advisor Hill+Knowlton Strategies Member of the European Economic and Social Committee	(2018)		

⁽¹⁾ Normal expiry dates are shown opposite each Director's name

⁽²⁾ Non-Executive Director who represents the sole shareholder

Composition of the Audit Committee

Situation per 31 December 2017

Chairman	Diego du Monceau de Bergendal	Members	Philippe de Buck van Overstraeten Christian Jourquin ⁽³⁾ Sonja Rottiers ⁽³⁾ Swee-Im Ung ⁽³⁾
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⁽³⁾ Member of the Audit Committee independent of the legal organ of administration within the meaning of article 526ter of the Companies Code and independent in accounting and/or auditing

Composition of the Remuneration Committee

Situation per 31 December 2017

Chairman	Eric Boyer de Giroday	Members	Paul Mousel Roland Boekhout
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Composition of the Risk Committee

Situation per 31 December 2017

Chairman	Diego du Monceau de Bergendal	Members	Philippe de Buck van Overstraeten Christian Jourquin ⁽³⁾ Sonja Rottiers ⁽³⁾ Swee-Im Ung ⁽³⁾
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⁽³⁾ Member of the Audit Committee independent of the legal organ of administration within the meaning of article 526ter of the Companies Code and independent in accounting and/or auditing

Composition of the Nomination Committee

Situation per 31 December 2017

Chairman	Eric Boyer de Giroday	Members	Paul Mousel Roland Boekhout
-----------------	-----------------------	----------------	--------------------------------

Composition of the Executive Committee

Areas of responsibility per 31 December 2017

Erik Van Den Eynden Managing Director	Chief Executive Officer
Tanate Phutrakul Managing Director	Chief Financial Officer
Krista Baetens Managing Director	Chief Risk Officer
Frank Stockx Managing Director	Head of Product Management & Client Services
Emmanuel Verhoosel Managing Director	Head of Wholesale Banking
Philippe Wallez Managing Director	Head of Retail & Private Banking
Johan Kestens Managing Director	Head of Information Technology Services

Registered auditor

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

Report of the Management Board

Brussels
23 March 2018
Financial Report 2017

Comments on Financial Statements

Changes in scope during 2017

There has been no changes in scope for ING Belgium NV/SA nor its subsidiaries during the financial year 2017.

Highlights

**Solid business performance
while being on track with the transformation to the new business model
and demonstrating robust ratios**

- The 2017 profit after tax of ING Belgium NV/SA consolidated amounted to **EUR 739 million** given challenging circumstances;
- Customer deposits increase with **EUR 3.9 billion** (+4%);
- Customer loan growth of **EUR 4.8 billion** (+5%).
- More than **100,000 new ING Lion accounts** opened;
- Net increase of **32,000 active clients** and **22,000 primary customers**;
- Net growth of **225,000 new active mobile users**.
- **Redeployment process** for 5,000 employees in respectful job-to-job approach;
- 2,200 employees trained and started in the **One Agile way of working** in January 2018;
- New business model with launch of new branch concept "**ING Client house**".
- Continued **margin pressure** on savings and current accounts as a result of the low interest rate environment;
- Balance Sheet position remains strong with **solid liquidity and capital ratios**.

Highlights		
In EUR billions	2017	2016
Profit after tax	0.739	0.573
Customer deposits	101	97
Customer loans	106	102
<hr/>		
In %		
Tier 1 (Basel III)	15.5	14.3
Total capital ratio	17.6	16.6
Leverage ratio	5.1	4.8

Strong business performance

ING Belgium has managed to lay the foundations of this model while at the same time achieving excellent business results:

- Continued success of the free **ING Lion Account**-formula, with over 103,000 new accounts opened;
- The total number of **active clients** went up with 32,000 to 2,483,000 (+1.30%);
- The number of **primary customers** (customers who have a current account with ING that has regular flows coming in and at least one additional product) increased in 2017 with almost 22,000 to a total of just under 1,250,000 (+1.77%);
- **Digital adoption**, a key pillar for the success of ING's strategy, is accelerating exponentially. In 2017 a net growth of 225,000 new active mobile users was registered, making a total of 786,000 (+40.10%).

ING also closed some remarkable deals with some Midcorp and Corporate clients:

- ING was approached by **Mediahuis** in order to advise them on the envisaged delisting of Telegraaf Media Group;
- In June 2017, **Sonaca SA** acquired its US-based listed peer LMI Aerospace. ING took the lead in the underwriting, structuring and further syndication of the acquisition financing.
- ING coordinated for **bpost** the first Belgian syndicated Sustainability Improvement Loan transaction.

Next to that ING pays lots of attention to "Digital" and to "Innovation":

- **Smart and personal digital services**: contributing to the differentiating customer experience, ING has delivered extremely easy and extremely personal services by investing in smart and personal digital services;
- **Innovation through partnership**: Innovation can come from within the organization, but ING also strongly believes in open collaboration and supporting ambitious start-ups as well. For the third year in a row ING Belgium is hosting the ING Fintech Village, the accelerator for start-ups in the Fintech field.

Report of the Management Board - continued

New business model

The year 2017 was marked by the start of the transformation towards the new business model. For every individual at ING, it was an intense year.

Redeployment process on track

5,000 colleagues were in scope of the redeployment process (applying for a function in the new organisation). ING strived for a maximal number of matches, which has so far resulted in almost 90% being matched. Several options have been developed to allow people to leave the company. In short:

- 138 have left the organization by means of the 'early leave' measure (55+), another 759 have decided to make use of this arrangement before the end of 2021;
- 55 employees have decided to 'start their own business' with ING support;
- 448 employees were granted voluntary or recognized leave;
- ING was able to limit the number of dismissals to 120 in 2017.

Training employees in the One Agile way of working

In 2017 about 2,200 employees were trained on the principles of the One Agile way of working. This to prepare them for the Agile way of working that is the norm for the delivery organization of ING as from January 2018. This new way of working has as a consequence that teams are organized in a completely different way with Agile squads instead of hierarchical vertical structures:

- Autonomous and self-steering;
- Maximum nine multidisciplinary members;
- Advantage that innovation can be deployed more quickly for customers.

New distribution model

Bankers fully focused on advice: The launch of the new retail organization will be in effect as from March 2018. It will allow ING to completely change the direction of the branch concept, with the local bankers fully focused on advice;

Revision of the branch network: In 2017 the first ING Client House was officially opened. A new branch concept that aims to be a reflection of what is happening in society: far-reaching digitization + an urge for personal contact and local anchoring.

In April 2018, Record Bank will join forces with ING. Migration for the majority of the Record Bank customers will happen automatically. They will experience a larger network coverage and an improved service using the digital ING platform;

Customer Loyalty Teams: With the Customer Loyalty Teams (CLT's), ING is also aiming resolutely for a differentiating customer experience. The deployment of the CLT's will take place as from March 2018.

Solvency

All of the above happens while maintaining a strong capital basis:

- the solvency ratio remains very solid with a Tier 1 ratio of 15.5% (Basel III definition) and a total capital ratio of 17.6%;
- a comfortable leverage ratio at 5.1%;
- a solid liquidity position, supported by a strong balance in liquidity profile of both assets and liabilities.

Consolidated balance sheet

Assets

ING Belgium NV/SA - Consolidated assets			
In EUR millions	2017	2016	%
Cash and balances with central banks	9,558	5,009	+90.8
Amounts due from banks	10,216	9,885	+3.3
Financial assets at fair value through profit and loss	8,292	13,176	-37.1
Investments	15,162	17,949	-15.5
Loans and advances to customers	106,444	101,633	+4.7
Remaining assets	2,146	2,767	-22.4
Total consolidated assets	151,818	150,419	+0.9

The total assets of ING Belgium NV/SA increased with EUR 1,399 million or 0.9% to EUR 151.8 billion. At the level of the 'Cash and balances with central banks' an increase is seen linked to the increase in the TLTRO as well as the higher remaining liquidity at the end of the financial year.

The "Financial assets at fair value through profit & loss" decreased by 37% to amount to EUR 8.3 billion mainly due to the Balance sheet optimisation exercise ongoing between July and September 2017. Because prior to the migration of FM related operations from FM Branch Brussels to FM Branch London (both branches of ING Bank NV in The Netherlands), a reduction exercise on the number of deals and operations was held. This exercise lowered the number of B/S positions between ING Belgium and the FM Branch and thus also the B/S outstandings (on both Assets and Liabilities side).

Also the "Investments" decreased by 2.8 billion because of investments arriving at maturity date as well as a number of selected sales during the year. The loan portfolio of the bank grew in 2017 with EUR 4.8 billion. This increase is located in several client segments and products, mainly in the loans secured by mortgage.

Report of the Management Board - continued

Liabilities and equity

ING Belgium NV/SA - Consolidated liabilities and Equity			
In EUR millions	2017	2016	%
Deposits from banks	16,645	13,334	+24.8
Customer deposits	100,896	97,046	+4.0
Financial liabilities at fair value through profit and loss	10,916	16,672	-34.5
Remaining liabilities	13,175	13,077	+0.7
Shareholders' equity	10,168	10,268	-1.0
Non-controlling interests	18	21	-14.3
Total consolidated liabilities and equity	151,818	150,419	+0.9

The shareholders equity amounts to EUR 10.2 billion and decreased by approximately 1% compared to end 2016. The profit of the year 2017 (approx. 740 mio) has been as good as compensated by the interim dividend (approx. 720 mio) paid in June 2017. The decrease in Shareholders' equity originates in a decrease of the Revaluation reserves.

The "Financial liabilities at fair value through profit & loss" decreased by 34.5% to EUR 10.9 billion mainly due to the Balance sheet optimisation exercise in 2017 (see also above under: "Assets"). The customer deposits increased in 2017 with EUR 3.8 billion to an amount of 100.9 billion in total. In spite of the low interest rates environment, ING Belgium NV/SA saw its savings accounts at an almost stable level (-0.5%). Also corporate deposits remained stable. The credit balances on deposits from banks increased on the other hand, by approximately EUR 3.3 billion. In this amount the increase of the TLTRO (being EUR 3 billion towards a total amount of EUR 4.6 billion) is embedded.

Consolidated income statement

ING Belgium NV/SA - Consolidated income statement			
In EUR millions	2017	2016	%
Financial and operational income/expenses	3,351	3,455	-3.0
<i>of which: net interest income</i>	2,393	2,547	-6.0
<i>of which: commissions and fees</i>	626	560	+11.7
<i>of which: other income</i>	332	348	-4.5
Total expenses (-)	-2,187	-2,686	-18.6
<i>of which: staff expenses</i>	-1,086	-1,053	+3.2
<i>of which: administration expenses</i>	-609	-393	+55.0
<i>of which: bank levies</i>	-218	-221	-1.3
<i>of which: depreciations</i>	-105	-116	-10.1
<i>of which: loan loss provisioning</i>	-165	-209	-21.0
<i>of which: other provisions and impairments</i>	-5	-695	-99.3
Profit before tax	1,164	769	+51.3
Taxation (-)	-425	-196	+117.0
Profit after tax	739	573	+28.9
Third party interest (-)	2	-1	-232.2
Consolidated net profit (attributable to the equity holders of the parent)	741	572	+29.5

ING Belgium posted in 2017 on a consolidated level a profit after tax of EUR 739 million. The total income in 2017 of EUR 3.351 billion decreased slightly compared to previous years (-3%). The interest result reduced by 6.0% compared to 2016. The year 2017 was still an environment in which the market interest rates continued to be low, leading to a further decrease of interest margins despite higher volumes.

The salary expenses increased slightly (+3.2%) mainly due to an increase in costs for externals. The administration expenses in 2017 increased by EUR 216 million which is linked to small increases of multiple operating costs (about EUR 100 million in total), combined with the one-off procured cost savings during 2016 of EUR 115 million. The Regulatory costs (bank levies) during 2017 remained stable (EUR 218 million). The provisions and impairments decreased substantially compared to previous year, as 2016 contained a reorganisation provision of EUR 615 million. This leads to a profit before tax amount of EUR 1,164 million (or 51% higher than last year).

Finally, the increase in income taxes by EUR 229 million (+117.0%) leads to a profit after tax of EUR 739 million (+28.9%). The effective tax rate increased from 25.5% to 36.5% (lowering of the corporate tax rate leading to a decrease in deferred tax assets, less non-taxable revenues and a lower notional interest deduction rate).

Profile of the company

ING in Belgium

ING Group is a global financial institution of Dutch origin offering banking services through its operating company ING Bank. ING Bank's more than 51,000 employees offer retail and wholesale banking services to customers in over 40 countries.

ING Belgium NV/SA is a financial institution focusing its core activities on Retail & Private Banking and Wholesale Banking. The bank caters over 2.5 million clients in Belgium with a wide range of financial products via the distribution channel of their choice.

Record Bank -ING Belgium's second Belgian retail banking network- is a 100 % subsidiary of ING Belgium. Record Bank serves over 800,000 retail and small business customers with a full range of safe, simple and transparent products in daily banking, lending, savings and investments.

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

Staff evolution

In the course of 2017, the total number of staff (in full time equivalent, or FTE's) of ING Belgium NV/SA consolidated decreased by 6% from 9,843 FTE's to 9,236 FTE's.

While overall staffing members declined in 2017, the bank was able to continue to recruit new staff equal to 446 FTE's to meet its strategic goals.

Risk management

See the specific chapter "Consolidated annual accounts".

Post-balance-sheet events

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

Information on branches

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

Research and development

Not applicable.

Information concerning the use of financial instruments

See the specific chapter "Consolidated annual accounts".

Outlook

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

Legal stipulations regarding the composition of the Audit Committee

In compliance with article 526bis of the Company Code, half of the members of the Audit Committee of ING Belgium should be an independent director (according to the definition in article 526ter).

These persons are Christian Jourquin, Swee-Im Ung and Sonja Rottiers. Their curriculum vitae and active participation in ING Belgium's Board of Directors demonstrate their capabilities in accounting and audit.

The rules of Corporate Governance

Current state of affairs

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

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

ING Belgium's position regarding the Belgian Corporate Governance Code

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

The Board of Directors approved the Governance memorandum and the charters of the Board of Directors, the Executive Committee, the Audit Committee, the Risk Committee, the Remuneration Committee and the Nomination Committee on 20 November 2015. The Governance memorandum and the Charters are updated on a regular basis.

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

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

Corporate Governance and the Board of Directors

Composition

Under the terms of Article 12 of the Articles of Association, the ING Belgium Board of Directors must comprise at least 7 members. On 23 March 2018 the Board has 17 members.

Responsibilities

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

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

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

Provisions in the Articles of Association relating to terms of office

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

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

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

Board decisions

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

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

However, if the Board fails to reach a quorum at a meeting, it may duly deliberate at a follow-up meeting, to be held within 15 days at the latest, on the items on the agenda of the previous meeting, regardless of the number of members present or represented.

Board decisions are taken by simple majority vote. Where there is a requirement, under Articles 523 of the Belgian Companies Code, for one or more members to abstain from voting, resolutions may be validly decided upon by a simple majority vote of all eligible members present or represented. In the event of a tied vote, the presiding member has the casting vote.

Remuneration

Under Article 13 of the Articles of Association, the General Assembly of Shareholders determines the amount of the remuneration of the members of the Board of Directors until a new decision is taken by such a meeting. For more information, see also the paragraph on Remuneration of the members of the Board of Directors and the Executive Committee (in chapter "Consolidated annual accounts").

Specific committees

The Board of Directors has four permanent committees: the Audit Committee, the Risk Committee, the Remuneration Committee and the Nomination Committee. Each Committee shall be comprised of at least three non-executive members of the Board of Directors, of which at least one member needs to be independent within the context of article 526ter of Company Law.

Risk committee

The Risk Committee assists and advises the Board of Directors in monitoring, among other things, the risk profile of the company as well as the structure and operation of the internal risk management and control systems. The risks of the bank must remain within the limits defined by its risk appetite framework.

A risk appetite framework must be defined for the following risk categories: market, operational, credit, compliance, strategic, reputational and liquidity risk.

The purpose of the Risk Committee is to advise the Board of Directors in matters related to the risk strategy and risk tolerance, as well for the current as for the future risks. The risks for the bank must remain within the risk limits. The Risk Committee met 4 times in 2017.

Audit committee

The Audit Committee assists the Board of Directors in monitoring, among other things, the integrity of the financial statements of ING Belgium, the compliance with legal and regulatory requirements, and the independence and performance of ING's internal and external auditors. The Audit Committee's responsibilities extend to ING Belgium and its Belgian and foreign subsidiaries. It met 5 times in 2017. Matters it dealt with included examination of the bank's financial statements for 2016 and the interim results for 2017.

The Committee also analysed the reports prepared by the bank's General Auditor and the Global Compliance Officer. It reviewed the loans placed under special surveillance as well as legal disputes. The Audit Committee reports to the Board of Directors at the Board meeting following each of its own meetings.

Remuneration committee

The Remuneration Committee advises the Board of Directors, among other things, on the terms and conditions of employment (including their remuneration) of Executive Board members and the policies and general principles on which the terms and conditions of employment of Executive Board members and of senior managers of ING and its subsidiaries are based. The Remuneration Committee met 4 times in 2017.

Nomination committee

The Nomination Committee advises the Board of Directors, among other things, on the composition and functioning of the Board of Directors and Executive Board. The Committee also looks at the composition of the Board of Directors and develops the policy to increase the diversity in the Board (gender, age, cultural background...). The Nomination Committee met 3 times in 2017.

Corporate Governance and the Executive Committee

Composition and responsibility

Currently comprising seven members, the Executive Committee is responsible for conducting the bank's day-to-day management in line with the general policy set by the Board of Directors. Its members are Executive Directors and its president is the bank's Chief Executive Officer.

Assignment of responsibilities & decision-making

Each member of the Executive Committee is directly in charge of a number of the bank's entities. These responsibilities are detailed in the section 'ING Belgium's Supervisory, Executive and External Audit bodies' in the next chapter. All decisions by the Executive Committee are taken on a collective basis; each decision is binding on all members of the Committee.

The Executive Committee, in turn, delegates the management of areas of the bank's business to a number of individuals whose rank, responsibilities, authority and remuneration are determined by the Committee.

As mentioned above, the activities of the Executive Committee have been governed by a charter since 9 March 2006 and reviewed on 20 November 2015.

Remuneration

Article 13 of the bank's Articles of Association stipulates that the Board of Directors determines, on the advice of the Remuneration Committee and in accordance with the remuneration policy of the bank, the remuneration of the Executive Committee members. For more information, see also the paragraph on Remuneration of the members of the Board of Directors and the Executive Committee (in chapter "Consolidated annual accounts").

Activities

The Executive Committee generally meets once a week. Additional meetings are convened if there are a large number of items to be discussed, or if there is an urgent matter.

In addition to specific decisions relating to the day-to-day management of the bank, the Executive Committee reviews a detailed annual account of the performance and prospects of each of the bank's central units (profit centres and support services) and of all the main Belgian and foreign subsidiaries. The Executive Committee studies the bank's monthly results, broken down by segment. The results are examined in detail once a quarter.

It examines also the periodic report drawn up by the General Auditor every other month.

At the closing dates of 30 June and 31 December, the Executive Committee and the senior managers of the Credit Department review loan facilities requiring special attention.

The Executive Committee also regularly looks into issues affecting personnel management.

Corporate Governance and Special Committees

Several special committees report directly to the Executive Committee. These are e.g. the Assets and Liabilities Management Committee (ALCO BeLux), the Bank Treasury Committee (BTC), the Non-Financial Risk Committee (NFRC), the Credit Risk Committee, the Product Committee and the Financial Market Committee.

The Executive Committee remains the bank's sole decision-making body.

Corporate Governance and Diversity

Diversity and the Board of Directors

Diversity in the composition of the Board of Directors is assessed on a yearly basis by the Nomination Committee.

The diversity needed for a well-functioning board is more than just gender diversity, and also relates to the percentage of independent and non-executive members, as well as the different professional backgrounds of the members. Target is to have at least two independent members and a majority of non-executive members. The gender diversity of the Board of Directors has improved considerably in the last three year, coming from 12.5% end of 2015, to 18.75% in 2016 to 23.5% end 2017 with 4 out of 17 members being women. The target for next year is to have at least 30% women on the board.

The Board of Directors is actively helping ING Belgium to scout women for both the Board of Directors as the Executive Committee.

Article 12 of the Articles of Association stipulates that the term of office of a director expires at the end of the annual general meeting held the year in which the director in question reaches the age of 70. An ordinary or extraordinary General assembly of Shareholders may, based on the proposal of the Chairman of the Board, extend or renew for one additional term the mandate of a director who has reached the age limit. The additional term may not be longer than 2 years.

Diversity and the Executive Committee

ING Belgium is convinced that Diversity is a strategic priority and that a good balance of feminine and masculine leadership skills adds value to decision making on the highest level. The executive committee currently has seven members of which one woman, however the succession pipeline is heavily steered on identifying and developing women to be ready to take position.

Differences in Nationality and Business Background are equally valued and positively contribute to the diversity of our Executive Committee. Additionally Age and Language Diversity are monitored.

The executive members themselves are engaged in Diversity actions of the company, acting as mentors for underrepresented employee-groups and sponsors for our employee networks:

- LIONESS network to improve the visibility of women in the organization;
- CrossING network focused on cultural diversity;
- GALA network to support the Lesbian, Gay, Bisexual and Transgender community;
- Ring network for young professionals.

ING Belgium has been going through a large transformation in which Diversity, Inclusion and Unconscious Bias have been priorities of the executive committee in the redeployment of both employees and managers.

Non-financial information

As for the “Non-financial information” regarding ING Belgium NV/SA, we refer to the “Non-financial appendix” chapter (pages 337 to 353) in the 2017 Annual report of ING Group NV, parent company of ING Bank NV and thus also of ING Belgium NV/SA and its subsidiaries.

Consolidated statement of financial position

Consolidated statement of financial position (as per 31 December)			
In EUR thousands	Note	2017	2016
Assets			
Cash and balances with central banks	1	9,558,201	5,008,639
Loans and advances to banks	2	10,215,689	9,885,421
Financial assets at fair value through profit or loss	3	8,291,932	13,175,766
<i>of which: trading assets</i>		4,775,721	8,674,772
<i>of which: non-trading derivatives</i>		3,433,293	4,413,044
<i>of which: designated as at fair value through profit or loss</i>		82,918	87,950
Investments	4	15,161,892	17,948,820
<i>of which: available-for-sale</i>		14,523,823	17,022,923
<i>of which: held-to-maturity</i>		638,069	925,897
Loans and advances to customers	5	106,444,117	101,632,669
Investments in associates	6	54,887	67,431
Real estate investments	7	49,014	48,358
Property and equipment	8	676,621	801,750
Intangible assets	9	102,700	102,483
Current tax assets		50,365	59,643
Deferred tax assets	10	214,175	192,419
Other assets	11	998,250	1,495,319
Assets held for sale		0	0
Total assets		151,817,843	150,418,720
Liabilities			
Deposits from banks	12	16,644,960	13,333,629
Customer deposits	13	100,896,245	97,046,298
Financial liabilities at fair value through profit or loss	14	10,915,533	16,672,317
<i>of which: trading liabilities</i>		4,867,955	8,808,874
<i>of which: non-trading derivatives</i>		4,744,668	6,074,113
<i>of which: designated as at fair value through profit or loss</i>		1,302,910	1,789,330
Current tax liabilities		36,200	53,467
Deferred tax liabilities	15	183,072	177,090
Provisions	16	732,236	780,794
Other liabilities	17	3,205,175	2,787,720
Debt securities in issue	18	6,961,453	7,743,252
Subordinated loans	18	1,969,372	1,440,429
Liabilities held for sale		0	0
Share capital repayable on demand	19	87,208	94,002
Total liabilities		141,631,455	140,128,998
Equity			
Share capital and share premium		2,801,511	2,801,511
Other reserves		48,129	207,226
Retained earnings		7,318,372	7,259,676
Shareholders' equity	20	10,168,012	10,268,413
Non-controlling interests		18,377	21,309
Total equity		10,186,389	10,289,722
Total liabilities and equity		151,817,843	150,418,720

Consolidated statement of profit or loss

Consolidated statement of profit or loss (as per 31 December)					
In EUR thousands	Note	2017	2017	2016	2016
Continuing operations					
Interest income		5,068,327		5,720,674	
Interest expense (-)		-2,675,504		-3,173,888	
Net interest income	21		2,392,823		2,546,786
Commission income		907,619		839,760	
Commission expense (-)		-281,975		-279,408	
Net commission income	22		625,645		560,351
Investment income	23		32,672		49,763
Valuation results on non-trading derivatives	24		-498		4,555
Net trading income	25		184,886		150,204
Share of profit from associates			19,088		29,230
Other income			96,123		114,169
Total income			3,350,738		3,455,059
Addition to loan loss provisions (-)	5		-164,777		-208,584
Staff expenses (-)	27		-1,086,389		-1,052,683
Other operating expenses (-)	28		-935,490		-1,424,465
Total expenses			-2,186,656		-2,685,732
Result before tax from continuing operations			1,164,082		769,327
Taxation (-)	29		-425,109		-195,917
Net result from continuing operations			738,973		573,410
Profit or Loss (-) for the year			738,973		573,410
Net result attributable to Non-controlling interests			-1,858		1,405
Net result attributable to Equity holders of the parent			740,831		572,005
Dividend per ordinary share (in EUR)			12.99		0
Total amount of dividend paid (In EUR millions)			720		0

Consolidated statement of comprehensive income

Consolidated statement of comprehensive income (as per 31 December)		
In EUR thousands	2017	2016
Net result (before non-controlling interests)	738,973	573,410
Other comprehensive income, net of tax	-159,097	-85,707
Items that will not be reclassified to the statement of profit or loss:	32,314	-18,235
Remeasurement of the net defined benefit asset/liability	54,424	-25,067
Unrealised revaluations property in own use	-8,690	-2,748
Related tax	-13,420	9,580
Items that may subsequently be reclassified to the statement of profit or loss:	-191,410	-67,472
Unrealised revaluations available-for-sale investments and other revaluations	-62,738	-55,475
Realised gains/losses transferred to the statement of profit or loss	-15,724	-58,719
Changes in cash flow hedge reserve	-203,174	29,728
Exchange rate differences	0	0
Share of other comprehensive income of associates and other income	-3,932	2,423
Related tax	94,158	14,571
Total comprehensive income	579,876	487,703
Comprehensive income attributable to:		
Non-controlling interests	-1,856	1,405
Equity holders of the parent	581,733	486,298
	579,876	487,703

Consolidated statement of cash flows

Consolidated statement of cash flows (as per 31 December)				
In EUR thousands		Note	2017	2016
Cash flows from operating activities				
Result before tax			1,164,082	769,327
Adjusted for:	- depreciation and amortisation		104,506	116,309
	- addition to loan loss provisions		164,777	208,584
	- other		32,400	730,212
Taxation paid			-376,254	-377,283
Changes in:	- loans and advances to banks, not available on demand		-2,134,592	3,333,688
	- trading assets		3,919,446	5,829,955
	- non-trading derivatives		-349,196	6,179
	- other financial assets at fair value through profit or loss		5,032	6,591
	- loans and advances to customers		-4,990,787	-8,832,618
	- other assets		803,961	691,259
	- deposits from banks, not payable on demand		3,152,222	3,622,565
	- customer deposits and other funds on deposit		3,851,675	251,048
	- trading liabilities		-3,940,846	-3,710,593
	- other financial liabilities at fair value through profit or loss		-487,098	-582,195
	- provisions and other liabilities		27,239	168,217
Net cash flow used in / from operating activities			946,567	2,231,245
Cash flows from investing activities				
Investments and advances:	- associates		-3,263	-14,414
	- available-for-sale investments		-3,536,317	-1,677,231
	- real estate investments		-6	0
	- property and equipment		-42,953	-40,806
	- other investments		-30,591	-33,119
Disposals and redemptions:	- associates		21,752	7,950
	- available-for-sale investments		5,657,458	3,445,517
	- held-to-maturity investments		255,000	
	- property and equipment		128,884	21,468
	- loans		977,221	0
	- other investments		-874,759	1,351
Net cash flow used in / from investing activities			2,552,426	1,710,716
Cash flows from financing activities				
Proceeds from debt securities		30	598,858	505,636
Repayments of debt securities		30	-1,311,900	-1,274,200
Proceeds from issuance of subordinated loans		30	717,118	0
Repayments of subordinated loans		30	-119,531	197
Dividends paid			-719,835	0
Net cash flow used in / from financing activities			-835,290	-768,367
Net cash flow			2,663,703	3,173,594
Cash and cash equivalents at beginning of year			3,350,641	177,047
Effect of exchange rate changes on cash and cash equivalents			0	0
Cash and cash equivalents at end of year				
	Treasury bills and other eligible bills		0	874,779
	Amounts due from / to banks		-3,543,857	-2,532,777
	Cash and balances with central banks		9,558,201	5,008,639
Cash and cash equivalents at end of year			6,014,344	3,350,641
Evolution of the cash and cash equivalents during the year			+2,663,703	+3,173,594

Consolidated statement of changes in equity

Consolidated statement of changes in equity (2017)

In EUR thousands	Share capital and share premium	Revaluation and other reserves	Retained earnings	Net profit current year	Non-controlling interests	Total equity
Balance as at 1 January 2017	2,801,511	207,226	6,687,671	572,005	21,309	10,289,722
Net profit transferred to reserves	0	0	572,005	-572,005	0	0
Reclassification between reserves	0	0	0	0	0	0
Currency translation reserve	0	-3,932	0	0	0	-3,932
Net change in hedge of net investments in foreign operations reserve	0	0	0	0	0	0
Net change in tangible fixed assets revaluation reserve	0	3,175	0	0	0	3,175
Net change in the revaluation reserve available for sale	0	-33,463	0	0	0	-33,463
Net change in cash flow hedges	0	-154,016	0	0	0	-154,016
Net change in actuarial gains / losses on pension defined benefit plans	0	29,138	0	0	0	29,138
Other changes	0	0	0	0	0	0
Total amount recognised in other comprehensive income	0	-159,098	572,005	-572,005	0	-159,098
Net result from continuing and discontinued operations	0	0	0	740,831	-1,856	738,975
Total comprehensive income	0	-159,098	572,005	168,826	-1,856	579,877
Dividends (previous year)	0	0	0	0	0	0
Interim dividends (current year)	0	0	-719,836	0	0	-719,836
Changes in capital	0	0	0	0	0	0
Changes in treasury shares	0	0	0	0	0	0
Employee stock option and share plans	0	0	9,409	0	0	9,409
Other changes	0	0	28,292	0	-1,076	27,216
Balance as at 31 December 2017	2,801,511	48,129	6,577,541	740,831	18,377	10,186,389

Consolidated statement of changes in equity (2016)

In EUR thousands	Share capital and share premium	Revaluation and other reserves	Retained earnings	Net profit current year	Non-controlling interests	Total equity
Balance as at 1 January 2016	2,801,511	292,932	5,726,965	950,266	20,392	9,792,066
Net profit transferred to reserves	0	0	942,652	-950,266	0	-7,614
Reclassification between reserves	0	0	7,614	0	0	7,614
Currency translation reserve	0	6,983	0	0	0	6,983
Net change in hedge of net investments in foreign operations reserve	0	3,314	0	0	0	3,314
Net change in tangible fixed assets revaluation reserve	0	-1,706	0	0	0	-1,706
Net change in the revaluation reserve available for sale	0	-97,771	0	0	0	-97,771
Net change in cash flow hedges	0	20,002	0	0	0	20,002
Net change in actuarial gains / losses on pension defined benefit plans	0	-16,529	0	0	0	-16,529
Other changes	0	0	0	0	0	0
Total amount recognised in other comprehensive income	0	-85,707	950,266	-950,266	0	-85,707
Net result from continuing and discontinued operations	0	0	0	572,005	1,405	573,410
Total comprehensive income	0	-85,707	950,266	-378,261	1,405	487,703
Dividends (previous year)	0	0	0	0	0	0
Interim dividends (current year)	0	0	0	0	0	0
Changes in capital	0	0	0	0	0	0
Changes in treasury shares	0	0	0	0	0	0
Employee stock option and share plans	0	0	10,440	0	0	10,440
Other changes	0	0	0	0	-488	-488
Balance as at 31 December 2016	2,801,511	207,226	6,687,671	572,005	21,309	10,289,722

Corporate information

ING Belgium NV/SA is an international financial institution active in banking, insurance and asset management and a subsidiary of ING Bank NV. ING Belgium has organised its commercial network into two business lines: Retail & Private Banking and Wholesale Banking. Both report functionally to the equivalent business lines at ING Group. ING Belgium NV/SA is a limited liability company and its registered office is Marnix Avenue 24, 1000 Brussels.

These consolidated financial statements were approved for issue by the Board of Directors on 23 March 2018. Amounts in the notes to the financial statements are in thousands of euros unless otherwise stated.

Basis for preparation of the consolidated annual accounts

Preliminary remark: The format and layout of the 2017 Annual Report of ING Belgium NV/SA has been adapted to the format and layout of the Annual Report of ING Group NV and ING Bank NV, to increase comparability with the parent's financial statements.

The ING Belgium Consolidated annual accounts have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) and the supplementary disclosures required by Belgian law.

ING applies International Financial Reporting Standards (IFRS) as adopted by the European Union (EU), which are IFRS Standards and IFRS Interpretations as issued by the International Accounting Standards Board (IASB) and the IFRS Interpretations Committee (IFRIC) with some limited modifications such as the temporary 'carve out' from IAS 39 'Financial Instruments: Recognition and Measurement' (herein, referred to as IFRS).

Under the EU carve out, ING applies fair value hedge accounting to portfolio hedges of interest rate risk (macro hedging). For further information, reference is made to "Consolidated annual accounts - Accounting policies" hereafter.

ING Belgium NV/SA Consolidated annual accounts have been prepared on a going concern basis.

Accounting policies

ING Belgium has consistently applied its accounting policies to all periods presented in these Consolidated annual accounts.

Changes in IFRS-EU effective in 2017

ING Belgium has applied a number of amendments to standards for the first time during the year ended 31 December 2017. The implementation of these changes had an insignificant impact on the consolidated financial position, net result, other comprehensive income, cash flows and related disclosures of ING Belgium. The amendment to IAS 7 now requires a disclosure of changes in liabilities arising from financing activities.

ING Belgium has not early adopted any other standard, interpretation or amendment which has been issued, but is not yet effective.

Upcoming changes in IFRS-EU after 2017

Changes to IFRS effective in 2018 and onwards expected to have no significant impact on ING Belgium

The following published amendments are not mandatory for 2017 and have not been early adopted. ING Belgium is still currently assessing the detailed impact of these amendments, however the implementation of these amendments is expected to have no significant impact on ING Belgium's Consolidated annual accounts.

The list of upcoming changes to IFRS, which are applicable for ING Belgium:

- Effective in 2018 (not yet endorsed by the EU, except for "Annual improvements cycle 2014–2016"):
 - Amendments to IFRS 2 'Share-based Payment': Classification and Measurement of Share-based payment transactions
 - Amendments to IAS 40 'Investment Property': Transfers of Investment Property;
 - Annual improvements cycle 2014–2016: Amendments to IAS 28 'Investments in Associates and Joint Ventures'; and
 - IFRIC 22 'Foreign Currency Transactions and Advance Consideration'.
- Effective in 2019 (not yet endorsed by the EU):
 - IFRIC 23 'Uncertainty over Income Tax Treatments';
 - Amendments to IAS 28: 'Investments in Associates and Joint Ventures': Long-term Interests in Associates and Joint Ventures;
 - Annual improvements cycle 2015 – 2017: Amendments to IFRS 3 'Business Combinations', IFRS 11 'Joint Arrangements', IAS 12 'Income Taxes', IAS 23 'Borrowing Costs'; and
 - Amendments to IAS 19: 'Employee Benefits': Plan Amendment, Curtailment or Settlement.

IASB has also issued IFRS 17 'Insurance Contracts' effective in 2021, however it is not applicable for ING Belgium.

IFRS 9 'Financial Instruments'

IFRS 9 'Financial Instruments' was issued by the IASB in July 2014 and endorsed by the EU in November 2016. IFRS 9 replaces IAS 39 'Financial Instruments: Recognition and Measurement' and includes requirements for the classification and measurement of financial assets and liabilities, impairment of financial assets, and hedge accounting. The new requirements are effective for annual periods beginning on or after 1 January 2018 and will be applied by ING as of 1 January 2018. ING applies the classification, measurement, and impairment requirements retrospectively by adjusting the opening balance sheet and opening equity at 1 January 2018. ING has decided not restate comparatives as permitted by IFRS 9 but will take into account the impact of initial application of the new standard by adjusting the opening balance of its retained earnings. ING also decided not to early apply the changed own credit risk requirements, as allowed by IFRS 9.

In October 2017, the IASB issued an amendment to IFRS 9 with regard to prepayment features with negative compensation. Negative compensation arises where the contractual terms permit the borrower to prepay the instrument before its contractual maturity, but the prepayment amount could be less than unpaid amounts of principal and interest. The October 2017 amendment allows these financial assets to be measured at amortised cost if the negative compensation is a reasonable compensation for early termination of the contract. This amendment is effective for annual periods beginning on or after 1 January 2019. However, early adoption is permitted. ING will early adopt the amendment, subject to endorsement by the EU. Based on the assessments carried out, ING does not expect that this change will have an impact.

ING decided to continue applying IAS 39 for hedge accounting including the application of the EU carve out as explicitly permitted by IFRS 9. The revised hedge accounting disclosures as required by IFRS 7 'Financial Instruments: Disclosures' as per 1 January 2018 will be implemented across ING.

IFRS 9 program governance and status

The IFRS 9 program was initiated in 2015 and was set-up based on the three pillars of the IFRS 9 standard: Classification and Measurement, Impairment, and Hedge Accounting. These central work streams consisted of experts from Finance, Risk, Bank Treasury, Operations and the Business. The IFRS 9 Technical Board consisted of the heads of various Finance and Risk functions supporting the IFRS 9 Steering Committee by reviewing the interpretations of IFRS 9, the central guidance, and instructions as prepared by the central work streams. The IFRS 9 Steering Committee was the key decision making body and consists of senior managers from Finance, Risk, Bank Treasury and Wholesale Banking Lending Services. The Management Board Banking and the Audit Committee were periodically updated about IFRS 9 and the key decisions.

In 2017 the program's focus was on:

- Performing three 'parallel runs' to test readiness of systems, processes and a number of controls for transition to IFRS 9 as per 1 January 2018.
- Developing and validating of the new expected credit loss models;
- Developing and implementing processes for staging- and using forward looking economic guidance in the Expected Credit Losses models.
- Finalising technical interpretation of the IFRS 9 standard;
- Finalising the business model assessment and solely payments of principal and interest testing for Classification and Measurement purposes;
- Implementing and testing system changes;
- Updating the policies, governance and control frameworks that are impacted by IFRS 9 and starting to embed these changes into everyday business and financial reporting cycles;
- Preparing the IFRS 9 transition disclosure plan.

During 2017, the IFRS 9 program was subject to reviews by supervisors and audits by ING's internal audit department.

ING has almost completed the implementation of IFRS 9. The main procedures that are in the process of being finalised are the transfer of program activities, further embedding internal controls in the processes and the last model validations.

Classification and measurement

IFRS 9 is built on a single classification and measurement approach for financial assets that reflects the business model in which they are managed and their cash flow characteristics. Financial assets are therefore classified in their entirety rather than being subject to complex bifurcation requirements.

Two criteria are used to determine how financial assets should be classified and measured at amortised cost (AC), fair value through other comprehensive income (FVOCI) or fair value through profit or loss (FVPL):

1. The business model assessment, performed to determine how a portfolio of financial instruments as a whole is managed in order to classify the business model as Hold to Collect (HtC), Hold to Collect & Sell (HtC&S), or other; and
2. The contractual cash flow characteristics test, performed to determine whether the financial instruments give rise to cash flows that are Solely Payments of Principal and Interest (SPPI). Principal is defined as the fair value of the financial asset on initial recognition. Interest is defined as consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period and for other basic lending risk and costs as well as margin.

A financial asset is measured at AC if it is held within a HtC business model, the contractual cash flows are solely SPPI and if it is not designated as at FVPL. A financial asset is measured at FVOCI if it is held within a HtC&S business model, the contractual cash flows are solely SPPI and if it is not designated as at FVPL. Financial assets not classified as AC or FVOCI are measured at FVPL.

ING's business models are based on the existing management structure of the bank, and refined based on an analysis of how businesses are evaluated and reported, how their specific business risks are managed and on historic and expected future sales. The SPPI testing was carried out on a sample basis conducted after the financial assets within the business models were stratified based on an analysis of product characteristics. In performing the SPPI testing, ING considered the contractual terms of the instruments. This included assessing whether the financial assets contained a contractual term that would change the amount or timing of contractual cash flows such that they would no longer be SPPI compliant.

Consolidated annual accounts - continued

In making the assessment, terms such as the following were considered:

- Prepayment terms. For example a prepayment of an outstanding principal amount plus a penalty capped to three or six months of interest;
- Leverage features, which increase the variability of the contractual cash flows with the result that they do not have the economic characteristics of interest: an example is a Libor contract with a multiplier of 1.3.
- Terms that limit the groups claim to cash flows from specified assets – e.g. non-recourse asset arrangements. This could be the case if payments of principal and interest are met solely by the cash flows generated by the underlying asset, for example in real estate, shipping and aviation financing.
- Features that modify consideration for the time value of money. These are contracts with for example an interest rate which is reset every month to a one-year rate.

A number of key accounting policy choices were required for the Classification and Measurement of ING's financial assets, such as the level of permissible sales in a HtC business model, the FVOCI option for equity investments and accounting prepayments. The decision making process for such policy choices followed the IFRS 9 programme governance, with technical matters researched, decisions documented, and conclusions proposed by ING's IFRS 9 Technical Board for approval by the IFRS 9 Steering Committee.

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities. However, under IAS 39 all fair value changes of financial liabilities designated at FVPL are recognised in the statement of profit or loss (SOPL), whereas under IFRS 9 the fair value changes are presented as follows:

- The amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in the statement of Other comprehensive income (SOI). Upon derecognition this Debt Valuation Adjustment (DVA) impact shall not be recycled from Other comprehensive income (OCI) to SOPL; and
- The remaining amount of change in the fair value is presented in the SOPL.

The impact of this change is that an amount of approximately EUR 23.6 million (pre-tax) will be reclassified within equity from Retained earnings to OCI.

Impact

As a result of the combined application of the business model analysis and SPPI test, the classification and measurement of the following portfolios will change:

- The most significant change is the reclassification of a part of the available for sale (AFS) investment portfolio, which will be split into a portfolio classified at amortised cost (AC) and a portfolio at FVOCI. Approximately EUR 8.5 billion of debt securities previously classified at AFS under IAS 39 will be measured at AC based on the IFRS 9 HtC business model. The reclassification from AFS to AC will result in a reduction of the unrealised revaluation gains in equity at transition date of approximately EUR 209 million (pre-tax);
- Approximately EUR 330 million of debt securities and loans previously booked at AC or AFS will be measured at FVPL as the cash flows do not meet the SPPI test. This measurement change has a negative impact on equity at transition date of EUR 72 million (pre-tax).

Furthermore, there are a few portfolios for which only the classification on ING's Consolidated statement of financial position will change without impacting equity.

ING has a portfolio of equity securities amounting to EUR 66 million. For strategic equity instruments amounting to EUR 43 million, ING has decided to apply the option to irrevocably designate these at FVOCI, instead of the IFRS 9 default measurement of FVPL. FVOCI equity investments will have no recycling of the revaluation reserve anymore to the SOPL upon disposal. For these instruments only dividend income continues to be recognised in SOPL.

Impairment

The implementation of IFRS 9 has a significant impact on ING's impairment methodology. The Expected Credit Loss (ECL) model is a forward-looking model. The ECL estimates are unbiased, probability-weighted, and include supportable information about past events, current conditions, and forecasts of future economic conditions. The ING's ECL model reflects three macroeconomic scenarios via a baseline, up and down scenario and include the time value of money. The model applies to on-balance financial assets accounted for at amortised cost and FVOCI such as loans, debt securities and lease receivables, as well as off-balance sheet items such as undrawn loan commitments, certain financial guarantees, and undrawn committed revolving credit facilities. Compared to the scope under IAS 39, the main change is the inclusion of off-balance sheet exposures and HtC&S financial assets. ING aligned the definition of credit impaired under IFRS 9 with the definition of default for prudential purposes.

ING's approach leveraged the existing regulatory capital models that use the Advanced Internal Ratings Based (AIRB) models for regulatory purposes. For other portfolios that use the Standardized Approach to calculate regulatory capital, ING developed new ECL models.

Three stage approach

ING will apply the IFRS 9 three stage approach to measure expected credit losses:

Stage 1: 12 month ECL – No significantly increased credit risk.

Financial instruments that have not had a significant increase in credit risk since initial recognition require, at initial recognition a provision for ECL associated with the probability of default events occurring within the next 12 months (12 month ECL). For those financial assets with a remaining maturity of less than 12 months, a Probability of Default (PD) is used that corresponds to the remaining maturity.

Stage 2: Lifetime ECL – significantly Increased credit risk

In the event of a significant increase in credit risk since initial recognition, a provision is required for the lifetime ECL representing losses over the life of the financial instrument (lifetime ECL).

Stage 3: Lifetime ECL – Defaulted

Financial instruments that move into Stage 3 once credit impaired and purchases of credit impaired assets will require a lifetime provision.

Significant increase in credit risk

A financial asset moves from Stage 1 to Stage 2 when there is a significant increase in credit risk since initial recognition. ING established a framework which incorporates quantitative and qualitative information to identify this on an asset level applying a relative assessment. Each financial asset will be assessed at the reporting date on the triggers for significant deterioration. ING assesses significant increase in credit risk using:

- Delta in the lifetime default probability;
- Forbearance status;
- Watch list status. Loans on the watch list are individually assessed for Stage 2 classification;
- Intensive care management;
- Internal rating;
- Arrears; and the
- More than 30 days past due backstop for Stage 1 to stage 2 transfers.

The delta in lifetime probability of default is the main trigger for movement between Stage 1 and Stage 2. The trigger compares lifetime probability of default at origination versus lifetime probability of default at reporting date, considering the remaining maturity. Assets can move in both directions, meaning that they will move back to Stage 1 or Stage 2 when the Stage 2 or Stage 3 triggers are not applicable anymore (taking into account the regulatory probation periods). The stage allocation is implemented in the central credit risk systems.

Macroeconomic scenarios

ING has established a quarterly process whereby forward-looking macroeconomic scenarios and probability weightings are developed for ECL calculation purposes. ING applies predominantly data from a leading service provider enriched with the internal ING view. To reflect an unbiased and probability-weighted ECL amount, a baseline, an up-scenario and a down-scenario are determined. As a baseline scenario, ING applies the market-neutral view combining consensus forecasts for economic variables such as unemployment rates, GDP growth, house prices, commodity prices, and short-term interest rates. Applying market consensus in the baseline scenario ensures unbiased estimates of the expected credit losses.

The alternative scenarios are based on observed forecast errors in the past, adjusted for the risks affecting the economy today and the forecast horizon. The probabilities assigned are based on the likelihoods of observing the three scenarios and are derived from confidence intervals on a probability distribution. The scenarios are adjusted on a quarterly basis.

As the inclusion of forward-looking macroeconomic scenarios requires judgement, a Macroeconomic scenarios team and a Macroeconomic scenarios expert panel were established. The Macroeconomic scenarios team is responsible for the macroeconomic scenarios used for IFRS 9 ECL purposes with a challenge by the Macroeconomic scenarios expert panel. This ensures that the macroeconomic scenarios are sufficiently challenged and that key economic risks, including immediate short term risks, are taken into consideration when developing the macroeconomic scenarios used in the calculation of ECL. The Macroeconomic scenarios expert panel is a diverse team composed of senior management representatives from the Business, Risk, Finance and an external party.

Measurement

The calculation of IFRS 9 ECL leverages on ING's expected loss models (PD, LGD, EAD) currently used for regulatory capital, economic capital, and collective provisions in the current IAS 39 framework. These models are adjusted for 1) removal of embedded prudential conservatism (such as floors), 2) provide forward-looking point in time estimates based on macroeconomic predictions and 3) a 12 months- or lifetime view of credit risk where needed. Lifetime features are default behaviour over a longer horizon, full behaviour after the default moment, repayment schedules and early settlements. For most financial instruments, the expected life is limited to the remaining maturity. For overdrafts and certain revolving credit facilities, such as credit cards, open ended assumptions are taken as these do not have a fixed term or repayment schedule.

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To measure ECL, ING applies a PD x EAD x LGD approach incorporating the time value of money. For stage 1 assets a forward-looking approach on a 12 month horizon will be applied. For stage 2 assets a lifetime view on the credit is applied. The Lifetime Expected Loss (LEL) is the discounted sum of the portions of lifetime losses related to default events within each time window of 12 months till maturity. For stage 3 assets the PD equals 100% and the Loss Given Default (LGD) and Exposure At default (EAD) represent a lifetime view of the losses based on characteristics of defaulted facilities.

Impact

As a result of the new IFRS 9 impairment requirements, ING expects that the loan loss provisions (LLP) increase by approximately EUR 128 million (pre-tax). The split of the ECL to different stages of our portfolio is further detailed in the table below. The increase observed on the performing portfolio (Stage 1 and Stage 2) is explained by the period used to calculate the ECL (12 months for Stage 1 and lifetime for Stage 2) under IFRS 9.

Estimated IFRS 9 transition impact impairments as at 1 January 2018¹

In EUR millions

	IAS 39 LLP		IFRS 9 Impairment stages	
			Estimated IFRS 9 ECL	Estimated IFRS 9 ECL increase
Incurring but not reported (IBNR)	105	Stage 1: 12 month ECL – No significantly increased credit risk	53	98
		Stage 2: Lifetime ECL – Significantly increased credit risk	150	
Individual provisions (ISFA and INSFA)	616	Stage 3: Lifetime ECL – Defaulted	646	30
Total	721	Total	849	128

1. Includes provisions for contingent liabilities.

IFRS 9 Impact on capital and other regulatory requirements

IFRS 9 will impact ING's reported capital as a result of the transition adjustments recording in shareholders' equity on transition date. The BCBS pointed out that the treatment of provisions under both the Standardized Approach and the Advanced Internal Ratings based frameworks remains, but allows jurisdictions the option to choose whether to apply a transitional arrangement for the impact of impairment under IFRS 9. As a result, the EU introduced transitional arrangements for mitigating the impact of the introduction of IFRS 9 impairment on own funds in the Capital Requirements Regulations (CRR). ING has decided not to apply the IFRS 9 impairment transitional arrangements. The increase in provisions will have limited impact on ING's CET1 ratio as for the IRB portfolios it will be offset by the existing regulatory provision shortfall per 31 December 2017. The estimated impact of the adoption of IFRS 9 on shareholders' equity is approximately EUR 315 million at implementation date 1 January 2018, consisting of:

Estimated impact of adopting IFRS 9 on shareholders' equity at 1 January 2018

In EUR millions	Estimated impact on shareholders' equity
Loan loss provisions ¹	-93
Investment portfolio ²	-148
Others ³	-74
Total	-315

1. The EUR 93 million is the post-tax impact on equity of the estimated IFRS 9 ECL increase amounting to EUR 128 million. The capital impact is for the AIRB portfolios offset by the release of expected loss elements currently included in the calculation of regulatory capital per 31 December 2017.

2. Main impact of approximately EUR 148 million from the reclassification of a part of the investment portfolio from the AFS (FVOCI) debt securities under IAS 39 to the HtC portfolio (AC) under IFRS 9.

3. This transition impact is mainly related to the reclassification of assets from Amortised Cost to Fair Value through the SOPL because their cash flows do not represent Solely Payments of Principal and Interest (SPPI).

The impact on regulatory capital and other regulatory ratios is not expected to be material.

IFRS 15 'Revenue from Contracts with Customers'

IFRS 15 'Revenue from Contracts with Customers' is effective for annual periods beginning on or after 1 January 2018 and has been endorsed by the EU. IFRS 15 introduces a 5-step approach for recognizing revenue as and when the agreed performance obligations are satisfied. Agreed performance obligations are individual promises made to customer that delivers benefit from the customers perspective. Revenue should either be recognized at a point-in-time or over-time depending on the service being delivered to the customer. ING assessed the impact of IFRS 15 and expects that it will have no significant effect on ING Group's Net result and/or Other comprehensive income and Shareholders' equity.

IFRS 16 'Leases'

IFRS 16 'Leases' is effective for annual periods beginning on or after 1 January 2019 and has been endorsed by the EU. IFRS 16 is the new accounting standard for leases and will replace IAS 17 'Leases' and IFRIC 4 'Determining whether an Arrangement contains a Lease'. The new standard removes the distinction between operating or finance leases for lessee accounting, resulting in all leases being treated as finance leases. All leases will be recognized on the statement of financial position with the optional exceptions for short-term leases with a lease term of less than 12 months and leases of low-value assets (for example mobile phones or laptops). A lessee is required to recognize a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments.

The main reason for this change is that this approach will result in a more comparable representation of a lessee's assets and liabilities in relation to other companies and, together with enhanced disclosures, will provide greater transparency of a lessee's financial leverage and capital employed. The standard permits a lessee to choose either a full retrospective or a modified retrospective transition approach. Furthermore the standard provides some practical options and exemptions to ease the costs of transition. Lessor accounting remains substantially unchanged. ING will adopt the standard at its effective date planning to use the modified retrospective approach, however ING is still currently assessing the detailed impact of this standard.

Significant judgements and critical accounting estimates and assumptions

The preparation of the consolidated financial statements requires management to make judgements in the process of applying its accounting policies and to use estimates and assumptions. The estimates and assumptions affect the reported amounts of the assets and liabilities and the amounts of the contingent liabilities at the balance sheet date, as well as reported income and expenses for the year. The actual outcome may differ from these estimates. The process of setting assumptions is subject to internal control procedures and approvals.

ING Belgium has identified areas that require management to make significant judgements and use critical accounting estimates and assumptions based on the information and financial data that may change in future periods. These areas are:

- the determination of the fair values of financial assets and liabilities;
- loan loss provisions; and
- provisions.

For further discussion of the significant judgements and critical accounting estimates and assumptions in these areas, reference is made to the relevant parts in section d) 'Principles of valuation and determination of results' and the applicable notes to the consolidated financial statements.

Consolidation

Subsidiaries

Subsidiaries are all entities (including Variable Interest Entities) over which ING Belgium has the power to govern the financial and operating policies, generally accompanying a shareholding of more than 50% of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether ING Belgium controls another entity. Subsidiaries are fully consolidated from the date on which control is exercised by ING Belgium. They are deconsolidated from the date on which control ceases.

ING Belgium has also shareholding above 50% of the voting rights in companies which are not fully consolidated. Considering IFRS 10 requirements, the bank effectively exercises a control on those companies but given the low materiality for the bank, these companies have not been consolidated. Those participations are considered as investments. Further details can be found in note 6. As regards fully consolidated subsidiaries, the bank ensures that, within the limits of percentages of equity controlled and with the exclusion of political risk, fully consolidated shareholdings are able to meet their commitments.

The purchase method of accounting is used to account for the acquisition of subsidiaries by ING Belgium. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed on the exchange date. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are initially measured at their fair value on the acquisition date, irrespective of the extent of any non-controlling interest (or minority interest). The excess of the acquisition cost over the fair value of the bank's share in the identifiable net assets acquired is recorded as goodwill. If the acquisition cost is less than the fair value of the bank's share in the net assets of the subsidiary acquired, the difference is directly recognised in the income statement. The goodwill is only recognised in the income statement after reassessment that all assets acquired and liabilities assumed were correctly identified.

Consolidated annual accounts - continued

Balances and unrealised gains on transactions between ING Belgium companies are eliminated. Unrealised losses are also eliminated, unless the transaction provides evidence of an impairment of the asset transferred. When necessary, the accounting policies used by subsidiaries are changed to ensure consistency with the policies adopted by ING Belgium.

Consolidated subsidiaries (as per 31 December 2017)

In EUR thousands / In %

Entity name	Registered office	Activity	Company code	Entity's financial statement at the most recent reporting date				
				Accumulated Equity interest (%)	Assets	Liabilities	Net result	Equity (excluding net result)
Cell Data Services	Brussels	IT	BE 0435 463 880	100.0	8,594	2,047	269	6,278
Immo Globe	Brussels	Real estate	BE 0414 585 512	100.0	12,701	224	163	12,314
ING Belgium International Finance Luxembourg	Luxembourg	Finance	LU	100.0	1,716,843	1,730,760	1,998	-15,915
ING Contact Center	Brussels	Finance	BE 0452 936 946	100.0	9,948	6,658	-478	3,768
ING Luxembourg	Luxembourg	Finance	LU	100.0	15,328,674	14,149,586	101,215	1,077,873
- ING Lease Luxembourg	Luxembourg	Leasing	LU	100.0	298,654	293,459	2,759	2,436
ING Lease Belgium	Brussels	Leasing	BE 0402 918 402	100.0	1,379,902	1,327,573	28,664	23,665
- ING Equipment Lease Belgium	Brussels	Leasing	BE 0427 980 034	100.0	1,959,918	1,883,219	14,062	62,637
- ING Asset Finance Belgium	Brussels	Leasing	BE 0429 070 986	100.0	633,074	606,981	4,716	21,377
- ING Truck Lease Belgium	Brussels	Leasing	BE 0440 360 895	100.0	297,161	285,989	1,122	10,050
- ING Commercial Finance	Brussels	Factoring	BE 0470 131 086	100.0	1,121,787	1,096,682	7,891	17,214
- D'ieteren Vehicle Trading	Brussels	Leasing	BE 0428 138 994	51.0	6,037	3,665	303	2,069
New Immo Schuman	Brussels	Real estate	BE 0428 361 797	100.0	7,066	61	83	6,922
Record Bank	Brussels	Banking	BE 0403 263 642	100.0	18,797,366	17,918,101	81,280	797,985
- Fiducré	Brussels	Finance	BE 0403 173 372	100.0	128,639	124,936	19,791	-16,088
- Logipar	Brussels	Real estate	BE 0439 526 103	100.0	4,259	4	-343	4,598
Record Credit Services	Liège	Finance	BE 0403 257 407	19.2	1,473,689	1,330,703	6,606	136,380
Sogam	Brussels	Finance	BE 0402 688 075	100.0	573	126	116	331
Soges-Fiducem	Brussels	Finance	BE 0403 238 304	100.0	40,738	37,471	331	2,936
- Belgian Overseas Agencies	Montreal	Finance	CA 0403 202 967	100.0	23,968	23,978	-10	0
- Belgian Overseas Issuing Corp	New York	Finance	CA 0403 203 066	100.0	27,124	27,243	-27	-92

PM: Amounts before intercompany eliminations. Assets are not equal to liabilities because equity is not included.

Structured entities

ING Belgium's activities involve transactions with various structured entities ('SE') in the normal course of its business. A structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual arrangements.

The structured entities over which ING Belgium can exercise control are consolidated. ING may provide support to these consolidated structured entities as and when appropriate, and this is fully reflected in the consolidated financial statements of ING Belgium as all assets and liabilities of these entities are included and off-balance sheet commitments are disclosed. ING Belgium's activities involving structured entities are explained below in the following categories:

- 1) Consolidated ING originated Liquidity management securitization programs (Belgian Lions);
- 2) Consolidated Record Bank originated Liquidity management securitization programs (Record Lions).

Associates and Joint ventures

Associates are all entities over which the Group has significant influence but not control. Significant influence is the ability to participate in the financial and operating policies of the investee. It generally results from a shareholding of between 20% and 50% of the voting rights or through situations including, but not limited to one or more of the following:

- Representation on the board of directors;
- Participation in the policymaking process; and
- Interchange of managerial personnel.

Joint ventures are entities over which the Group has joint control. Joint control is the contractually agreed sharing of control over an arrangement or entity, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control. Joint control means that no party to the agreement is able to act unilaterally to control the activity of the entity. The parties to the agreement must act together to control the entity and therefore exercise the joint control.

Investments in associates and joint ventures are initially recognised at cost and subsequently accounted for using the equity method of accounting.

Consolidated annual accounts - continued

The Group's investment in associates and joint ventures (net of any accumulated impairment loss) includes goodwill identified on acquisition. The Group's share of its associates and joint ventures post-acquisition profits or losses is recognised in the statement of profit or loss, and its share of post-acquisition changes in reserves is recognised in equity. The cumulative post-acquisition changes are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate or joint venture equals or exceeds its interest in the associate or joint venture, including any long-term interests in the associate like uncollateralised loans that are neither planned nor likely to be settled in the foreseeable future, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate or joint venture.

Unrealised gains on transactions between the Group and its associates and joint ventures are eliminated to the extent of the Group's interest in the associates and joint ventures. Unrealised losses are also eliminated unless they provide evidence of an impairment of the asset transferred. Accounting policies of associates and joint ventures have been changed where necessary to ensure consistency with the policies adopted by the Group. The reporting dates of all significant associates and joint ventures are consistent with the reporting date of the Group.

Subsidiaries and Associates accounted for under the equity method (as per 31 December 2017)

In EUR thousands / In %

Entity's financial statement at the most recent reporting date

Entity name	Registered office	Activity	Company code	Accumulated Equity interest (%)	Assets	Liabilities	Net result	Equity (excluding net result)
A.E.D. Rent	Willebroek	Audiovision	BE 0451 899 343	31.3	56,250	37,445	-190	18,995
Aigle Aviation SA	Luxembourg	Finance	LU	75.0	49,615	47,809	32	1,774
Ark Angels Activator Fund	Hasselt	Priv equity fund	BE 0843 728 962	33.1	5,193	6	-912	6,099
Ark Angels Activator Fund Beheer	Hasselt	Priv equity fund	BE 0843 353 929	31.9	522	26	89	407
Bancontact/Mistercash (Brand & Licence Comp)	Brussels	Finance	BE 0884 499 250	20.0	8,860	3,371	-575	6,064
BIENCA Biotechnological Enzymatic Catalyse	Seneffe	Bio-technology	BE 0446 755 472	20.8	1,448	563	338	547
Europay Belgium	Brussels	Services	BE 0434 197 536	20.5	3,853	2,781	102	970
European Marketing Group SA	Luxembourg	Leasing	LU	40.0	5,197	4,364	335	498
Immomanda	Brussels	Finance	BE 0417 331 315	100.0	1,211	1,031	467	-287
ING Activator	Brussels	Priv equity fund	BE 0878 533 255	50.1	2,639	85	855	1,699
Innotec International	Dessel	Commerce	BE 0534 724 475	36.7	18,450	2,951	2,641	12,858
Isabel	Brussels	Finance	BE 0455 530 509	25.3	32,727	14,759	3,435	14,533
ISIM (ING Solutions Investment Management)	Luxembourg	Holding	LU	100.0	2,226	1,245	242	739
IMEC I-Start Fund	Leuven	Holding	BE 0672 768 937	20.0	n/a (created in March 2017)			
M Brussels Village	Brussels	Services	BE 0473 370 886	24.6	377	198	4	175
Sherpa Invest	Brussels	Holding	BE 0878 752 692	20.0	737	10	1,754	-1,027
Sherpa Invest II	Brussels	Holding	BE 0835 148 719	25.0	2,133	29	-731	2,835
Stardekk	Bruges	IT	BE 0474 598 036	37.5	3,949	1,151	120	2,678
Tasco	Antwerp	Consultancy	BE 0656 874 397	30.1	n/a (created in June 2016)			
Unibioscreen	Brussels	Biology	BE 0466 013 437	25.5	152	362	-59	-151
Vesalius Biocapital I SICAR	Luxembourg	Investments	LU	21.4	32,432	75	-2,763	35,120
Vesalius Biocapital Partners SARL	Luxembourg	Finance	LU	20.0	3,477	2,827	604	46
Vesalius Biocapital II Partners SARL	Luxembourg	Finance	LU	20.0	4,701	3,962	294	445
Visa Belgium	Brussels	Finance	BE 0435 551 972	18.1	68,806	28,383	182	40,241

PM: Amounts before intercompany eliminations. Assets are not equal to liabilities because equity is not included.

Segment reporting

A segment is a distinguishable component of the Group, engaged in providing products or services, subject to risks and returns that are different from those of other segments monitored by management. A geographical area is a distinguishable component of the Group engaged in providing products or services within a particular economic environment that is subject to risks and returns that are different from those of segments operating in other economic environments. The geographical analyses are based on the location of the office from which the transactions are originated.

Foreign currency translation

Functional and presentation currency

Items included in the accounts of all ING Belgium entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are drawn up in thousands of euros, which is the presentation currency.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing on the transaction date. Exchange rate differences resulting from the settlement of such transactions and from the conversion at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies, are recognized in the statement of profit or loss, except when deferred in equity as part of qualifying cash flow hedges or qualifying net investment hedges.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

Exchange rate differences on non-monetary items, measured at fair value through profit or loss, are reported as part of the fair value gain or loss. Non-monetary items are retranslated at the date fair value is determined. Exchange rate differences on non-monetary items measured at fair value through the revaluation reserve are included in the revaluation reserve in equity.

Exchange rate differences in the statement of profit or loss are generally included in 'Valuation results and net trading income'. Exchange rate differences relating to the disposal of available-for-sale debt and equity securities are considered to be an inherent part of the capital gains and losses recognised in Investment income. As mentioned below, in Group companies relating to the disposals of group companies, any exchange rate difference deferred in equity is recognised in the statement of profit or loss in 'Result on disposal of group companies'. Reference is also made to Note 20 'Equity', which discloses the amounts included in the statement of profit or loss.

Group companies

The results and financial position of ING Belgium companies that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- Assets and liabilities included in each statement of profit or loss are translated at the closing rate, at the date of that statement of financial position;
- Income and expenses included in each statement of profit or loss are converted at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- All resulting exchange rate differences are recognised in a separate component of equity.

On consolidation, exchange differences arising from the translation of a monetary item that forms part of the net investment in a foreign operation, and of borrowings and other instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold, the corresponding exchange rate differences are recognized in the statement of profit or loss as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the exchange rate prevailing at the balance sheet date.

Recognition and derecognition of financial instruments

Recognition of financial assets

All purchases and sales of financial assets classified as at fair value through profit or loss, held-to-maturity and available for sale that require delivery within the timeframe established by regulation or market convention ('regular way' purchases and sales) are recognized at trade date, which is the date on which ING Belgium commits to purchase or sell the asset. Loans and receivables are recognized at settlement date, which is the date on which ING Belgium receives or delivers the asset.

Derecognition of financial assets

Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or where ING Belgium has transferred substantially all risks and rewards of ownership. If ING Belgium neither transfers nor retains substantially all the risks and rewards of ownership of a financial asset, it derecognizes the financial asset if it no longer has control over the asset.

Realised gains and losses on financial assets

For financial assets at amortised cost, realised gains and losses on investments are determined as the difference between the sale proceeds and amortised cost. For available-for-sale financial assets, the accumulated fair value adjustments in other comprehensive income are included in the statement of profit or loss when the asset is disposed. For equity securities, the cost is determined using a weighted average per portfolio. For debt securities, the cost is determined by specific identification.

Recognition of financial liabilities

Financial liabilities are recognised on the date that the entity becomes a party to the contractual provisions of the instrument.

Derecognition of financial liabilities

Financial liabilities are removed from the balance sheet when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished and the consideration paid is recognised in profit or loss.

Classification of financial instruments**Financial assets and liabilities at fair value through profit or loss**

Financial assets at fair value through profit or loss include equity securities, debt securities, derivatives, loans and receivables, and other, and comprise the following sub-categories: trading assets, non-trading derivatives, and financial assets designated at fair value through profit or loss by management. Financial liabilities at fair value through profit or loss comprise the following sub-categories: trading liabilities, non-trading derivatives, and other financial liabilities designated at fair value through profit or loss by management. Trading liabilities include equity securities, debt securities, funds on deposit, and derivatives.

A financial asset or financial liability is classified at fair value through profit or loss if acquired principally for the purpose of selling in the short term or if designated by management as such. Management will designate a financial asset or a financial liability only if this eliminates a measurement inconsistency or if the related assets and liabilities are managed on a fair value basis.

Transaction costs on initial recognition are expensed as incurred. Interest income and expense from financial instruments is classified at fair value through profit or loss is recognised in Interest income and Valuation results and net trading income in the statement of profit or loss, using the effective interest method.

Dividend income from equity instruments classified at fair value through profit or loss is generally recognised in Investment income in the statement of profit or loss when the dividend has been declared. For derivatives reference is made to the 'Derivatives and hedge accounting' section.

Investments

Investments (including loans quoted in active markets) are classified either as held-to-maturity or available-for-sale. Investment debt securities and loans quoted in active markets with fixed maturity where management has both the intent and the ability to hold to maturity are classified as held-to-maturity. Investment securities and quoted loans intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices, are classified as available-for-sale financial assets.

Available-for-sale financial assets

Available-for-sale financial assets include available-for-sale debt securities and available-for-sale equity securities. Available-for-sale financial assets are initially recognised at fair value plus transaction costs. For available-for-sale debt securities, the difference between cost and redemption value is amortised. Interest income is recognised using the effective interest method. Available-for-sale financial assets are subsequently measured at fair value. Interest income from debt securities classified as available-for-sale is recognised in Interest income in the statement of profit or loss. Dividend income from equity instruments classified as available-for-sale is recognised in Investment income in the statement of profit or loss when the dividend has been declared. Unrealised gains and losses arising from changes in the fair value are recognised in equity and are recycled to the statement of profit or loss as Investment income when the asset is disposed. Investments in prepayment sensitive securities such as Interest-Only and Principal-Only strips are generally classified as available-for-sale.

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity for which the Group has the positive intent and ability to hold to maturity and which are designated by management as held-to-maturity assets are initially recognised at fair value plus transaction costs. Subsequently, they are carried at amortised cost using the effective interest method less any impairment losses. Interest income from debt securities classified as held-to-maturity is recognised in Interest income in the statement of profit or loss using the effective interest method. Held-to-maturity investments include only debt securities.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are initially recognised at fair value plus transaction costs. Subsequently, they are carried at amortised cost using the effective interest method less any impairment losses. Loans and receivables include Cash and balances with central banks, Loans and advances to banks, Loans and advances to customers, and some categories of Other assets and are reflected in these line items in the statement of financial position. Interest income from loans and receivables is recognised in Interest income in the statement of profit or loss using the effective interest method.

Financial liabilities at amortised cost

Financial liabilities at amortised cost include the following sub-categories: preference shares classified as debt, debt securities in issue, subordinated loans, and deposits from banks and customer deposits. Financial liabilities at amortised cost are recognised initially at their issue proceeds (fair value of consideration received) net of transaction costs incurred. Liabilities in this category are subsequently stated at amortised cost; any difference between proceeds, net of transaction costs, and the redemption value is recognised in the statement of profit or loss over the period of the liability using the effective interest method. If the Group purchases its own debt, it is removed from the statement of financial position, and the difference between the carrying amount of the liability and the consideration paid is included in the statement of profit or loss.

Financial guarantee contracts

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are initially recognised at fair value and subsequently measured at the higher of the discounted best estimate of the obligation under the guarantee and the amount initially recognised less cumulative amortisation to reflect revenue recognition principles.

Fair value of financial assets and liabilities

All the financial assets and liabilities are recognised initially at fair value, whereas financial assets and liabilities classified as held-for-trading or designated at fair value through profit or loss and financial assets classified as available-for-sale are subsequently measured at fair value in the financial statements.

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It uses the assumptions that market participants would use and takes into account the characteristics of the asset or liability that market participants would take into account when pricing the asset or liability. Fair values of financial assets and liabilities are based on unadjusted quoted market prices where available. Such quoted market prices are primarily obtained from exchange prices for listed financial instruments. Where an exchange price is not available, quoted prices in an active market may be obtained from independent market vendors, brokers, or market makers. In general, positions are valued at the bid price for a long position and at the offer price for a short position or are valued at the price within the bid-offer spread that is most representative of fair value in the circumstances. In some cases where positions are marked at mid-market prices, a fair value adjustment is calculated.

For certain financial assets and liabilities quoted market prices are not available. For these financial assets and liabilities, fair value is determined using valuation techniques. These valuation techniques range from discounting of cash flows to various valuation models, where relevant pricing factors including the market price of underlying reference instruments, market parameters (volatilities, correlations and credit ratings), and customer behaviour are taken into account. ING maximises the use of market observable inputs and minimises the use of unobservable inputs in determining the fair value. It can be subjective dependent on the significance of the unobservable input to the overall valuation. All valuation techniques used are subject to internal review and approval. Most data used in these valuation techniques are validated on a daily basis. When a group of financial assets and financial liabilities are managed on the basis of their net risk exposures, it measures the fair value of a group of financial assets and liabilities on net portfolio basis. To include credit risk in the fair value, ING applies both credit and debit valuation adjustments (CVA, DVA). Own issued debt and structured notes that are measured at fair value are adjusted for credit risk by means of a DVA. Additionally, derivatives valued at fair value are adjusted for credit risk by a CVA. The CVA is of a bilateral nature as both the credit risk on the counterparty as well as the credit risk on ING are included in the adjustment. All input data that is used in the determination of the CVA is based on market implied data. Additionally, wrong-way risk (when exposure to a counterparty is increasing and the credit quality of that counterparty deteriorates) and right-way risk (when exposure to a counterparty is increasing and the credit quality of that counterparty improves) are taken into account in the measurement of the valuation adjustment. ING applies an additional 'funding valuation adjustment' (FVA) to the uncollateralised derivatives based on the market price of funding liquidity.

Significant judgements and critical accounting estimates and assumptions:

Even if market prices are available, when markets are less liquid there may be a range of prices for the same security from different price sources. Selecting the most appropriate price requires judgement and could result in different estimates of fair value.

Valuation techniques are subjective in nature and significant judgement is involved in establishing fair values for certain financial assets and liabilities. Valuation techniques involve various assumptions regarding pricing factors. The use of different valuation techniques and assumptions could produce significantly different estimates of fair value.

Price testing is performed to assess whether the process of valuation has led to an appropriate fair value of the position and to an appropriate reflection of these valuations in the statement of profit or loss. Price testing is performed to minimise the potential risks for economic losses due to incorrect or misused models.

Credit risk management classification

Credit risk management disclosures are provided in the section 'Risk management – Credit risk' paragraph. The relationship between credit risk classifications in that section and the consolidated statement of financial position classifications above is explained below:

- Pre-settlement risk arises when a counterparty defaults on a transaction before settlement and ING Group has to replace the contract by a trade with another counterparty at the then prevailing (possibly unfavourable) market price. The pre-settlement risk mainly relates to the statement of financial position classification Financial assets at fair value through profit or loss (trading assets and non-trading derivatives) and to securities financing;
- Money market risk arises when ING Group places short term deposits with a counterparty in order to manage excess liquidity and among others relates to the statement of financial position classifications Loans and advances to banks and Loans and advances to customers;
- Lending risk arises when ING Group grants a loan to a customer, or issues guarantees on behalf of a customer and mainly relates to the statement of financial position classification Loans and advances to customers and off-balance sheet items e.g. obligations under financial guarantees and letters of credit;
- Investment risk comprises the credit default and migration risk that is associated with ING Group's investment portfolio and mainly relates to the statement of financial position classification Investments (available-for-sale and held-to-maturity); and
- Settlement risk arises when there is an exchange of value (funds, instruments or commodities) for the same or different value dates and receipt is not verified or expected until ING Group has paid or delivered its side of the trade. Settlement risk mainly relates to the risk arising on disposal of financial instruments that are classified in the statement of financial position as Financial assets at fair value through profit or loss (trading assets and non-trading derivatives) and Investments (available-for-sale and held-to-maturity).

Maximum credit risk exposure

The maximum credit risk exposure for items in the statement of financial position is generally the carrying value for the relevant financial assets. For the off-balance sheet items the maximum credit exposure is the maximum amount that could be required to be paid. Reference is made to 'Contingent liabilities and commitments' for these off-balance sheet items. Collateral received is not taken into account when determining the maximum credit risk exposure.

The manner in which ING Group manages credit risk and determines credit risk exposures for that purpose is explained in the section 'Risk management – Credit risk' paragraph.

Derivatives and hedge accounting

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently measured at fair value. Fair values are obtained from quoted market prices in active markets, including recent market transactions and valuation techniques (such as discounted cash flow models and option pricing models), as appropriate. All derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative.

Certain derivatives embedded in other contracts are measured as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract, the host contract is not carried at fair value through profit or loss, and if a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative. These embedded derivatives are measured at fair value with changes in fair value recognised in the statement of profit or loss. An assessment is carried out when the Group first becomes party to the contract. A reassessment is carried out only when there is a change in the terms of the contract that significantly modifies the expected cash flows.

The method of recognising the resulting fair value gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as hedges of the fair value of recognised assets or liabilities or firm commitments (fair value hedge), hedges of highly probable future cash flows attributable to a recognised asset or liability or a forecast transaction (cash flow hedge), or hedges of a net investment in a foreign operation. Hedge accounting is used for derivatives designated in this way provided certain criteria are met.

Consolidated annual accounts - continued

At the inception of the transaction ING Group documents the relationship between hedging instruments and hedged items, its risk management objective, together with the methods selected to assess hedge effectiveness. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of the hedged items.

ING Group applies fair value hedge accounting to portfolio hedges of interest rate risk (macro hedging) under the EU carve out. The EU carve-out macro hedging enables a group of derivatives (or proportions) to be viewed in combination and jointly designated as the hedging instrument and removes some of the limitations in fair value hedge accounting relating to hedging core deposits and under-hedging strategies. Under the EU carve-out, hedge accounting may be applied to core deposits and ineffectiveness only arises when the revised estimate of the amount of cash flows in scheduled time buckets falls below the designated amount of that bucket.

ING Group applies fair value hedge accounting for portfolio hedges of interest rate risk (macro hedging) under the EU carve-out to its retail operations. The net exposures of retail funding (savings and current accounts) and retail lending (mortgages) are hedged. The hedging activities are designated under a portfolio fair value hedge on the mortgages. Changes in the fair value of the derivatives are recognised in the statement of profit or loss, together with the fair value adjustment on the mortgages (hedged items) insofar as attributable to interest rate risk (the hedged risk).

Fair value hedges

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognised in the statement of profit or loss, together with fair value adjustments to the hedged item attributable to the hedged risk. If the hedge relationship no longer meets the criteria for hedge accounting, the cumulative adjustment of the hedged item is, in the case of interest bearing instruments, amortised through the statement of profit or loss over the remaining term of the original hedge or recognised directly when the hedged item is derecognised. For non-interest bearing instruments, the cumulative adjustment of the hedged item is recognised in the statement of profit or loss only when the hedged item is derecognised.

Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the statement of profit or loss. Amounts accumulated in equity are recycled to the statement of profit or loss in the periods in which the hedged item affects net result. When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the statement of profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is transferred immediately to the statement of profit or loss.

Net investment hedges

Hedges of net investments in foreign operations are accounted for in a similar way to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in equity and the gain or loss relating to the ineffective portion is recognised immediately in the statement of profit or loss. Gains and losses accumulated in equity are included in the statement of profit or loss when the foreign operation is disposed.

Non-trading derivatives that do not qualify for hedge accounting

Derivative instruments that are used by the Group as part of its risk management strategies, but which do not qualify for hedge accounting under ING Group's accounting policies, are presented as non-trading derivatives. Non-trading derivatives are measured at fair value with changes in the fair value taken to the statement of profit or loss.

Offsetting of financial assets and liabilities

Financial assets and liabilities are offset, and the net amount reported, in the statement of financial position when ING Belgium has a current legally enforceable right to set off the recognized amounts and intends to either settle on a net basis or to realize the asset and settle the liability simultaneously. Offsetting is applied to certain interest rate swaps for which the services of a central clearing house are used. Offsetting is also applied to certain clients subject to cash pooling arrangements where the intention to settle net is demonstrated via a physical transfer of cash balances into a single netting account on a period end basis.

Repurchase and reverse repurchase transactions

Securities sold subject to repurchase agreements ('repos') are retained in the consolidated financial statements. The counterparty liability is included in Deposits from banks, subordinated loans, customer deposits, or Trading, as appropriate.

Securities purchased under agreements to resell ('reverse repos') are recognised as Loans and advances to customers, Loans and advances to banks, or Financial assets at fair value through profit or loss – Trading assets, as appropriate. The difference between the sale and repurchase price is recorded as interest and accrued over the life of the agreement, using the effective interest method.

Impairment of financial assets at amortised cost (loan loss provisions)

ING Belgium assesses periodically and at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or group of assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset, but before the balance sheet date, (a loss event) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The following circumstances, among others, are considered objective evidence that a financial asset or group of assets is impaired:

- The borrower has sought or has been placed in bankruptcy or similar protection, and this leads to the avoidance of or delays in repayment of the financial asset;
- The borrower has failed in the repayment of principal, interest or fees, and the payment failure has remained unsolved for a certain period;
- The borrower has demonstrated significant financial difficulty, to the extent that it will have a negative impact on the expected future cash flows of the financial asset;
- The credit obligation has been restructured for non-commercial reasons. ING Belgium has granted concessions, for economic or legal reasons relating to the borrower's financial difficulty, the effect of which is a reduction in the expected future cash flows of the financial asset; and
- Historical experience, updated for current events where necessary, provides evidence that a proportion of a group of assets is impaired although the related events that represent impairment triggers are not yet captured by the Group's credit risk systems.

In certain circumstances ING grants borrowers postponement and/or reduction of loan principal and/or interest payments for a temporary period of time to maximise collection opportunities, and if possible, avoid default, foreclosure, or repossession. When such postponement and/or reduction of loan principal and/or interest payments is executed based on credit concerns it is also referred to as forbearance. In such cases, the net present value of the postponement and/or reduction of loan and/or interest payments is taken into account in the determination of the appropriate level of impairment loss as described below. If the forbearance results in a substantial modification of the terms of the loan, the original loan is derecognised and a new loan is recognised at its fair value at the modification date. The Group determines whether there has been a substantial modification using both quantitative and qualitative factors.

Losses expected as a result of future events, no matter how likely, are not recognised.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and then individually or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on an asset carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account (Loan loss provision) and the amount of the loss is recognised in the statement of profit or loss under Addition to loan loss provision. If the asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the provision. The amount of the reversal is recognised in the statement of profit or loss.

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When a loan is uncollectable, it is written off against the related loan loss provision. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are recognised in the statement of profit or loss.

In most Retail portfolios, ING has a write-off policy that requires 100% provision for all retail exposure after two years (three years for mortgages) following the last default date.

Impairments on other debt instruments (Loans and held-to-maturity investments) are part of the loan loss provision as described above.

Significant judgements and critical accounting estimates and assumptions:

Considerable judgement is exercised in determining the extent of the loan loss provision (impairment) for financial assets assessed for impairment both individually and collectively. Judgement is exercised in management's evaluation of whether there is objective evidence that an impairment loss on an asset has been incurred, the risk in the portfolio, current economic conditions, loss experience in recent years and credit, industry, geographical, and concentration trends. Changes in such judgements and analyses may lead to changes in the loan loss provisions over time.

ING estimates individual impairment provisions for individually significant financial assets that have objective evidence of impairment. The key judgement exercised in this area is determination of when an impairment event has occurred. Key assumptions in determining the amount of the individual provision are the expected future cash flows from the financial asset in question.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated. The collective evaluation of impairment includes the application of a loss emergence period to default probabilities (also referred to as loss identification period). The loss emergence period is a concept which recognises that there is a period of time between the emergence of impairment triggers and the point in time at which those events are captured by ING's credit risk systems. Accordingly, the application of the loss emergence period ensures that impairments that are incurred but not yet identified are adequately reflected in ING's loan loss provision. Although the loss emergence periods are inherently uncertain, ING applies estimates to sub-portfolios (e.g. large corporations, small and medium size enterprises, and retail portfolios) that reflect factors such as the frequency with which customers in the sub-portfolio disclose credit risk sensitive information and the frequency with which they are subject to review by ING's account managers. Generally, the frequency increases in relation to the size of the borrower. Loss emergence periods are based on historical experience and are validated, and revised where necessary, through regular back-testing to ensure that they reflect recent experience and current events.

Expected future cash flows in a portfolio of financial assets that are collectively evaluated for impairment, are estimated on the basis of the contractual cash flows of the assets in the portfolio and historical loss experience for assets with credit risk characteristics similar to those in the portfolio. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Current observable data may include changes in unemployment rates, property prices, and commodity prices. The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Impairment of available for sale financial assets

With regard to equity investments classified as available for sale, a significant (25%) or prolonged decline (6 months) in the fair value of the assets linked to the quality of the debtor, below their acquisition cost, is considered in determining whether the assets are impaired.

If any objective evidence exists for available-for-sale debt and equity investments, the cumulated loss -measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in net result- is removed from equity and recognised in the statement of profit or loss. Impairment losses recognised on equity instruments can never be reversed through the income statement. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the statement of profit or loss, the impairment loss is reversed through the statement of profit or loss.

Tangible assets

Property and equipment

Land and buildings held for own use are stated at fair value on the balance sheet date. The cost of an item of property, plant and equipment comprises its purchase price, including non-refundable purchase taxes, after deducting trade discount and rebates. The fair value of land and buildings is their market value.

ING Belgium measures at fair value property at each reporting date and obtains a valuation from an independent, professionally qualified appraiser on a sufficiently regular basis, or at least every five years.

Increases in the carrying amount arising from a revaluation of land and buildings held for own use are credited to the revaluation reserves in shareholders' equity. Decreases in the carrying amount that offset previous increases of the same asset are charged against the revaluation reserve directly in equity; all other decreases are charged to the statement of profit or loss. Increases that reverse a revaluation decrease on the same asset previously recognised in net result are recognised in the statement.

Depreciation on buildings is recognised, based on the fair value and the estimated useful life of the asset (in general 33 years). Depreciation is calculated on a straight-line basis. Residual values and useful lives are reviewed and adjusted, if appropriate, at each balance sheet date.

Subsequent expenditures are included in the carrying amount of the asset when it is probable that future economic benefits associated with the item will flow to ING Belgium and its cost can be measured reliably. All other repairs and maintenance are charged to the statement of profit or loss during the financial period in which these are incurred.

On disposal, the related revaluation reserve is transferred to retained earnings. Land is not depreciated.

Equipment

Equipment is stated at cost, less accumulated depreciation and any impairment losses. The cost of such assets is depreciated on a straight-line basis over their estimated useful lives. Expenditures incurred on maintenance and repairs is recognised in the statement of profit or loss as incurred. Expenditure incurred on major improvements is capitalised and depreciated.

Disposals

The difference between the proceeds on disposal and net carrying value is recognised in the statement of profit or loss under Other income.

Borrowing costs

Borrowing costs incurred for the construction of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use. Borrowing costs are determined as the weighted average cost of capital of the project.

Leases

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement at inception date.

ING as the lessee

The leases entered into by ING are primarily operating leases. The total payments made under operating leases are recognised in the statement of profit or loss on a straight-line basis over the period of the lease. When an operating lease is terminated before the lease period has expired, any penalty payment to be made to the lessor is recognised as an expense in the period in which termination takes place.

ING as the lessor

When assets are held subject to a finance lease, the present value of the lease payments is recognised as a receivable under Loans and advances to customers or Loans and advances to banks. The difference between the gross receivable and the present value of the receivable is unearned lease finance income. Lease income is recognised over the term of the lease using the net investment method (before tax), which reflects a constant periodic rate of return. When assets are held subject to an operating lease, the assets are included under Assets under operating leases.

Assets under operating leases

Assets leased out under operating leases in which ING is the lessor are stated at cost less accumulated depreciation and any impairment losses. The cost of the assets is depreciated on a straight-line basis over the lease term.

Acquisitions, goodwill and other intangible assets

Acquisitions and goodwill on acquisition

ING Belgium's acquisitions are accounted for under the acquisition method of accounting. The consideration for each acquisition is measured as the aggregate of the fair value (at the date of exchange) of the assets given, liabilities incurred or assumed, and equity instruments issued in exchange for control of the acquiree. Goodwill, being the difference between the cost of the acquisition (including assumed debt) and the bank's interest in the fair value of the acquired assets, liabilities and contingent liabilities as at the date of acquisition, is capitalised as an intangible asset. Goodwill is only capitalised on acquisitions. The results of the operations of the acquired companies are included in the statement of profit or loss from the date control is obtained.

Where applicable, the consideration for the acquisition includes any asset or liability resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value. Contingent consideration arrangements classified as an asset or a liability, are subsequently measured at fair value. Changes in the fair value of the contingent consideration classified as equity, are not recognised.

Where a business combination is achieved in stages, ING Belgium's previously held interests in the assets and liabilities of the acquired entity are remeasured to fair value at the acquisition date (i.e. the date ING Belgium obtains control) and the resulting gain or loss, if any, is recognised in the statement of profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to the statement of profit or loss, where such treatment would be appropriate if that interest were disposed of. Acquisition related costs are recognised in the statement of profit or loss as incurred and presented in the statement of profit or loss as Other operating expenses.

Until 2009, before IFRS 3 'Business Combinations' was revised, the accounting of previously held interests in the assets and liabilities of the acquired entity were not remeasured at the acquisition date and the acquisition related costs were considered to be part of the total consideration.

The initial accounting for the fair value of the net assets of the companies acquired during the year may be determined only provisionally as the determination of the fair value can be complex and the time between the acquisition and the preparation of the Annual Accounts can be limited. The initial accounting shall be completed within a year after acquisition. Adjustments to the fair value as at the date of acquisition of acquired assets and liabilities, that are identified within one year after acquisition are recognised as an adjustment to goodwill; any subsequent adjustment is recognised as income or expense. On disposal of group companies, the difference between the sale proceeds and carrying value (including goodwill) and the unrealised results (including the currency translation reserve in equity) is included in the statement of profit or loss.

Goodwill impairment

ING assesses at each reporting period, whether there is an indication that an intangible asset may be impaired. Irrespective of whether there is an indication of impairment, intangible assets with an indefinite useful life, including goodwill acquired in a business combination, and intangible assets not yet available for use, are tested annually for impairment.

Goodwill is allocated to groups of CGUs (that is, the group cash-generating units or CGUs) for the purpose of impairment testing. These groups of CGUs represent the lowest level at which goodwill is monitored for internal management purposes. Goodwill is tested for impairment by comparing the carrying value of the group of CGUs to the recoverable amount of that group of CGUs. The carrying value is determined as the IFRS net asset value including goodwill. In compliance with IAS 36 'Impairment of assets', the carrying value is determined on a basis that is consistent with the way in which the recoverable amount of the CGU is determined. When the carrying values need to be allocated between Retail and Wholesale solvency (risk-weighted assets) are used as a basis. The recoverable amount is estimated as the higher of fair value less costs of disposal and value in use. Several methodologies are applied to arrive at the best estimate of the recoverable amount. Impairment of goodwill, if applicable, is included in the statement of profit or loss in Other operating expenses.

Computer Software

Computer software that has been purchased or internally generated for own use is stated at cost, less amortisation and any impairment losses. Amortisation is calculated on a straight-line basis over its useful life. This period is a minimum of five years. Depreciation is included in Other operating expenses.

Other intangible assets

Other intangible assets are capitalised and amortised over their expected economic life, which is generally between three and ten years. Intangible assets with an indefinite life are not amortised.

Income tax expenses

Income tax on income for the year comprises current and deferred tax. Income tax is recognised in the statement of profit or loss but it is recognised directly in equity if the tax relates to items that are recognised directly recognised in equity.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined using tax rates and laws that have been enacted or substantially enacted by the balance sheet date, and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled. Deferred tax assets and liabilities are not discounted.

Deferred tax assets are recognised when it is probable that future taxable profit will be available, against which the temporary differences can be utilised. Deferred tax liabilities are provided on temporary differences arising from investments in subsidiaries and associates, except when the timing of the reversal of the temporary difference can be controlled and it is probable that the difference will not reverse in the foreseeable future. The tax effects of income tax losses available for carrying forward are recognised as an asset when it is probable that future taxable profits will be available, against which these losses can be utilised.

Deferred tax related to fair value re-measurement of available-for-sale investments and cash flow hedges which are recognised directly in equity, is also recognised directly in equity and subsequently recognised in the statement of profit or loss together with the deferred gain or loss.

Uncertain tax positions are assessed continually by ING Belgium and in case it is probable that there will be a cash outflow, a current tax liability is recognised.

Other assets

Investment property

Investment properties are recognised at fair value at the balance sheet date. Changes in the carrying amount resulting from revaluations are recognised in the statement of profit or loss. On disposal, the difference between the sale proceeds and carrying value is recognised in the statement of profit or loss.

Property obtained from foreclosures

Property obtained from foreclosures is stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price, less applicable variable selling expenses. Property obtained from foreclosures is included in Other assets - Property development and obtained from foreclosures.

Provisions

A provision is a present obligation arising from past events, the settlement of which is expected to result in an outflow of resources embodying economic benefits, however the timing or the amount is uncertain. Provisions are discounted when the effect of the time value of money is significant using a pre-tax discount rate.

Reorganisation provisions include employee termination benefits when the Group is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal, or providing termination benefits as a result of an offer made to encourage voluntary redundancy.

A liability is recognised for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the liability is recognised only upon reaching the specified minimum threshold.

Significant judgements and critical accounting estimates and assumptions:

The recognition and measurement of provisions is an inherently uncertain process involving using judgement to determine when a present obligation exists and estimates regarding probability, amounts and timing of cash flows. Key assumptions for the reorganisation provision are in estimating the amounts and timing of cash flows as the announced transformation initiatives are implemented over a period of several years. For the assessment of litigation provisions the Group consults with legal experts. Even taking into consideration legal experts' advice, the probability of an outflow of economic benefits can still be uncertain and the amount provisioned can remain sensitive to the assumptions used which may have a range of outcomes that is difficult to quantify.

Other liabilities

Defined benefit plans

The net defined benefit asset or liability recognised in the statement of financial position in respect of defined benefit pension plans is the fair value of the plan assets less the present value of the defined benefit obligation at the balance sheet date. Plan assets are measured at fair value at the balance sheet date. For determining the pension expense, the return on plan assets is determined using a high quality corporate bond rate identical to the discount rate used in determining the defined benefit obligation.

Changes in plan assets that effect Shareholders' equity and/or Net result, include mainly:

- return on plan assets using a high quality corporate bond rate at the start of the reporting period which are recognised as staff costs in the statement of profit or loss; and
- remeasurements which are recognised in Other comprehensive income (equity).

The defined benefit obligation is calculated by internal and external actuaries through actuarial models and calculations using the projected unit credit method. This method considers expected future payments required to settle the obligation resulting from employee service in the current and prior periods, discounted using a high quality corporate bond rate. Inherent in these actuarial models are assumptions including discount rates, rates of increase in future salary and benefit levels, mortality rates, trend rates in health care costs, consumer price index and the expected level of indexation. The assumptions are based on available market data as well as management expectations and are updated regularly. The actuarial assumptions may differ significantly from the actual results due to changes in market conditions, economic and mortality trends, and other assumptions. Any changes in these assumptions could have a significant impact on the defined benefit plan obligation and future pension costs.

Changes in the defined benefit obligation that effects Shareholders' equity and/or Net result, include mainly:

- service cost which are recognised as staff costs in the statement of profit or loss;
- interest expenses using a high quality corporate bond rate at the start of the period which are recognised as staff costs in the statement of profit or loss; and
- remeasurements which are recognised in Other comprehensive income (equity).

Remeasurements recognised in other comprehensive income are not recycled to profit or loss. Any past service cost relating to a plan amendment is recognised in profit or loss in the period of the plan amendment. Gains and losses on curtailments and settlements are recognised in the statement of profit or loss when the curtailment or settlement occurs. The recognition of a net defined benefit asset in the consolidated statement of financial position is limited to the present value of any economic benefits available in the form of refunds from the plans or reductions in future contributions to the plans.

Defined contribution plans

For defined contribution plans, ING Belgium pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. ING Belgium has no further payment obligations once the contributions have been paid. The contributions are recognised as staff expenses in the profit or loss when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

Other post-employment obligations

ING Belgium provides post-employment healthcare and other benefits to certain employees and former employees. The entitlement to these benefits is usually conditional on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment using an accounting methodology similar to that for defined benefit pension plans.

Income recognition

Net interest income

Interest income and expense are recognised in the statement of profit or loss using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expenses over the relevant period.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, ING Belgium estimates cash flows considering all contractual terms of the financial instrument (for example prepayment options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

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Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. All interest income and expenses from trading positions and non-trading derivatives are classified as interest income and interest expenses in the statement of profit or loss. Changes in the fair value are included in net trading income.

Fees and commissions

Fees and commissions are generally recognised as the service is provided. Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognised as an adjustment to the effective interest rate on the loan. Loan syndication fees are recognised as income when the syndication has been completed and ING has retained no part of the loan package for itself or has retained a part at the same effective interest rate as the other participants. Fees and commissions arising from negotiating, or participating in the negotiation of, a transaction for a third party –such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses– are recognised on completion of the underlying transaction.

Portfolio and other management advisory and service fees are recognised based on the applicable service contracts as the service is provided. Asset management fees related to investment funds and investment contract fees are recognised on a pro-rata basis over the period the service is provided. The same principle is applied for wealth management, financial planning and custody services that are continuously provided over an extended period of time. Fees received and paid between banks for payment services are classified as commission income and expenses

Dividend income

Revenue is recognised when ING Belgium's right to receive the payment is established.

Lease income

The proceeds from leasing out assets under operating leases are recognised on a straight-line basis over the life of the lease agreement. Lease payments received in respect of finance leases when ING Group is the lessor are divided into an interest component (recognised as interest income) and a repayment component.

Expense recognition

Expenses are recognised in the statement of profit or loss as incurred or when a decrease in future economic benefits related to a decrease in an asset or an increase in a liability has arisen that can be measured reliably.

Dividend policy description

The Board of Directors convenes general meetings and decides on their agenda. It sets the date for payment of dividends. The Board may decide to pay interim dividends for the current period, subject to the conditions laid down by law. It also sets the amount and date of the payment.

Fiduciary activities

The bank commonly acts as trustee and in other fiduciary capacities that result in the holding or placing of assets on behalf of individuals, trusts, retirement benefit plans and other institutions. These assets and income arising thereon are excluded from these financial statements, as they are not assets of ING Belgium.

Share-based payment transactions

Option rights and share plans on ING Group shares have been granted by ING Belgium to a number of senior executives and managers (equity settled transactions). The purpose of the option and share schemes, apart from promoting a lasting growth of ING Belgium, is to attract, retain and motivate senior executives.

The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable.

At each balance sheet date, ING Belgium revises its estimates on the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the income statement, and a corresponding adjustment to equity over the remaining vesting period.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

Financial guarantees

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and other bodies on behalf of customers to secure loans, overdrafts and other banking facilities.

Financial guarantees are initially recognised in the financial statements at fair value, being the premium received, on the date the guarantee was given.

The premium received is recognised in the income statement in net fees and commission income on a straight-line basis over the life of the financial guarantees. Any increase in the liability relating to guarantees is recorded in the income statement under 'other operating income'.

Statement of cash flows

The statement of cash flows is prepared in accordance with the indirect method, classifying cash flows as cash flows from operating, investing and financing activities. In the net cash flow from operating activities, the result before tax is adjusted for those items in the statement of profit or loss and changes in items per the statement of financial position, which do not result in actual cash flows during the year.

For the purposes of the statement of cash flows, Cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition, including cash and balances with central banks, treasury bills and other eligible bills, amounts due from other banks, and deposits from banks. Investments qualify as a cash equivalent if they are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Cash flows arising from foreign currency transactions are translated into the functional currency using the exchange rates at the date of the cash flows.

The net cash flow shown in respect of Loans and advances to customers relates only to transactions involving actual payments or receipts. The Addition to loan loss provision which is deducted from the item Loans and advances to customers in the statement of financial position has been adjusted accordingly from the result before tax and is shown separately in the statement of cash flows.

The difference between the net cash flow in accordance with the statement of cash flows and the change in Cash and cash equivalents in the statement of financial position is due to exchange rate differences and is accounted for separately as part of the reconciliation of the net cash flow and the change in Cash and cash equivalents in the statement of financial position.

Liabilities arising from financing activities are debt securities and subordinated loans.

Notes to the Consolidated accounts

Assets

Note 1: Cash and balances with central banks

Cash and balances with central banks		
In EUR thousands	2017	2016
Amounts held at central banks	8,979,123	4,372,638
Cash and bank balances	579,078	636,001
Total	9,558,201	5,008,639

Note 2: Loans and advances to banks

Loans and advances to banks		
In EUR thousands	2017	2016
Loans and advances to banks	10,217,217	9,886,580
Cash advances, overdrafts and other balances	319	0
Loan loss provisions	-1,847	-1,159
Total	10,215,689	9,885,421

Note 3: Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss		
In EUR thousands	2017	2016
Trading assets	4,775,721	8,674,772
Non-trading derivatives	3,433,293	4,413,044
Designated as at fair value through profit or loss	82,918	87,950
Total	8,291,932	13,175,766

Trading assets

Trading assets		
In EUR thousands	2017	2016
Equity securities	0	8,026
Debt securities	0	22,935
Derivates	4,775,721	8,643,306
Loans and receivables	0	505
Total	4,775,721	8,674,772

Remark on the 2017 "Trading Assets - Derivatives": The decrease is mainly due to a Balance sheet optimisation exercise ongoing between July and September 2017. Because prior to the migration of FM related operations from FM Branch Brussels to FM Branch London (both branches of ING Bank NV in The Netherlands), a reduction exercise on the number of deals and operations was held. This exercise lowered the number of B/S positions between ING Belgium and the FM Branch and thus also the B/S outstandings (on both Assets and Liabilities side).

Remark on the 2016 "Trading Assets - Derivatives": In March 2016 part of the "Financial Markets" activity was transferred from ING Belgium NV/SA to ING Bank NV, FM Branch Brussels. As a result, these "Equity trading" activities are not performed in ING Belgium NV/SA since then.

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Non-trading derivatives used for risk management purposes

Non-trading derivatives by type (in assets)

In EUR thousands	2017	2016
Derivates used in fair value hedges	741,359	770,334
Derivates used in cash flow hedges	2,645,254	3,604,690
Other non-trading derivatives	46,680	38,021
Total	3,433,293	4,413,044

Designated as at fair value through profit or loss

Designated as at fair value through profit or loss by type (in assets)

In EUR thousands	2017	2016
Equity securities	3,559	2,615
Debt securities	0	0
Loans and receivables	79,359	85,335
Total	82,918	87,950

Note 4: Investments

Designated as at fair value through profit or loss by type (in assets)

In EUR thousands	2017	2016
Available for sale	14,523,823	17,022,923
of which:		
- equity securities	66,163	55,414
- debt securities	14,457,660	16,967,509
Held to maturity	638,069	925,897
of which:		
- equity securities	0	0
- debt securities	638,069	925,897
Total	15,161,892	17,948,820

Changes in available-for sale and held-to-maturity investments

Changes in available-for-sale and held-to-maturity investments

In EUR thousands	Equity securities AFS		Debt securities AFS		Debt securities HTM		Total	
	2017	2016	2017	2016	2017	2016	2017	2016
Opening balance	55,414	78,065	16,967,509	18,730,988	925,897	958,873	17,948,820	19,767,926
Additions	10,736	8,359	3,525,581	1,668,872	0	0	3,536,317	1,677,231
Amortisations	0	0	-18,753	12,466	-28,410	-33,014	-47,163	-20,548
Transfers and reclassifications	1,312	-5,478	-1,434	0	0	0	-122	-5,478
Changes in unrealized revaluations	7,065	1,464	-366,700	-25,952	-4,418	38	-364,053	-24,450
Impairments	-277	-342	0	0	0	0	-277	-342
Reversal of impairments	0	0	0	0	0	0	0	0
Disposals and redemptions	-7,416	-26,652	-5,650,042	-3,418,865	-255,000	0	-5,912,458	-3,445,517
Exchange rate differences	0	0	1,498	0	0	0	1,498	0
Changes in the composition of the group and other changes	-672	0	0	0	0	0	-672	0
Closing balance	66,162	55,414	14,457,659	16,967,509	638,069	925,897	15,161,890	17,948,820

Remark on the 2017 "Changes in unrealized revaluations - Debt securities AFS": This includes the revaluation of the hedged part through profit & loss of EUR 240.419 mio and the change in accrued interest of EUR 55.425 mio.

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Note 5: Loans and advances to customers**Loans and advances to customers**

In EUR thousands	2017	2016
Loans to or guaranteed by public authorities	6,659,481	6,372,779
Loans secured by mortgages	54,893,781	52,068,548
Loans guaranteed by credit institutions	38,064	36,818
Personal lending	4,562,388	5,592,376
Asset backed securities	0	0
Corporate loans	40,963,749	38,253,309
Loan loss provisions	-673,346	-691,161
Total	106,444,117	101,632,669

Remark on 2017 "Loans secured by mortgages": As from 2017 they also contain the loans secured by mandates.

Remark on 2016 "Loans secured by mortgages": Restatement of the amount (EUR 48,492,134) in order to include the loans secured by mandates (impact amount: EUR 3,576,414) and have similar presentation as current year.

Remark on 2016 "Corporate loans": Restatement of the amount (EUR 41,829,723) in order to exclude the loans secured by mandates (impact amount: EUR -3,576,414) and have similar presentation as current year.

Changes in loan loss provisions**Changes in loan loss provisions**

In EUR thousands	2017	2016
Opening balance	-719,386	-709,585
Write-offs	153,510	152,399
Recoveries	-4,566	-4,324
Increases in loan loss provisions	-164,777	-208,591
Exchange rate differences	2,522	-403
Changes in the composition of the group and other changes	11,928	51,118
Closing balance	-720,769	-719,386
The closing balance is included in		
- Amounts held at central banks	0	0
- Loans and advances to banks	-1,847	-1,159
- Loans and advances to customers	-673,346	-691,161
- Provisions other provisions	-45,577	-27,066

Remark on 2016 "Changes in the composition of the group and other changes": Following an IFRS accounting policy change of Fiducru (ING's debt collection company). This change results in a different presentation in the P&L compared to previous year (between Loan Loss Provisioning, Other Income and Net interest). The impact is EUR 38 million. As from 2016 the income related to modified loans leading to derecognition, are presented as Net interest and Other income.

Loan Loss Provisioning per type**Loan Loss Provisioning per type**

In EUR thousands	2017	2016
Loans to, or guaranteed by, public authorities	-1,071	-808
Loans secured by mortgages	-251,173	-103,529
Loans guaranteed by credit institutions	-3,031	-1,287
Personal lending	-71,093	-122,690
Asset backed securities	0	0
Corporate loans	-394,401	-491,072
Total	-720,769	-719,386

Consolidated annual accounts - continued

Corporate loans include finance lease receivables

Future minimum lease payments by maturity

In EUR thousands	2017	2016
Within one year	951,201	819,721
More than one year but less than five years	2,167,416	1,999,028
More than five years	932,963	1,025,135
Total	4,051,581	3,843,884

Note 6: Investments in associates

Associates

In EUR thousands	2017	2016
A.E.D. Rent	14,586	13,701
Aigle Aviation SA	0	1,550
Ark Angels Activator Fund	2,142	1,898
Ark Angels Activator Fund Beheer	133	125
AXISQL	0	3,970
Bancontact/Mistercash (Brand & Licence Comp)	1,098	1,213
BIENCA Biotechnological Enzymatic Catalyse	1	0
Europay Belgium	214	196
European Marketing Group Luxemburg SA	377	333
GDW Holding	0	4,034
IMEC Istart Fund NV	625	0
Immomanda	436	179
ING Activator	311	628
ING Solutions Investment Management (ISIM)	1,437	1,076
Innotech International	1,434	4,799
Isabel	5,291	4,602
Sherpa Invest	146	8
Sherpa Invest II	663	761
Stardekk	4,055	4,400
Tasco NV	5,440	6,361
Vesalius Biocapital Partners SARL	150	157
Vesalius Biocapital I SA SICAR	7,441	7,246
Vesalius Biocapital II Partners SARL	170	111
Visa Belgium	8,738	10,082
Total	54,887	67,431

Changes in investments in associates

In EUR thousands	2017	2016
Opening balance	67,431	78,211
Additions	3,263	14,414
Transfers to and from Investments	-1,313	5,523
Other transfers	-816	0
Revaluations	-10,923	-36,878
Share of results	19,088	32,217
Dividends received	-91	-15,213
Disposals	-21,752	-7,950
Impairments	0	-2,972
Exchange rate differences	0	79
Changes in the composition of the group and other changes	0	0
Closing balance	54,887	67,431

Remark on 2016 "Revaluations": As from December 2016 all equity investments reported as associates are accounted for using the net equity method. Before the investments with an interest between 20 and 50% were measured as available for sale equity securities revalued through Other Comprehensive Income.

Consolidated annual accounts - continued

Note 7: Real estate investments**Changes in real estate investments**

In EUR thousands	2017	2016
Opening balance	48,358	47,812
Additions	6	0
Transfers to and from Other assets	0	-2
Transfers to and from Property in own use	0	0
Gains or losses (-) from fair value adjustments	651	547
Disposals	0	0
Exchange rate differences	0	0
Changes in the composition of the group and other changes	0	0
Closing balance	49,014	48,358

Note 8: Property and equipment**Changes in property and equipment (2017)**

In EUR thousands	Property in own use	Data processing equipment	Fixtures, fittings and other equipment	Total
Opening balance	498,033	54,552	249,165	801,750
Additions	274	18,514	24,165	42,953
Borrowing costs capitalised costs	0	0	0	0
Depreciations	-4,973	-22,784	-45,757	-73,514
Revaluations	25,704	0	0	25,704
Impairments	-3,303	0	0	-3,303
Reversal of impairments	16,072	0	0	16,072
Disposals	-127,429	0	-1,768	-129,197
Exchange rate differences	0	40	61	101
Changes in the composition of the group and other changes	0	591	-1,943	-1,352
Transfer to and from Other assets	-2,594	0	0	-2,594
Transfer to and from Real estate investments	0	0	0	0
Closing balance	401,784	50,913	223,923	676,620
Gross carrying amount per 31 December	622,540	366,854	874,135	1,863,529
Accumulated depreciations per 31 December	-178,596	-315,941	-650,212	-1,144,749
Accumulated impairments per 31 December	-42,159	0	0	-42,159
Net book value	401,785	50,913	223,923	676,621

Remark on 2017 "Property in own use": During 2017 the CSM/SMW building and land in Etterbeek was sold and leased back. Prior to the sale a reversal of impairment was recorded of EUR 13.3 mio as well as a revaluation of EUR 16.6 mio. The disposed amount is equal to EUR 118.9 mio.

Remark on 2017 "Property in own use": ING uses external valuers to value the property in own use. All properties are typically appraised by external valuers every year. The latest valuation of the main properties is from December 2017.

Consolidated annual accounts - continued

Changes in property and equipment (2016)

In EUR thousands	Property in own use	Data processing equipment	Fixtures, fittings and other equipment	Total
Opening balance	564,840	61,797	274,266	900,903
Additions	1,455	16,082	23,269	40,806
Borrowing costs capitalised costs	0	0	0	0
Depreciations	-7,246	-23,345	-44,792	-75,383
Revaluations	-2,748	0	0	-2,748
Impairments	-52,722	0	0	-52,722
Reversal of impairments	128	0	0	128
Disposals	-4,997	-61	-5,129	-10,187
Exchange rate differences	0	1	1	2
Changes in the composition of the group and other changes	0	77	1,549	1,626
Transfer to and from Other assets	-676	0	0	-676
Transfer to and from Real estate investments	0	0	0	0
Closing balance	498,033	54,552	249,165	801,750
Gross carrying amount per 31 December	918,825	345,982	885,929	2,150,736
Accumulated depreciations per 31 December	-327,668	-291,430	-636,764	-1,255,862
Accumulated impairments per 31 December	-93,124	0	0	-93,124
Net book value	498,033	54,552	249,165	801,750

Remark on 2016 "Impairments": In the context of the intended restructuring plan at that time, the "Real estate in own use" have been reviewed for impairments triggered by the plan.

Note 9: Intangible assets

Changes in intangible assets (2017)

In EUR thousands	Goodwill	Software	Other intangible assets	Total
Opening balance	2,558	99,925	0	102,483
Additions	0	3,316	0	3,316
Capitalised expenses	0	27,275	0	27,275
Amortisations	0	-30,987	0	-30,987
Impairments	0	-814	0	-814
Reversal of impairments	0	0	0	0
Disposals	0	-17	0	-17
Exchange rate differences	0	54	0	54
Changes in the composition of the group and other changes	0	1,390	0	1,390
Closing balance	2,558	100,142	0	102,700
Gross carrying amount per 31 December	3,678	360,716	0	365,832
Accumulated depreciations per 31 December	0	-259,760	0	-259,760
Accumulated impairments per 31 December	-1,120	-814	0	-1,934
Net book value	2,558	100,142	0	102,700

Remark on 2017 "Software": The majority of the software is internally developed software.

Consolidated annual accounts - continued

Changes in intangible assets (2016)

In EUR thousands	Goodwill	Software	Other intangible assets	Total
Opening balance	2,558	146,584	0	149,142
Additions	0	3,239	0	3,239
Capitalised expenses	0	29,880	0	29,880
Amortisations	0	-40,925	0	-40,925
Impairments	0	-37,692	0	-37,692
Reversal of impairments	0	0	0	0
Disposals	0	-1,351	0	-1,351
Exchange rate differences	0	0	0	0
Changes in the composition of the group and other changes	0	191	0	191
Closing balance	2,558	99,925	0	102,483
Gross carrying amount per 31 December	3,678	364,069	0	367,747
Accumulated depreciations per 31 December	0	-226,452	0	-226,452
Accumulated impairments per 31 December	-1,120	-37,692	0	-38,812
Net book value	2,558	99,925	0	102,483

Remark on 2016 "Impairments": In the context of the intended restructuring plan at that time, the "Capitalised software" have been reviewed for impairments triggered by the plan.

Remark on 2016 "Software": The majority of the software is internally developed software.

Note 10: Deferred tax assets

Breakdown of deferred tax assets by origin

In EUR thousands	2017	2016
Investments	-92,483	-122,155
Financial assets and liabilities at fair value through profit or loss	58,527	87,384
Depreciations	431	622
Other provisions	201,240	261,369
Unused tax losses carried forward	0	0
Cash flow hedges	125,644	81,421
Property and equipment	-61,609	-77,372
Other	-17,574	-38,850
Total	214,175	192,419

See also note 15 about Deferred tax liabilities.

Important changes are explained by the fact that the figures are presented on a net basis to be in line with the group reporting.

Net deferred tax assets (liabilities) (2017)

In EUR thousands	Gross deferred tax assets	Write-downs deferred tax assets ¹	Deferred tax liabilities	Total
Opening balance	192,419	0	-177,090	15,328
Exchange differences	117	0	-3,430	-3,313
Deferred tax Profit & Loss statement	-212,073	-33,021	188,965	-56,130
Deferred tax Equity	2,373	0	72,845	75,219
Netting deferred taxes	264,361	0	-264,361	0
	247,197	-33,021	-183,071	31,104
from: Deferred tax Profit & Loss statement	-33,021	+33,021	0	0
Closing balance	214,175	0	-183,071	31,104

1. See also note 29 about "Deferred tax Profit & Loss statement" (Deferred taxes arising from changes in tax rates).

Consolidated annual accounts - continued

Income tax breakdown of tax losses carried forward / unused tax credits by expiry terms (2017)

In EUR thousands	Total	Up to five years	Five to ten years	Ten to twenty years	Not expiring
Total of unused tax losses carried forward	0	0	0	0	0
of which: unused tax losses carried forward and	0	0	0	0	0
- not recognized as a deferred tax asset	48,242	10,781	0	37,461	0
- recognized as a deferred tax asset	0	0	0	0	0
Tax rate applicable	33.99%				
Deferred tax asset recognized on unused tax losses carried forward	0				

Income tax relating to components of other comprehensive income (2017)

In EUR thousands	Tax assets	Tax liabilities	Total
Currency translation reserve	0	0	0
Hedge of net investments in foreign operations reserve	0	0	0
Tangible fixed assets revaluation reserve	3,349	-64,265	-60,916
Revaluation reserve available for sale	2,514	-125,008	-122,494
Cash flow hedges	125,644	-1,763	123,882
Share of the other comprehensive income of associates and joint ventures accounted for using equity method	0	0	0
Actuarial gains or losses (-) on defined pension plans	53,070	-1,403	51,668
Total	184,578	-192,439	-7,861

Income tax relating to components of other comprehensive income (2016)

In EUR thousands	Tax assets	Tax liabilities	Total
Currency translation reserve	0	0	0
Hedge of net investments in foreign operations reserve	0	0	0
Tangible fixed assets revaluation reserve	3,848	-76,730	-72,882
Revaluation reserve available for sale	10,092	-177,585	-167,494
Cash flow hedges	81,421	-6,698	74,723
Share of the other comprehensive income of associates and joint ventures accounted for using equity method	0	0	0
Actuarial gains or losses (-) on defined pension plans	76,953	0	76,953
Total	172,314	-261,014	-88,699

Note 11: Other assets

Other assets by type

In EUR thousands	2017	2016
Net defined benefit assets	76	468
Property development and obtained from foreclosures	242	238
Accrued interests and rents	3,458	3,358
Other accrued assets (other than interest income from financial assets)	242,778	179,567
Others	751,696	1,311,688
Total	998,250	1,495,319

Remark on 2016 'Others': This includes EUR 1.067 billion related to transactions still to be settled at balance sheet date.

Liabilities and Equity

Note 12: Deposits from banks

Amounts due to banks		
In EUR thousands	2017	2016
Non-interest bearing	848	0
Interest bearing	16,644,112	13,333,629
Total	16,644,960	13,333,629

Note 13: Customer deposits

Customer deposits		
In EUR thousands	2017	2016
Savings accounts	39,305,414	39,501,111
Credit balances on customer accounts	56,083,128	51,773,448
Corporate deposits	5,449,304	5,690,560
Others	58,399	81,179
Total	100,896,245	97,046,298

Note 14: Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss		
In EUR thousands	2017	2016
Trading liabilities	4,867,955	8,808,874
Non-trading derivatives	4,744,668	6,074,113
Designated as at fair value through profit or loss	1,302,910	1,789,330
Total	10,915,533	16,672,317

Trading liabilities

Trading liabilities by type		
In EUR thousands	2017	2016
Short positions in equity instruments	0	0
Short positions in fixed-income securities	0	73
Derivatives	4,867,955	8,808,801
Total	4,867,955	8,808,874

Remark on the 2017 "Derivatives": The decrease is mainly due to a Balance sheet optimisation exercise ongoing between July and September 2017. Because prior to the migration of FM related operations from FM Branch Brussels to FM Branch London (both branches of ING Bank NV in The Netherlands), a reduction exercise on the number of deals and operations was held. This exercise lowered the number of B/S positions between ING Belgium and the FM Branch and thus also the B/S outstandings (on both Assets and Liabilities side).

Remark on the 2016 "Derivatives": In March 2016 part of the "Financial Markets" activity was transferred from ING Belgium NV/SA to ING Bank NV, FM Branch Brussels. As a result, these "Equity trading" activities are not performed in ING Belgium NV/SA since then.

Non-trading derivatives used for risk management purposes

Non-trading derivatives by type (in liabilities)		
In EUR thousands	2017	2016
Derivatives used in fair value hedges	1,630,135	2,246,539
Derivatives used in cash flow hedges	3,041,080	3,726,986
Other non-trading derivatives	73,453	100,588
Total	4,744,668	6,074,113

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Designated as at fair value through profit or loss

Designated as at fair value through profit or loss by type (in liabilities)

In EUR thousands	Carrying amount		Difference between the carrying amount and the amount contractually payable at maturity	
	2017	2016	2017	2016
Debt securities	1,302,910	1,789,330	-88,539	-282,597
Funds entrusted	0	0	0	0
Subordinated loans	0	0	0	0
Total	1,302,910	1,789,330	-88,539	-282,597

Note 15: Deferred tax liabilities

Deferred tax liabilities

In EUR thousands	2017	2016
Investments	34,911	51,210
Financial assets and liabilities at fair value through profit or loss	-390	-884
Depreciations	53	54
Other provisions	127,198	92,625
Loans and advances to customers	20,357	24,830
Property and equipment	-1	944
Cash flow hedges	1,773	6,839
Others	-828	1,474
Total	183,072	177,090

Remark on 2017 "Other provisions": They increased as the tax liabilities on the FRBG fund in Geneva are reported in this category. Almost EUR 70 mio have been added to that reserve and considering the Swiss tax rate of 25%, a major part of the increase is explained.

Note 16: Provisions

Provisions (2017)

In EUR thousands	Termination benefits and other restructuring provisions	Pending legal issues	Other provisions	Total
Opening balance	647,174	93,557	40,063	780,794
Additions	32,333	80,651	29,076	142,060
Amounts used	-81,105	-37,669	-1,737	-120,511
Unused amounts reversed during the period	-15,690	-35,237	-14,771	-65,698
Increase in the discounted amount (passage of time) and effect of any change in the discount rate	0	0	-17	-17
Exchange rate differences	0	0	-2	-2
Changes in the composition of the group and other changes	-6,569	704	1,475	-4,390
Closing balance	576,143	102,006	54,087	732,236

Remark on 2017 "Pending legal issues": see also "Legal proceedings" under the section 'Complementary information'.

Consolidated annual accounts - continued

Provisions (2016)

In EUR thousands	Termination benefits and other restructuring provisions	Pending legal issues	Other provisions	Total
Opening balance	69,731	64,958	11,188	145,877
Additions	606,157	42,425	28,453	677,035
Amounts used	-20,952	-927	-1,254	-23,133
Unused amounts reversed during the period	-1,477	-18,422	-2,579	-22,478
Increase in the discounted amount (passage of time) and effect of any change in the discount rate	0	0	0	0
Exchange rate differences	0	0	0	0
Changes in the composition of the group and other changes	-6,285	5,523	4,255	3,493
Closing balance	647,174	93,557	40,063	780,794

Remark on 2016 "Additions": On 3 October 2016 ING Belgium announced its intention to undertake a fundamental transformation to enable the business to move from being a traditional bank institution to a banking platform at the cutting edge of the digital world and personalised customer service. ING Belgium intends to improve its customer experience by moving to an integrated banking platform, leveraging of the omni-channel capabilities of the Netherlands and rationalise its network by integrating ING and Record Bank branches. In addition to improving customer experience ING Belgium intends to eliminate the internal silo mentality and move away from a top-heavy management system towards multidisciplinary, agile, self-steering teams to deliver faster, at a lower cost.

Remark on 2016 "Additions": The "Other provisions" include amounts related to Letters of Credit / Guarantees of EUR 27 million (previously reported under Loan Loss Provisions).

Note 17: Other liabilities

Other liabilities

In EUR thousands	2017	2016
Net defined benefit liability	85,571	134,478
Other staff-related liabilities	39,237	43,105
Other taxation and social security contributions	271,654	254,327
Income received in advance	139,614	106,653
Costs payable	441,017	370,449
Others	2,228,082	1,878,708
Total	3,205,175	2,787,720

Remark on 2017 "Others": This includes 1.413 billion EUR related to transactions still to be settled at balance sheet date, next to 398 million EUR related to deferred purchase prices.

Remark on 2016 "Others": this includes EUR 1.283 billion related to transactions still to be settled at balance sheet date.

Note 18: Debt securities in issue and subordinated loans

Debt securities in issue includes as of 31 December 2017:

- Covered bonds issued by ING Belgium for a total of EUR 2.7 billion (2016: EUR 2.7 billion);
- Savings Certificates of Record Bank EUR 3.95 billion (2016: EUR 4.6 billion).

Subordinated loans may be included in the calculation of the total capital ratio and include EUR 1.25 billion (2016: 1.3 billion) of loans that qualify as Tier 2 capital. These loans have been placed with ING Belgium by ING Bank NV.

During 2017 AT1 capital was issued (please refer to the section 'capital management' for more detailed info). The value of these instruments at year-end equal EUR 0.7 billion.

Note 19: Share capital repayable on demand

Members' shares in co-operative entities have some characteristics of equity. They also give the holder the right to request redemption for cash, although that right may be subject to certain limitations. Under IFRIC 2, shares for which the member has the right to request redemption are normal liabilities. The total amount relates to the third-party members' shares in our co-operative entity Record Credit Services.

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Note 20: Shareholders' equity

Shareholders' equity		
In EUR thousands	2017	2016
Share capital	2,350,000	2,350,000
Share premium	451,511	451,511
Revaluation reserves	48,129	207,226
<i>of which:</i>		
- tangible assets revaluation reserve	147,155	143,980
- cash flow hedge reserve (effective)	-294,102	-140,087
- fair value revaluation reserve on financial assets available for sale	320,113	353,576
- actuarial gains/losses (-)	-123,332	-152,470
- currency translation reserves	-1,705	2,227
<i>being:</i>		
> hedge of net investments in foreign operations reserve (effective)	-209,968	-209,968
> foreign currency translation reserve	208,263	212,195
Other reserves	7,318,371	7,259,676
Total	10,168,011	10,268,413

The issued capital is represented by 55,414,550 shares without par value. All shares are fully paid.

The reserves including retained earnings mainly includes the reserves available for distribution, result brought forward, consolidation reserves and legal reserves.

The revaluation reserves consist of different types of reserves. Subsequent to initial recognition, property, and equipment is revalued to fair value. The revaluation surplus is recognised in equity, through the tangible assets revaluation reserve. A subsequent revaluation decrease must be charged against this reserve to the extent that the reserve is positive.

Gains and losses arising from the revaluation of a financial instrument designated as a hedge are deferred in the hedge revaluation reserve. Where a subsidiary is a foreign operation, foreign currency translation differences should be recognised in equity through the foreign currency translation reserve.

Unrealised gains/losses on investments classified as available-for-sale are also recognised in equity within the revaluation reserve. These gains/losses are recycled to the income statement on disposal or when the asset becomes impaired.

Share capital				
in Units / In EUR thousands	Number of shares		Amounts	
	2017	2016	2017	2016
Issued share capital	55,414,550	55,414,550	2,350,000	2,350,000
Unissued share capital	0	0	0	0
Authorised share capital	0	0	0	0
Total	55,414,550	55,414,550	2,350,000	2,350,000

Income statement

Note 21: Interest result

Interest result		
In EUR thousands	2017	2016
Interest income on loans	2,575,752	2,666,097
Interest income on impaired loans	11,746	13,071
Negative interest on liabilities	66,915	21,815
Total interest income on loans	2,654,413	2,700,983
Interest income on available-for-sale securities	301,322	410,831
Interest income on held-to-maturity securities	16,518	18,800
Interest income on trading portfolio	950,629	1,358,760
Interest income on non-trading derivatives (hedge accounting)	1,129,371	1,222,871
Interest income on non-trading derivatives (no hedge accounting)	12,517	749
Other interest income	3,557	7,679
Total interest income	5,068,327	5,720,674
Interest expenses on deposits by bank (-)	-82,180	-35,518
Interest expenses on customer deposits and other funds on deposit (-)	-101,025	-157,437
Interest expenses on debt securities (-)	-129,717	-162,423
Interest expenses on subordinated loans (-)	-33,001	-34,213
Interest expenses on trading liabilities (-)	-965,782	-1,381,272
Interest expenses on non-trading derivatives (no hedge accounting) (-)	-38,221	-11,406
Interest expenses on non-trading derivatives (hedge accounting) (-)	-1,211,852	-1,294,483
Other interest expenses (-)	-40,853	-49,184
Negative interest on assets (-)	-72,872	-47,952
Total interest expenses (-)	-2,675,504	-3,173,888
Total	2,392,823	2,546,786

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Note 22: Commission result

Net commission income		
In EUR thousands	2017	2016
Funds transfer	156,576	154,548
Securities business	144,215	133,773
Asset management fees	67,856	60,775
Brokerage and advisory fees	35,012	35,874
Insurance broking	93,672	99,318
Others	410,289	355,470
Gross fee and commission income	907,619	839,760
Funds transfer (-)	-40,964	-30,375
Securities business (-)	-23,496	-29,618
Management fees (-)	-287	-262
Brokerage and advisory fees (-)	-308	-159
Insurance broking (-)	0	0
Others (-)	-216,919	-218,995
Fee and commission expenses (-)	-281,975	-279,408
Total	625,645	560,351

Remark on 2017 "Other Gross fee and commission income": This includes 140 mio EUR related to commissions received with respect to services related to securities, next to 119 mio EUR related to restricted letters of credit and 58 mio EUR related to commissions on bank guarantees.

Remark on 2016 "Other Gross fee and commission income": This includes the commissions received on bank guarantees, factoring and leasing; the fee and commission income distribution and the commissions given on loans.

Remark on 2016 "Other Fee and commission expenses": This includes the commissions paid on bank guarantees and leasing.

Note 23: Investment income

Investment income		
In EUR thousands	2017	2016
Income from real estate investments	3,322	3,492
Dividend income	12,976	6,905
Total	16,297	10,397
Realised gains/losses (-) on debt securities	15,484	29,360
Impairments of available-for-sale debt securities (-)	0	0
Reversal of impairments of available-for-sale debt securities	0	0
Realized gains/losses (-) and impairments on debt securities	15,484	29,360
Realised gains/losses (-) on equity securities	516	9,801
Impairments of available-for-sale equity securities (-)	-277	-342
Realized gains/losses (-) and impairments on equity securities	239	9,459
Changes in fair value of real estate investments	651	547
Total	32,672	49,763

PM: Exceptional income as result of the acquisition of VISA Europe by VISA Inc in 2016. The transaction resulted in a net profit of 10 mio in 'Investment income' and 20 mio in 'Share of results of associates'.

Remark on 2017 "Dividend income": Contains dividends received from both associate and non-associate entities.

Remark on 2016 "Dividend income": Contains a non-recurring dividend received from a non-associate.

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Note 24: Valuation results on non-trading derivatives**Valuation results on non-trading derivatives**

In EUR thousands	2017	2016
Changes in fair value of derivatives relating to:		
- fair value hedges	329,188	-141,120
- cash flow hedges (ineffective portion)	0	0
- other non-trading derivatives	171	275
Net result on non-trading derivatives	329,360	-140,845
Change in fair value of assets and liabilities (hedged items)	-326,896	140,743
Valuation results on assets and liabilities designated as at fair value through profit or loss (excl trading)	-2,962	4,656
Total	-498	4,555

Remark on 2017 "Changes in fair value of derivatives relating to fair value hedges": The shift from 2016 to 2017 is linked to Macro Fair Value Hedges on mortgages and investment credits, Micro Fair Value Hedges on bonds. Its interest move of about 20 bps on an average Basis Point Value of 20 mio EUR has an approximate impact of about 400 mio EUR.

Note 25: Net trading income**Net trading income**

In EUR thousands	2017	2016
Securities trading results	922	-34,490
Foreign exchange transactions results	138,935	112,953
Derivatives trading results	44,329	71,096
Others	700	646
Total	184,886	150,204

Note 26: Other income**Other income**

In EUR thousands	2017	2016
Capital gain on disposal of other tangible fixed assets	-2,576	603
Realised result sale on non-trade loans	4,373	-9,218
Recovered amounts on renegotiated loans	23,913	24,330
Financial Markets related commissions	33,376	51,706
Others	37,038	46,747
Total	96,123	114,169

Note 27: Staff expenses**Staff expenses**

In EUR thousands	2017	2016
Salaries	677,967	691,874
Pension costs	64,746	60,719
Other staff-related benefit costs	1,029	733
Social security costs	159,281	164,778
Shared-based compensation arrangements	8,978	10,690
External employees	131,326	82,739
Education	11,680	8,067
Other staff costs	31,382	33,083
Total	1,086,389	1,052,683

Remark on 2016 "Pension costs": The amount includes EUR 19.5 million of Defined Benefit Contributions (see also note 16).

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Note 28: Other operating expenses

Other operating expenses		
In EUR thousands	2017	2016
Depreciation of property and equipment	73,519	75,378
Amortisation of software	30,987	40,925
Computer costs	116,791	120,885
Office expenses	107,816	100,186
Travel and accommodation expenses	45,928	44,707
Advertising and public relations	36,384	40,599
External advisory fees	35,477	26,466
Postal charges	3,619	3,898
Regulatory costs (bank levies)	217,731	220,673
Additions / Releases (-) of provisions for reorganisation	16,644	604,680
Impairments	-11,955	90,286
Others	262,550	55,782
Total	935,490	1,424,465

Remark on 2016 "Addition/(release) of provision for reorganisations": On 3 October 2016 ING Belgium announced its intention to undertake a fundamental transformation to enable the business to move from being a traditional bank institution to a banking platform at the cutting edge of the digital world and personalised customer service. ING Belgium intends to improve its customer experience by moving to an integrated banking platform, leveraging of the omni-channel capabilities of the Netherlands and rationalise its network by integrating ING and Record Bank branches. In addition to improving customer experience ING Belgium intends to eliminate the internal silo mentality and move away from a top-heavy management system towards multidisciplinary, agile, self-steering teams to deliver faster, at a lower cost.

Remark on 2016 "Others": This includes one-off procured cost savings of EUR -115 million.

Regulatory costs

Regulatory costs (bank levies)		
In EUR thousands	2017	2016
Operating charges: Tax on Tax Exempted Liabilities	12,840	8,957
Financial Stability Contribution (FSC)	114,941	112,939
Contribution BRRD/SRF	37,939	38,779
Premiums for deposit insurance	52,011	59,998
Total	217,731	220,673

Impairment of tangible and intangible assets

Impairment of tangible and intangible assets (2017)			
In EUR thousands	Impairment losses	Reversal of impairments	Total
Property and equipment	3,303	-16,072	-12,769
Property development	0	0	0
Goodwill	0	0	0
Software and other intangible assets	814	0	814
Amortisations of other intangible assets	0	0	0
Total	4,117	-16,072	-11,955

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Note 29: Taxation**Breakdown of income tax expenses**

In EUR thousands	2017	2016
Current tax for the period	374,168	427,965
Adjustments for current tax of previous periods	-5,188	-16,642
Previously unrecognised tax losses, tax credits, temporary differences reducing current tax	0	0
Current tax expenses	368,980	411,323
Deferred taxes arising from current period	23,108	-215,406
Deferred taxes arising from changes in tax rates	33,021	0
Deferred taxes arising from the reversal of deferred tax assets	0	0
Previously unrecognised tax losses, tax credits, temporary differences reducing deferred taxes	0	0
Deferred tax expenses	56,129	-215,406
Tax expense / income (-) relating to changes in accounting policies and errors in profit & loss	0	0
Taxes relating to the gain or loss on discontinuance of an operation	0	0
Income tax expense of discontinued operations	0	0
Other tax expenses	0	0
Total	425,109	195,917

Reconciliation of statutory tax rate to effective tax rate

In EUR thousands / In %	2017	2016
Result before taxation - Tax expense using statutory rate	1,164,082	769,327
Statutory tax rate	33.99%	33.99%
Statutory tax amount	395,671	261,494
Tax effect of rates in other jurisdictions	-16,776	-20,069
Tax effect of non-taxable revenues	-5,036	-20,303
Tax effect of non-tax deductible expenses	30,833	27,209
Tax effect of utilisation of previously unrecognised tax losses	0	0
Tax effect on tax benefit not previously recognised in profit or loss	0	0
Tax effect from reassessment of unrecognised deferred tax assets	0	0
Tax effect of change in tax rates	33,021	0
Tax effect from under- or over-provisions in prior periods	-5,755	-21,088
Tax effect from notional interest	-6,849	-31,326
Other increase / decrease (-) in statutory tax charge	0	0
Effective tax amount	425,109	195,917
Effective tax rate	36.52%	25.47%

Cash flow statement

Note 30: Changes in liabilities arising from financing activities

Changes in liabilities arising from financing activities

In EUR thousands	2016	Cash flows				Non cash changes				2017
		Additions	Redemptions and disposals	Acquisitions	Amortisations	Transfers Assets/ Liabilities	Changes in fair value	Foreign exchange movements	Other	
Debt securities in issue ¹	7,797,754	598,858	-1,311,900	0	35	0	-16,421	0	-19,665	7,048,661
Subordinated loans	1,440,429	717,118	-119,531	0	0	0	0	-68,235	-409	1,969,372
Total	9,238,183	1,315,976	-1,431,432	0	35	0	-16,421	-68,235	-20,074	9,018,033

1. Debt securities in issue as presented above includes also the share capital repayable on demand.

Complementary information

Fair value of financial assets and liabilities

Financial assets and liabilities

The following table presents the estimated fair values of ING Belgium's financial assets and liabilities. Certain items per the statement of financial position are not included in the table, as they do not meet the definition of a financial asset or liability. The aggregation of the fair values presented below does not represent, and should not be construed as representing, the underlying value of ING Group.

In EUR thousands	2017		2016	
	Fair value	Carrying amount	Fair value	Carrying amount
Financial assets				
Cash and balances with central banks	9,558,201	9,558,201	5,008,639	5,008,639
Loans and advances to banks	10,221,481	10,215,689	9,853,826	9,885,421
Financial assets at fair value through profit or loss				
<i>of which: trading assets</i>	4,775,721	4,775,721	8,674,772	8,674,772
<i>of which: non-trading derivatives</i>	3,433,293	3,433,293	4,413,044	4,413,044
<i>of which: designated as at fair value through profit or loss</i>	82,918	82,918	87,950	87,950
Investments				
<i>of which: available-for-sale</i>	14,523,823	14,523,823	17,022,923	17,022,923
<i>of which: held-to-maturity</i>	642,799	638,069	936,353	925,897
Loans and advances to customers	107,944,912	106,444,117	103,699,630	101,632,669
Other assets	998,250	998,250	1,495,319	1,495,319
Total Financial assets	152,181,398	150,670,081	151,192,456	149,146,634
Financial liabilities				
Deposits from banks	16,649,216	16,644,960	13,330,516	13,333,629
Customer deposits	101,016,210	100,896,245	97,174,313	97,046,298
Financial liabilities at fair value through profit or loss				
<i>of which: trading liabilities</i>	4,867,955	4,867,955	8,808,874	8,808,874
<i>of which: non-trading derivatives</i>	4,744,668	4,744,668	6,074,113	6,074,113
<i>of which: designated as at fair value through profit or loss</i>	1,302,910	1,302,910	1,789,330	1,789,330
Debt securities in issue ¹	7,214,467	7,048,661	8,053,726	7,743,252
Subordinated loans	2,132,597	1,969,372	1,641,268	1,440,429
Total Financial liabilities	137,928,023	137,474,771	136,872,140	136,235,925

1. Debt securities in issue includes share capital repayable on demand.

Valuation Methods

The estimated fair values represent the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It is a market-based measurement, which is based on assumptions that market participants would use and takes into account the characteristics of the asset or liability that market participants would take into account when pricing the asset or liability. Fair values of financial assets and liabilities are based on quoted prices in active market where available. When such quoted prices are not available, the fair value is determined by using valuation techniques. ING uses unadjusted quotes where available. Unadjusted quoted prices are primarily obtained from exchange prices for listed financial instruments. Where an exchange price is not available, quoted market prices in active markets may be obtained from independent market vendors, brokers, or market makers. In general, positions are valued at the bid price for a long position and at the offer price for a short position or are valued at the price within the bid-offer spread that is most representative of fair value at the date of valuation. For certain financial assets and liabilities quoted market prices are not available. For these financial assets and liabilities, fair value is determined using valuation techniques. These valuation techniques range from discounting of cash flows to various valuation models, where relevant pricing factors including the market price of underlying reference instruments, market parameters (e.g. volatilities, correlations and credit ratings), and customer behaviour are taken into account. ING maximises the use of market observable inputs and minimises the use of unobservable input in determining the fair value. The fair value can be subjective dependent on the significance of the unobservable input to the overall valuation.

All valuation techniques used are subject to internal review and approval. Data used in these valuation techniques are validated on a daily basis when possible. When a group of financial assets and financial liabilities are managed on the basis of their net risk exposures, it measures the fair value of a group of financial assets or liabilities on net portfolio level.

Control framework

To determine whether the valuations based upon data inputs have led to an appropriate fair value, the process of independent price verification ('IPV') or price testing is applied. This is done to ensure the appropriate reflection of these valuations in balance sheet and the profit and loss accounts. IPV tests and confirms the reliability of the market data used in these valuations and can lead to adjustments in valuation. The IPV process is performed at least monthly or more frequently depending on the nature of the market or trading activity. Multiple data sources are used to the extent that such prices are available and taking into account cost-benefit ratio of retrieving such prices. Valuation differences between primary and secondary source data are assessed. When differences resulting from price testing exceed pre-approved thresholds, adjustments to the profit and loss shall be made. Differences and adjustments must be assessed individually, approved by the Local Parameter Committee, and reported back in the meeting minutes. In case a material difference in value is found through the IPV process, it must be fully understood what the underlying cause is for the difference, and if a systematic change is required (e.g. change of source). Pricing and price testing is applied at individual trade level and is organised at a desk level.

Valuation processes are governed by various governance bodies, which include Local Parameter Committees (LPC), Global Price Testing and Impairment Committee (GP&IC), Market Data Committee (MDC), Trading Pricing Model Committee (TPMC) and others. All relevant committees meet on a quarterly basis or more frequent as required. Key valuation controls including product approval process (PARP), IPV, valuation adjustments, and model use is monitored. The Global Price Testing and Impairment Committee is responsible for the use of appropriate models and inputs related to fair valued positions. It oversees the quality and coherence of valuation methodologies and processes. Local Parameter Committees monitor the appropriateness of (quoted) pricing, any other relevant market info, as well as that of pricing models themselves related to the fair valued positions to which they are applied. LPC executes valuation methodology and processes at a local level. Global Price Testing and Impairment Committee oversees market data sources and market data set up / points used for official valuation of positions for fair value. Trading Pricing Model Committee approve and review all pricing models and methodologies for the calculation of market parameters.

Valuation Adjustments

Valuation adjustments are an integral part of the fair value. They are included as part of the fair value to provide better estimation of market exit value on measurement date. ING applies various valuation adjustments including Bid-Offer adjustments, Credit Valuation Adjustments (CVA), Debt Valuation Adjustments (DVA), Model Risk Valuation Adjustments, Collateral Valuation Adjustment (CollVA) and Funding Valuation Adjustment (FVA). The combination of Credit Valuation adjustment and Debt Valuation adjustment for derivatives is called Bilateral Valuation Adjustment (BVA).

- Bid-Offer adjustments are required to adjust mid-market values to appropriate bid or offer value in order to best represent the exit value, and therefore fair value. It is applicable to financial assets and liabilities that are valued at mid-price initially. In practice this adjustment accounts for the difference in valuation from mid to bid and mid to offer for long and short exposures respectively. In principle assets are valued at the bid prices and liabilities are valued at the offer price. For certain assets or liabilities, where market quoted price is not available, the price within the bid-offer spread that is most representative of fair value is used.
- Bilateral Valuation Adjustment (BVA) is the valuation component for the counterparty credit risk of the derivative contracts. It has bilateral nature, where both counterparty's credit risk and ING own credit risks are taken into account. The calculation is based on the estimation of the expected exposure, the counterparties' risk of default, and taking into account the collateral agreements as well as netting agreements. The counterparties' risk of default is measured by probability of default and expected loss given default, which is based on market information including credit default swap (CDS) spread. Where counterparty CDS spreads are not available, relevant proxy spreads are used. Additionally, wrong-way risk (when exposure to a counterparty is increasing and the credit quality of that counterparty deteriorates) and right-way risk (when exposure to a counterparty is increasing and the credit quality of that counterparty improves) are included in the adjustment.
- ING applies Debt Valuation Adjustment (DVA) to own issued financial liabilities that are measured at fair value through profit or loss, if the credit risk component has not been included in the prices. In the DVA calculation, the default probability of the institution are estimated based on the ING Funding spread.
- Model risk adjustments reduce the risk of possible financial losses resulting from the use of a wrongly specified, misapplied, or incorrect implementation of a model.
- Collateral Valuation Adjustment (CollVA) is a derivative valuation adjustment capturing specific features of CSA (Credit Support Annex) with a counterparty that the regular OIS (Overnight Index Swap) discounting framework does not capture. Non-standard CSA features may include deviations in relation to the currency in which ING posts or receives collateral, deviations in remuneration rate on collateral which may pay lower or higher rate than overnight rate or even no interest at all. Other deviations can be posting securities rather than cash as collateral.
- ING applies an additional 'funding valuation adjustment' (FVA) to address the funding costs associated with the collateral funding asymmetry on uncollateralized or partially collateralized derivatives in the portfolio. This adjustment is based on the expected exposure profiles of the uncollateralized or partially collateralized OTC derivatives and market-based funding spreads.

Fair value of financial assets

The following methods and assumptions were used by ING Belgium to estimate the fair value of these financial instruments.

Cash and balances with central banks

The carrying amount of cash equals its fair value.

Loans and advances to banks

The fair values of receivables from banks are generally based on quoted market prices or, if unquoted, on estimates based on discounting future cash flows using available market interest rates including appropriate spreads offered for receivables with similar characteristics, similar to Loans and advances to customers described below.

Financial assets at fair value through profit or loss and Investments**Derivatives**

Derivatives contracts can either be exchange-traded or over the counter (OTC). The fair value of exchange-traded derivatives is determined using quoted market prices in an active market and those derivatives are classified in Level 1 of the fair value hierarchy. For those instruments not actively traded, fair values are estimated based on valuation techniques. OTC derivatives and derivatives trading in an inactive market are valued using valuation techniques because quoted market prices in an active market are not available for such instruments. The valuation techniques and inputs depend on the type of derivative and the nature of the underlying instruments. The principal techniques used to value these instruments are based on (amongst others) discounted cash flows option pricing models and Monte Carlo simulation. These valuation models calculate the present value of expected future cash flows, based on 'no-arbitrage' principles. These models are commonly used in the financial industry. Inputs to valuation models are determined from observable market data where possible. Certain inputs may not be observable in the market directly, but can be determined from observable prices via valuation model calibration procedures. The inputs used include for example prices available from exchanges, dealers, brokers or providers of pricing, yield curves, credit spreads, default rates, recovery rates, dividend rates, volatility of underlying interest rates, equity prices, and foreign currency exchange rates. These inputs are determined with reference to quoted prices, recently executed trades, independent market quotes and consensus data, where available.

For uncollateralised OTC derivatives, ING applies Credit Valuation Adjustment to correctly reflect the counterparty credit risk in the valuation. The technique for calculating CVA is based on Monte Carlo simulation and uses various input including counterparty credit spread, market interest rates, and market exchanges rates. The counterparty credit spreads are based on counterparty CDS spread where available. Otherwise, the indexed proxy CDS spreads are used.

Equity securities

The fair values of publicly traded equity securities are based on quoted market prices when available. Where no quoted market prices are available, fair value is determined based on quoted prices for similar securities or other valuation techniques.

The fair value of private equity is based on quoted market prices, if available. In the absence of quoted prices in an active market, fair value is estimated on the basis of an analysis of the investee's financial position and results, risk profile, prospects, price, earnings comparisons and revenue multiples, and by reference to market valuations for similar entities quoted in an active market.

Debt securities

Fair values for debt securities are based on quoted market prices, where available. Quoted market prices may be obtained from an exchange, dealer, broker, industry group, pricing service, or regulatory service. The quoted prices from non-exchange sources are assessed to determine if they are tradable prices. This distinction determines where it falls in the fair value hierarchy.

If quoted prices in an active market are not available, fair value is based on an analysis of available market inputs, which may include consensus prices obtained from one or more pricing services or by a valuation technique that discounts expected future cash flows using a market interest rate curves, referenced credit spreads, maturity of the investment, and estimated prepayment rates where applicable.

Loans and receivables

Reference is made to Loans and advances to customers below.

Loans and advances to customers

For loans and advances that are repriced frequently and have had no significant changes in credit risk, carrying amounts represent a reasonable estimate of the fair value. The fair value of other loans is estimated by discounting expected future cash flows using a discount rate that reflects credit risk, liquidity, and other current market conditions. The fair value of mortgage loans is estimated by taking into account prepayment behaviour. Loans with similar characteristics are aggregated for calculation purposes.

Other assets

The other assets are stated at their carrying value which is not significantly different from their fair value.

Fair value of financial liabilities

The following methods and assumptions were used by ING Belgium to estimate the fair value of these financial instruments.

Deposits from banks

The fair values of payables to banks are generally based on quoted market prices or, if not available, on estimates based on discounting future cash flows using available market interest rates and credit spreads for payables to banks with similar characteristics.

Customer deposits

The carrying values of customer deposits with an immediate on demand features approximate their fair values. The fair values of deposits with fixed contractual terms have been estimated based on discounting future cash flows using the interest rates currently applicable to deposits of similar maturities.

Financial liabilities at fair value through profit or loss

The fair values of securities in the trading portfolio and other liabilities at fair value through profit or loss are based on quoted market prices, where available. For those securities not actively traded, fair values are estimated based on internal discounted cash flow valuation techniques using interest rates and credit spreads that apply to similar instruments. Reference is made to Financial assets at fair value through profit or loss above.

Other liabilities

The other liabilities are stated at their carrying value which is not significantly different from their fair value.

Debt securities in issue

The fair value of debt securities in issue is generally based on quoted market prices, or if not available, on estimated prices by discounting expected future cash flows using a current market interest rate and credit spreads applicable to the yield, credit quality and maturity.

Subordinated loans

The fair value of publicly traded subordinated loans are based on quoted market prices when available. Where no quoted market prices are available, fair value of the subordinated loans is estimated using discounted cash flows based on interest rates and credit spreads that apply to similar instruments.

Fair value hierarchy

ING Belgium has categorised its financial instruments that are either measured in the statement of financial position at fair value or of which the fair value is disclosed, into a three level hierarchy based on the priority of the inputs to the valuation. The fair value hierarchy gives the highest priority to (unadjusted) quoted prices in active markets for identical assets or liabilities and the lowest priority to valuation techniques supported by unobservable inputs. An active market for the asset or liability is a market in which transactions for the asset or liability occur with sufficient frequency and volume to provide reliable pricing information on an ongoing basis. The fair value hierarchy consists of three levels, depending upon whether fair values were determined based on (unadjusted) quoted prices in an active market (Level 1), valuation techniques with observable inputs (Level 2) or valuation techniques that incorporate inputs which are unobservable and which have a more than insignificant impact on the fair value of the instrument (Level 3). Financial assets in Level 3 include for example illiquid debt securities, complex derivatives, certain complex loans (for which current market information about similar assets to use as observable, corroborated data for all significant inputs into a valuation model is not available), and asset backed securities for which there is no active market and a wide dispersion in quoted prices.

Observable inputs reflect market data obtained from independent sources. Unobservable inputs are inputs which are based on ING's own assumptions about the factors that market participants would use in pricing an asset or liability, developed based on the best information available in the market. Unobservable inputs may include volatility, correlation, spreads to discount rates, default rates and recovery rates, prepayment rates, and certain credit spreads. Transfers into and transfers out of fair value hierarchy levels are made on a quarterly basis.

A three level hierarchy

Level 1 – (Unadjusted) quoted prices in active markets

This category includes financial instruments whose fair value is determined directly by reference to (unadjusted) quoted prices in an active market that ING can access. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer markets, brokered markets, or principal to principal markets. Those prices represent actual and regularly occurring market transactions with sufficient frequency and volume to provide pricing information on an ongoing basis. Transfers out of Level 1 into Level 2 or Level 3 occur when ING establishes that markets are no longer active and therefore (unadjusted) quoted prices no longer provide reliable pricing information.

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Level 2 – Valuation technique supported by observable inputs

This category includes financial instruments whose fair value is based on market observables other than (unadjusted) quoted prices. The fair value for financial instruments in this category can be determined by reference to quoted prices for similar instruments in active markets, but for which the prices are modified based on other market observable external data or reference to quoted prices for identical or similar instruments in markets that are not active. These prices can be obtained from a third party pricing service. ING analyses how the prices are derived and determines whether the prices are liquid tradable prices or model based consensus prices taking various data as inputs.

For financial instruments that do not have a reference price available, fair value is determined using a valuation technique (e.g. a model), where inputs in the model are taken from an active market or are observable, such as interest rates and yield curves observable at commonly quoted intervals, implied volatilities, and credit spreads.

If certain inputs in the model are unobservable, the instrument is still classified in this category, provided that the impact of those unobservable inputs on the overall valuation is insignificant. The notion of significant is particularly relevant for the distinction between Level 2 and Level 3 assets and liabilities. ING has chosen to align the definition of significant with the 90% confidence range as captured in the prudent value definition by EBA. Unobservable parameters are shifted down and upwards to reach this 90% confidence range. The same 90% confidence range is applied to model uncertainty. If the combined change in asset value resulting from the shift of the unobservable parameters and the model uncertainty exceeds the threshold, the asset is classified as Level 3. A value change below the threshold results in a Level 2 classification.

Valuation techniques used for Level 2 assets and liabilities range from discounting of cash flows to various industry standard valuation models such as option pricing model and Monte Carlo simulation model, where relevant pricing factors including the market price of underlying reference instruments, market parameters (volatilities, correlations, and credit ratings), and customer behaviour are taken into account.

Level 3 – Valuation technique supported by unobservable inputs

This category includes financial instruments whose fair value is determined using a valuation technique (e.g. a model) for which more than an insignificant part of the inputs in terms of the overall valuation are not market observable. This category also includes financial assets and liabilities whose fair value is determined by reference to price quotes but for which the market is considered inactive. An instrument in its entirety is classified as Level 3 if a significant portion of the instrument's fair value is driven by unobservable inputs. Unobservable in this context means that there is little or no current market data available from which to derive a price that an unrelated, informed buyer would purchase the asset or liability at.

Financial instruments at fair value

The fair values of the financial instruments were determined as follows:

Methods applied in determining fair values of financial assets (2017)

In EUR thousands	Fair value	Comparison Carrying amount	Fair value hierarchy		
			Level 1	Level 2	Level 3
Assets at fair value					
Trading assets	4,775,721	4,775,721	0	4,690,912	84,809
Non-trading assets	3,433,293	3,433,293	0	3,433,293	0
Financial assets designated as at fair value through profit or loss	82,918	82,918	0	79,359	3,559
Available-for-sale investments	14,523,823	14,523,823	13,439,381	1,020,881	63,561
Total assets at fair value	22,815,755	22,815,755	13,439,381	9,224,445	151,929
Assets at amortised costs					
Loan and advances to banks ¹	9,773,249	9,767,457	0	1,665,129	8,108,120
Held-to-maturity investments	642,799	638,069	642,799	0	0
Loan and advances to customers ¹	102,529,543	101,028,747	0	208,450	102,321,092
Total assets at amortised costs	112,945,590	111,434,273	642,799	1,873,579	110,429,212

PM: Only financial assets are in scope of the table, hence real estate is not part of it. As at 31 December 2017, the estimated fair value of Property in own use and Real estate investment amounts to EUR 402 million (2016: EUR 498 million) and EUR 49 million (2016: EUR 48 million) respectively and is categorised as Level 3 (2016: Level 3) of the fair value hierarchy on the basis of methods applied in determining the fair values.

1..The on demand items are excluded from the Fair value and Carrying amount number.

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Methods applied in determining fair values of assets (2016)

In EUR thousands	Comparison		Fair value hierarchy		
	Fair value	Carrying amount	Level 1	Level 2	Level 3
Assets at fair value					
Trading assets	8,674,772	8,674,772	22,935	8,476,904	174,933
Non-trading assets	4,413,044	4,413,044	0	4,413,044	0
Financial assets designated as at fair value through profit or loss	87,950	87,950	0	85,335	2,615
Available-for-sale investments	17,022,923	17,022,923	15,873,319	1,094,259	55,345
Total assets at fair value	30,198,689	30,198,689	15,896,254	14,069,542	232,893
Assets at amortised costs					
Loan and advances to banks ¹	9,334,531	9,366,125	2,986,190	0	6,348,341
Held-to-maturity investments	936,353	925,897	936,353	0	0
Loan and advances to customers ¹	98,578,330	96,511,369	196,873	281,969	98,099,488
Total assets at amortised costs	108,849,214	106,803,391	4,119,416	281,969	104,447,829

PM: As for 2016 significant transfers between Level 1 and Level 2 of fair value happened within "Available-for-sale investments": EUR 155 million from Level 1 to Level 2 and EUR 5 million from Level 2 to Level 1.

1..The on demand items are excluded from the Fair value and Carrying amount number.

Methods applied in determining fair values of financial liabilities (2017)

In EUR thousands	Comparison		Fair value hierarchy		
	Fair value	Carrying amount	Level 1	Level 2	Level 3
Liabilities at fair value					
Trading liabilities	4,867,955	4,867,955	0	4,802,578	65,377
Non-trading liabilities	4,744,668	4,744,668	0	4,743,214	1,454
Financial liabilities designated as at fair value through profit or loss	1,302,910	1,302,910	101,788	1,201,122	0
Total liabilities at fair value	10,915,533	10,915,533	101,788	10,746,914	66,831
Liabilities at amortised costs					
Deposits from banks ¹	13,506,897	13,502,641	0	13,503,764	3,134
Customer deposits ¹	7,194,093	7,074,128	0	7,194,093	0
Debt securities in issue	7,214,467	7,048,661	2,819,576	4,117,132	277,759
Subordinated loans	2,132,597	1,969,372	0	2,132,597	0
Total liabilities at amortised costs	30,048,054	29,594,802	2,819,576	26,947,585	280,892

1..The on demand items are excluded from the Fair value and Carrying amount number.

Methods applied in determining fair values of liabilities (2016)

In EUR thousands	Comparison		Fair value hierarchy		
	Fair value	Carrying amount	Level 1	Level 2	Level 3
Liabilities at fair value					
Trading liabilities	8,808,874	8,808,874	0	8,668,984	139,890
Non-trading liabilities	6,074,113	6,074,113	0	6,073,368	745
Financial liabilities designated as at fair value through profit or loss	1,789,330	1,789,330	102,621	1,686,708	0
Total liabilities at fair value	16,672,317	16,672,317	102,621	16,429,060	140,635
Liabilities at amortised costs					
Deposits from banks ¹	10,451,812	10,454,925	4,813,789	5,145,418	492,604
Customer deposits ¹	7,542,142	7,414,127	773,910	6,684,238	83,994
Debt securities in issue	8,053,626	7,743,252	2,688,899	4,916,844	447,984
Subordinated loans	1,641,268	1,440,429	0	1,641,269	0
Total liabilities at amortised costs	27,688,948	27,052,733	8,276,598	18,387,768	1,024,582

1..The on demand items are excluded from the Fair value and Carrying amount number.

Consolidated annual accounts - continued

Main changes in fair value hierarchy

There were no significant transfers between Level 1 and Level 2 in 2017 and 2016.

There were no significant changes in the valuation techniques during the 2017 and 2016.

Changes in Level 3 Financial Assets (2017)

In EUR thousands	Trading assets	Non-trading assets	Financial assets designated at fair values through profit or loss	Available-for-sale investments	Total
Opening balance	174,933	0	2,615	55,345	232,893
Amounts recognised in profit or loss during the year	740	0	942	239	1,922
Revaluation recognised in equity during the year	0	0	0	1,286	1,286
Purchase of assets	0	0	1,470	7,235	8,705
Sale of assets	-63,999	0	-1,468	-1,838	-67,305
Maturity / Settlement	0	0	0	0	0
Reclassification	0	0	0	0	0
Transfers into Level 3	4,958	0	0	0	4,958
Transfers out of Level 3	-31,823	0	0	0	-31,823
Exchange rate differences	0	0	0	0	0
Changes in the composition of the group and other changes	0	0	0	1,294	1,294
Closing balance	84,809	0	3,559	63,561	151,929

Changes in Level 3 Financial Assets (2016)

In EUR thousands	Trading assets	Non-trading assets	Financial assets designated at fair values through profit or loss	Available-for-sale investments	Total
Opening balance	142,630	0	2,812	77,998	223,440
Amounts recognised in profit or loss during the year	106,521	0	35	9,459	116,015
Revaluation recognised in equity during the year	0	0	0	-8,340	-8,340
Purchase of assets	0	0	0	8,359	8,359
Sale of assets	0	0	-232	-26,652	-26,884
Maturity / Settlement	0	0	0	0	0
Reclassification	0	0	0	0	0
Transfers into Level 3	0	0	0	0	0
Transfers out of Level 3	0	0	0	0	0
Exchange rate differences	0	0	0	0	0
Changes in the composition of the group and other changes	-74,218	0	0	-5,478	-79,696
Closing balance	174,933	0	2,615	55,345	232,893

Changes in Level 3 Financial Liabilities (2017)

In EUR thousands	Trading liabilities	Non-trading liabilities	Financial liabilities designated at fair values through profit or loss	Total
Opening balance	139,890	745	0	140,635
Amounts recognised in profit or loss during the year	7,640	338	0	7,978
Revaluation recognised in equity during the year	0	0	0	0
Issue of liabilities	506	873	0	1,379
Early repayment of liabilities	-61,650	-502	0	-62,152
Maturity / Settlement	0	0	0	0
Reclassification	0	0	0	0
Transfers into Level 3	4,341	0	0	4,341
Transfers out of Level 3	-25,349	0	0	-25,349
Exchange rate differences	0	0	0	0
Changes in the composition of the group and other changes	0	0	0	0
Closing balance	65,377	1,454	0	66,831

Consolidated annual accounts - continued

Changes in Level 3 Financial Liabilities (2016)

In EUR thousands	Trading liabilities	Non-trading liabilities	Financial liabilities designated at fair values through profit or loss	Total
Opening balance	226,095	969	0	227,064
Amounts recognised in profit or loss during the year	16,358	-11	0	16,347
Revaluation recognised in equity during the year	0	0	0	0
Issue of liabilities	0	0	0	0
Early repayment of liabilities	0	-213	0	-213
Maturity / Settlement	0	0	0	0
Reclassification	0	0	0	0
Transfers into Level 3	0	0	0	0
Transfers out of Level 3	0	0	0	0
Exchange rate differences	0	0	0	0
Changes in the composition of the group and other changes	-102,563	0	0	-102,563
Closing balance	139,890	745	0	140,635

Amounts recognized in profit or loss during the year (2017)

In EUR thousands	Held at balance sheet date	Derecognised during the year	Total
Financial assets			
Trading assets	740	0	740
Non-trading assets	0	0	0
Financial assets designated at fair value through profit or loss	942	0	942
Available-for-sale investments	-277	516	239
Total Financial assets	1,406	516	1,922
Financial liabilities			
Trading liabilities	-7,640	0	-7,640
Non-trading liabilities	-338	0	-338
Financial liabilities designated at fair value through profit or loss	0	0	0
Total Financial liabilities	-7,978	0	-7,978

Amounts recognized in profit or loss during the year (2016)

In EUR thousands	Held at balance sheet date	Derecognised during the year	Total
Financial assets			
Trading assets	106,520	0	106,520
Non-trading assets	0	0	0
Financial assets designated at fair value through profit or loss	-197	0	-197
Available-for-sale investments	-342	9,801	9,459
Total Financial assets	105,981	9,801	115,782
Financial liabilities			
Trading liabilities	-16,358	0	-16,358
Non-trading liabilities	0	0	0
Financial liabilities designated at fair value through profit or loss	0	0	0
Total Financial liabilities	-16,358	0	-16,358

Recognition of unrealised gains and losses in Level 3

Amounts recognised in the statement of profit or loss relating to unrealised gains and losses during the year that relates to Level 3 assets and liabilities are included in the statement of profit or loss as follows:

- Results on trading assets and trading liabilities are included in Valuation results and net trading income;
- Non-trading derivatives are included in Valuation results and net trading income; and
- Financial assets and liabilities designated at fair value through profit or loss are included in Valuation results and net trading income - Valuation results on assets and liabilities designated at fair value through profit or loss (excluding trading).

Unrealised gains and losses that relate to Available-for-sale investments recognised in Other comprehensive income are included in the Revaluation reserve - Available-for-sale reserve and other.

Level 3 Financial assets and liabilities**Non-listed equity investments**

Level 3 equity securities mainly include corporate investments, fund investments, real estate positions, and other equity securities which are not traded in active markets. In the absence of an active market, fair values are estimated on the basis of the analysis of fund managers reports, company's financial position, future prospects, and other factors, considering valuations of similar positions or by the reference to acquisition cost of the position. For equity securities best market practice will be applied using the most relevant valuation method. All non-listed equity investments, including investments in private equity funds, are subject to a standard review framework which ensures that valuations reflect fair values.

Price

For securities where market prices are not available fair value is measured by comparison with observable pricing data from similar instruments. Prices of 0% are distressed to the point that no recovery is expected, while prices significantly in excess of 100% or par are expected to pay a good yield.

Credit spreads

Credit spread is the premium above a benchmark interest rate, typically LIBOR or relevant Treasury instrument, required by the market participant to accept a lower credit quality. Higher credit spreads indicate lower credit quality and a lower value of an asset.

Volatility

Volatility is a measure for variation of the price of a financial instrument or other valuation input over time. Volatility is one of the key inputs in option pricing models. Typically, the higher the volatility, the higher value of the option. Volatility varies by the underlying reference (equity, commodity, foreign currency and interest rates), by strike, and maturity of the option. The minimum level of volatility is 0% and there is no theoretical maximum.

Correlation

Correlation is a measure of dependence between two underlying references which is relevant for valuing derivatives and other instruments which have more than one underlying reference. For example, correlation between underlying equity names may be a relevant input parameter for basket equity option pricing models. High positive correlation (close to 1) indicates strong positive (statistical) relationship between underlyings, implying they typically move in the same direction. High negative correlation, on the other hand, implies that underlyings typically move in opposite directions.

Interest rates

Examples of interest rate related unobservable inputs are prepayment rates, reset rates and inflation rates.

Prepayment rate and reset spread are key inputs to mortgage linked prepayment swaps valuation. Prepayment rate is the estimated rate at which mortgage borrowers will repay their mortgages early, e.g. 5% per year. Reset spread is the future spread at which mortgages will re-price at interest rate reset dates. Inflation rate is a key input to inflation linked instruments. Inflation linked instruments protect against price inflation and are denominated and indexed to investment units. Interest payments would be based on the inflation index and nominal rate in order to receive/pay the real rate of return. A rise in nominal coupon payments is a result of an increase in inflation expectations, real rates, or both. As markets for these inflation linked derivatives are illiquid, the valuation parameters become unobservable.

Dividend yield

Dividend yield is an important input for equity option pricing models showing how much dividends a company is expected to pay out each year relative to its share price. Dividend yields are generally expressed as an annualised percentage of share price.

Sensitivity analysis of unobservable inputs (Level 3)

Where the fair value of a financial instrument is determined using inputs which are unobservable and which have a more than insignificant impact on the fair value of the instrument, the actual value of those inputs at the balance date may be drawn from a range of reasonably possible alternatives. In line with market practice the upper and lower bounds of the range of alternative input values reflect a 90% level of valuation certainty. The actual levels chosen for the unobservable inputs in preparing the annual accounts are consistent with the valuation methodology used for fair valued financial instruments.

For more detail on the valuation of fair valued instruments, refer to the section 'Risk Management – Market risk', paragraph 'Fair values of financial assets and liabilities' in this document. In practice valuation uncertainty is measured and managed per exposure to individual valuation inputs (i.e. risk factors) at portfolio level across different product categories.

Consolidated annual accounts - continued

Non-financial assets and liabilities

ING Belgium's non-financial assets comprise Investments in associates and joint ventures, Property in own use, Investment properties and Inventory as included in the Statement of financial position in the line items Investments in associates and joint ventures, Property and equipment, and Other assets respectively.

Investments in associates and joint ventures are accounted for using the equity method. For further information, reference is made to the Note 'Investments in associates and joint ventures'. Other non-financial assets (Property in own use, and Investment properties) are recognised at fair value at the balance sheet date.

Amounts recognised in the statement of profit or loss relating to unrealised gains and losses during the year that relate to Level 3 non-financial assets are included in the statement of profit or loss as follows:

- Impairments on Property in own use are included in Other operating expenses - Impairments and reversals on property and equipment and intangibles ; and
- Changes in the fair value of Investment properties are included in Investment income.

Unrealised gains and losses on Property in own use are included in the Revaluation reserve - Property in own use reserve.

Offsetting financial assets and liabilities

The following tables include information about rights to offset and the related arrangements. The amounts included consist of all recognised financial instruments that are presented net in the statement of financial position under the IFRS offsetting requirements (legal right to offset and intention to net settle) and amounts presented gross in the statement of financial position but subject to enforceable master netting arrangements or similar arrangement.

Netting agreement as well as the height of the collateral are specified in an ISDA contract (for derivatives) or CSA contract (for credit contracts).

Financial assets subject to offsetting, enforceable master netting arrangements and similar agreements (2017)

In EUR thousands		Gross amounts of recognised financial assets	Gross amounts of recognised financial liabilities offset in the balance sheet	Net amounts of financial assets presented in the balance sheet	Related amounts not offset in the balance sheet		Net amount
					Financial instruments	Cash and financial instruments received as collateral	
Amounts due from banks	Reverse repurchase, securities borrowing and similar agreements	0	0	0	0	0	0
	Other	0	0	0	0	0	0
Financial assets at fair value through profit or loss [Trading assets]	Derivatives	3,498,767	0	3,498,767	3,205,620	332,860	-39,714
	Reverse repurchase, securities borrowing and similar agreements	0	0	0	0	0	0
Financial assets at fair value through profit or loss [Non-trading assets]	Other	0	0	0	0	0	0
	Derivatives	2,804,317	0	2,804,317	2,799,153	332,860	-327,697
Available-for-sale	Reverse repurchase, securities borrowing and similar agreements	0	0	0	0	0	0
	Other	0	0	0	0	0	0
Loans and advances to customers	Reverse repurchase, securities borrowing and similar agreements	0	0	0	0	0	0
	Other	0	0	0	0	0	0
Other assets where netting is applied in the balance sheet	Other	80,461	-80,460	1	0	0	0
Impact of enforceable master netting arrangements or similar agreements	Derivatives	0	0	0	-722,448	0	722,448
	Other	0	0	0	0	0	0
Total Financial assets		6,383,545	-80,460	6,303,084	5,282,326	665,721	355,037

Consolidated annual accounts - continued

Financial assets subject to offsetting, enforceable master netting arrangements and similar agreements (2016)

In EUR thousands		Gross amounts of recognised financial assets	Gross amounts of recognised financial liabilities offset in the balance sheet	Net amounts of financial assets presented in the balance sheet	Related amounts not offset in the balance sheet		Net amount
					Financial instruments	Cash and financial instruments received as collateral	
Amounts due from banks	Reverse repurchase, securities borrowing and similar agreements	0	0	0	0	0	0
	Other	0	0	0	0	0	0
Financial assets at fair value through profit or loss [Trading assets]	Derivatives	5,160,403	-113,057	5,047,346	4,376,307	145,700	525,339
	Reverse repurchase, securities borrowing and similar agreements	0	0	0	0	0	0
	Other	0	0	0	0	0	0
Financial assets at fair value through profit or loss [Non-trading assets]	Derivatives	38,002	-9,402	28,599	28,599	0	0
	Reverse repurchase, securities borrowing and similar agreements	0	0	0	0	0	0
Available-for-sale	Reverse repurchase, securities borrowing and similar agreements	0	0	0	0	0	0
	Other	0	0	0	0	0	0
Loans and advances to customers	Reverse repurchase, securities borrowing and similar agreements	0	0	0	0	0	0
	Other	0	0	0	0	0	0
Other assets where netting is applied in the balance sheet	Other	36,483	0	36,483	0	0	36,483
Impact of enforceable master netting arrangements or similar agreements	Derivatives	0	0	0	-1,511,213	0	1,511,213
	Other	0	0	0	0	0	0
Total Financial assets		5,234,888	-122,460	5,112,428	2,893,693	145,700	2,073,035

Financial liabilities subject to offsetting, enforceable master netting arrangements and similar agreements (2017)

In EUR thousands		Gross amounts of recognised financial liabilities	Gross amounts of recognised financial assets offset in the balance sheet	Net amounts of financial liabilities presented in the balance sheet	Related amounts not offset in the balance sheet		Net amount
					Financial instruments	Cash and financial instruments received as collateral	
Amounts due to banks	Reverse repurchase, securities borrowing and similar agreements	0	0	0	0	0	0
	Other	0	0	0	0	0	0
Customer deposits and other funds on deposit	Reverse repurchase, securities borrowing and similar agreements	0	0	0	0	0	0
	Corporate deposits	0	0	0	0	0	0
	Other	0	0	0	0	0	0
Financial assets at fair value through profit or loss [Trading assets]	Derivatives	4,244,752	0	4,244,752	4,195,195	1,540,620	-1,491,063
	Reverse repurchase, securities borrowing and similar agreements	0	0	0	0	0	0
	Other	0	0	0	0	0	0
Financial assets at fair value through profit or loss [Non-trading assets]	Derivatives	3,808,806	0	3,808,806	3,799,446	1,540,620	-1,531,230
Other liabilities where netting is applied in the balance sheet	Other	80,460	-80,460	0	0	0	0
Impact of enforceable master netting arrangements or similar agreements	Derivatives	0	0	0	-609,115	0	609,155
	Other	0	0	0	0	0	0
Total Financial assets		8,134,048	-80,460	8,053,587	7,385,486	3,081,239	-2,413,138

Consolidated annual accounts - continued

Financial liabilities subject to offsetting, enforceable master netting arrangements and similar agreements (2016)

In EUR thousands

		Gross amounts of recognised financial liabilities	Gross amounts of recognised financial assets offset in the balance sheet	Net amounts of financial liabilities presented in the balance sheet	Related amounts not offset in the balance sheet		Net amount
					Financial instru- ments	Cash and financial instru- ments received as collateral	
Amounts due to banks	Reverse repurchase, securities borrowing and similar agreements	0	0	0	0	0	0
	Other	0	0	0	0	0	0
Customer deposits and other funds on deposit	Reverse repurchase, securities borrowing and similar agreements	0	0	0	0	0	0
	Corporate deposits	0	0	0	0	0	0
	Other	0	0	0	0	0	0
Financial assets at fair value through profit or loss [Trading assets]	Derivatives	2,152,774	0	2,152,774	2,152,774	0	0
	Reverse repurchase, securities borrowing and similar agreements	0	0	0	0	0	0
	Other	0	0	0	0	0	0
Financial assets at fair value through profit or loss [Non-trading assets]	Derivatives	179,875	0	179,875	179,874	0	0
Other liabilities where netting is applied in the balance sheet	Other	36,843	0	36,843	0	0	36,843
Impact of enforceable master netting arrangements or similar agreements	Derivatives	0	0	0	0	0	0
	Other	0	0	0	0	0	0
Total Financial assets		2,369,492	0	2,369,492	2,332,648	0	36,843

Assets not freely disposable

The assets not freely disposable consist primarily of 'Loans and advances' to customers pledged to secure 'Debt securities in issue' and serve to secure margin accounts and are used for other purposes required by law.

ING has an obligation to maintain a reserve with central banks. As at 31 December 2017, the minimum mandatory reserve deposits with central banks amount to EUR 1.1 billion (2016: EUR 1.0 billion).

Loans and advances to customers that have been pledged as collateral for Debt securities in issue and for liquidity purposes, amount in Belgium to EUR 6.7 billion (2016: EUR 5.0 billion).

The table does not include assets relating to securities lending as well as sale and repurchase transactions.

Assets not freely disposable

In EUR thousands

	2017	2016
Banks		
<i>of which: cash and balances with central banks</i>	1,080,086	870,765
<i>of which: amounts due from banks</i>	2,760,426	3,124,129
Financial assets at fair value through profit or loss	0	0
Investments	1,489,243	35,827
Loans and advances to customers	12,637,242	7,046,219
Other assets	0	0
Total	17,966,997	11,076,939

The main elements contributing to the increase of "Loans and advances to customers" are:

- The increase of the TLTRO deposit granted by the ECB (EUR +3 billion) which implied that the pool of pledged loans has been increased (EUR +3.7 billion);
- The increase of the covered bonds issuance (EUR +50 million), which implied that the pool of pledged loans has been increased (EUR +1.6 billion).

Off-balance sheet commitments

In the normal course of business, ING Belgium is a party to activities where risks are not reflected in whole or in part in the consolidated annual accounts. In response to the needs of its customers, ING Belgium offers financial products related to loans. These products include traditional off-balance sheet credit-related financial instruments.

Guarantees relate to both credit and non-credit substitute guarantees. Credit-substitute guarantees are guarantees given by ING Belgium in respect of credit granted to customers by a third party. Many of them are expected to expire without being drawn on and therefore do not necessarily represent future cash outflows. In addition to the items included in contingent liabilities, ING Belgium has issued guarantees as a participant in collective arrangements of national industry bodies and as a participant in government required collective guarantee schemes which apply in different countries.

Irrevocable letters of credit mainly secure payments to third parties for a customer's foreign and domestic trade transactions in order to finance a shipment of goods. ING Belgium's credit risk in these transactions is limited since these transactions are collateralized by the commodity shipped and are of a short duration.

Other contingent liabilities include acceptances of bills and are of a short-term nature.

Irrevocable facilities mainly constitute unused portions of irrevocable credit facilities granted to corporate clients. Many of these facilities are for a fixed duration and bear interest at a floating rate. ING Belgium's credit risk and interest rate risk in these transactions is limited. The unused portion of irrevocable credit facilities is partly secured by customers' assets or counter-guarantees by the central governments and exempted bodies under the regulatory requirements. Irrevocable facilities also include commitments made to purchase securities to be issued by governments and private issuers.

Contingent liabilities and commitments (2017)

In EUR thousands	Less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Contingent liabilities in respect of:						
- Discounted bills	0	0	0	0	0	0
- Guarantees	1,036,315	416,068	609,645	990,143	2,877,902	5,930,072
- Irrevocable letters of credit	1,036,147	4,710,907	809,570	55,655	0	6,612,279
- Others	0	0	0	0	0	0
Subtotal	2,072,462	5,126,974	1,419,215	1,045,798	2,877,902	12,542,351
- Irrevocable facilities	4,181,165	1,021,448	2,291,280	15,088,373	11,040,963	33,623,228
Total	6,253,627	6,148,422	3,710,494	16,134,171	13,918,865	46,165,580

Contingent liabilities and commitments (2016)

In EUR thousands	Less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Contingent liabilities in respect of:						
- Discounted bills	0	0	0	0	0	0
- Guarantees	464,229	510,517	834,185	1,039,847	2,996,185	5,844,963
- Irrevocable letters of credit	1,206,871	3,865,584	767,640	96,240	1,068	5,937,402
- Others	0	0	0	0	0	0
Subtotal	1,671,100	4,376,101	1,601,824	1,136,087	2,997,253	11,782,365
- Irrevocable facilities ¹	2,809,627	386,621	2,282,216	12,753,372	12,351,725	30,583,560
Total	4,480,727	4,762,722	3,884,040	13,889,459	15,348,978	42,365,925

1. Amounts have changed compared to Annual Report 2016.

Furthermore, ING Belgium NV/SA eases assets to third parties under operating leases as lessor. No individual operating lease has terms and conditions that materially affect the amount, timing or certainty of the consolidated cash flows of the ING Belgium.

Share-based payments

Through the Long-term Equity Ownership (Leo) plan, which has existed since 2004, ING Group NV offers stock options and performance shares to a number of staff members worldwide.

The main characteristics of Leo are as follows:

Stock options:

- gives the participant the right to buy a number of stock shares of ING Group NV equal to the number of options owned at a predefined exercise price;
- an exercise period of 10 years as from the date of receiving the option, which can be reduced to five years at the initiative of the participant;
- a vesting period of three years as from the date of receiving the option;
- exercise by means of delivering ING Group NV stock shares to the participant, immediately followed by the sale of them or by placing them in a brokerage account after payment of the exercise price.

Performance shares:

- offering of a number of performance shares on stock shares of ING Group NV, for which the final number of performance shares depends on the relative position of ING's Total Shareholder Return (TSR) within the TSR of ING Group's competitors;
- vested at the end of the three-year performance period;
- settlement made on the basis of a distribution election (sell all/retain all/sell & retain).

As of 2011, a new share-based payment plan has been introduced named 'Long-term Sustainable Performance Plan' (LSPP). This plan replaces the Leo plan (Existing plans which are still running remain unchanged).

The main characteristics of the LSPP are as follows:

- a 100% share plan, granting Performance and/or Deferred Shares;
- vesting is dependent on the ING Group performance target for Performance Shares;
- tiered vesting: 1/3 after first year, 1/3 after second year, 1/3 after third year;
- settlement made on the basis of a distribution election (sell all/retain all/sell & retain).

Distinguishing Identified/Regulated Staff

As of 2012 ING is making the distinction between Identified Staff and Non-Identified Staff for variable remuneration pay-out. Identified Staff are employees selected by the Identified Staff selection method as approved by the Supervisory Board (in cooperation with Risk and HR) who have a key responsibility in the organization and are therefore deemed to have a crucial impact on the financial stability and/or risk profile of ING.

This is designed in order to meet new internal and external needs and requirements that govern remuneration policies of financial institutions.

Their awarded variable pay is split into two parts:

- An Upfront part, which will be delivered partially in Upfront cash and in Upfront units. Upfront cash component is not held in LSPP and is equivalent to Cash paid and managed through local payroll.
- For Upfront units, a one-year retention period will apply. Thus, they vest one year after having been granted, and they are sold (cash proceeds).
- A Deferred part, which will be delivered partially in Deferred Cash and in Deferred units.
 - 2 types:
 - 3 year deferral system: 1/3 Deferred Cash will vest each year after having been granted, for 3 years. Deferred Units have a retention period of 1 year. 1/3 of the Deferred Units will vest each year after the retention period (grant date +1 year) and they are sold (cash proceeds).. All deferred units are vested after 4 years;
 - 5 year deferral system: 1/5 Deferred Cash will vest each year after having been granted, for 5 years. Deferred Units have a retention period of 1 year. 1/5 of the Deferred Units will vest each year after the retention period (grant date +1 year) and they are sold (cash proceeds).. All deferred units are vested after 6 years.

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Movements in stock options

In EUR	Options outstanding		Weighted average exercise price	
	2017	2016	2017	2016
Opening balance	2,289,683	3,611,643	15.73	17.50
Transfer	3,523	-392,139	15.70	16.50
Granted	0	0	0	0
Exercised	-153,371	-119,756	5.84	5.89
Forfeited	-43,085	-29,496	15.57	17.34
Rights used	0	0	0	0
Expired	-685,968	-780,569	23.97	24.98
Closing balance	1,410,782	2,289,683	12.75	15.73

The weighted average share price at the date of exercise for options exercised during 2017 is EUR 13.81 (This is the ING Group average, as this is not available per business unit).

Summary of stock options outstanding and exercisable (2017)

Range of exercise price in EUR	Options outstanding as at 31 December 2017	Weighted average remaining contractual life	Weighted average exercise price	Options exercisable as at 31 December 2016	Weighted average remaining contractual life	Weighted average exercise price
00.00 - 05.00	203,595	1.21	2.74	203,595	1.21	2.74
05.00 - 10.00	322,206	2.22	7.32	322,206	2.22	7.32
10.00 - 15.00	4,401	0.71	14.18	4,401	0.71	14.18
15.00 - 20.00	880,580	0.20	17.04	880,580	0.20	17.04
20.00 - 25.00	0	0.00	0.00	0	0.00	0.00
25.00 - 30.00	0	0.00	0.00	0	0.00	0.00
30.00 - 35.00	0	0.00	0.00	0	0.00	0.00
35.00 - 40.00	0	0.00	0.00	0	0.00	0.00

The fair value of options granted is recognized as an expense under staff expenses and is allocated over the vesting period of the options. The fair values of the option awards have been determined using a "European Black Scholes" formula. This model takes the risk free interest rate into account (2.02% to 4.62 %), as well as the lifetime of the options granted (5 to 9 years), the exercise price, the current share price (EUR 2.90 – EUR 25.42), the expected volatility of the certificates of ING Group NV shares (25.00% – 84.00%) and the expected dividend yield (0.94% to 8.99%).

The source for implied volatilities used for the valuation of the stock options is ING's trading system. The implied volatilities in this system are determined by ING's traders and are based on market data implied volatilities not on historical volatilities.

Share-based payments

In EUR thousands	2017	2016
Expenses arising from share-based payments	8,978	10,690
Expenses arising from cash transactions		
- Total nominal amount at the end of the year	0	0
- Total intrinsic value at the end of the year	0	0

Related party disclosures

In the normal course of business, ING Belgium enters into various transactions with related parties. Parties are considered to be related if one party has the ability to control or exercise significant influence over the other party in making financial or operating decisions. Related parties of ING include, among others, its subsidiaries, associates, joint ventures, key management personnel, and various defined benefit and contribution plans (see also chapter "Remuneration of the members of the Board of Directors and Executive Committee" hereafter). Transactions between related parties include rendering or receiving of services, leases, transfers under finance arrangements and provisions of guarantees or collateral. There are no significant provisions for doubtful debts or individually significant bad debt expenses recognised on outstanding balances with related parties.

Related parties (2017)

In EUR thousands	Parent and its subsidiaries	Associates
Balance sheet		
Assets	7,169,865	37,123
Liabilities	11,756,587	63,111
Off-balance sheet commitments given	461,176	2,349
Off-balance sheet commitments received	37,839	0
Profit & Loss statement		
Income received	488,715	0
Fees and commissions received	3,725	0
Expenses paid	820,267	0
Fees and commissions paid	3,217	0

Transactions between ING and its subsidiaries are eliminated on consolidation. ING Belgium also enters into transactions with ING Bank NV and its subsidiaries. These transactions vary from financing activities to regular purchases and sales transactions.

Legal proceedings

ING Belgium and its subsidiaries are involved in legal proceedings in Belgium and abroad involving claims by and against them which arise in the ordinary course of their business, including in connection with their activities as lenders, investors and taxpayers. In certain of such proceedings, large or indeterminate amounts are claimed, including damages. While it is not feasible to predict or determine the ultimate outcome of all pending or threatened proceedings, management does not believe that their outcome will have a material adverse effect on ING Belgium's financial position or operating results, taking into account provisions made for some of these cases.

Closed litigations

Some issues mentioned in our previous report have been settled in the course of 2017. A settlement has been reached on the court cases with respect to the responsibility of the Bank for allegedly fraudulent operations in the early 2000s, relating to cash companies. A settlement has also been achieved in the litigation between ING and 81 pensioners of ING who assigned the bank after the winding up of FMC-MHF («Fonds Médico Chirurgical – Medisch Heelkundig Fonds») (fund providing a medical coverage) as they were of the opinion that this winding up caused them financial harm since the alternative solution proposed entailed a premium increase.

Pending litigations

The bank has been summoned by some customers who subscribed (or intended to subscribe) floating rate credit facilities with ING or another bank and who signed an IRS contract ("Interest Rate Swap") with ING Belgium in 2007-2008 in order to hedge the increase of the interest rates which had been announced. ING has obtained favourable judgments in first degree in all the cases. The appeal procedure is ongoing for some cases. One case resulted in a judgment of the Court of Appeal, in favour of ING.

Consolidated annual accounts - continued

ING Belgium has also been summoned by an IT services supplier with whom an agreement was concluded on the outsourcing of the conservation and the execution of orders relating to financial instruments. The performance of this contract by the supplier being unsatisfactory, ING Belgium terminated the agreement in accordance with its terms. This termination was disputed by the supplier. ING won in the first instance. The IT services supplier lodged appeal.

Record Bank, a subsidiary of ING Belgium, has received multiple summons from clients of some of its independent agents. Without knowledge of Record Bank, these independent agents have received funds from their clients to be invested with a third party with whom Record Bank has neither a link nor a business relationship. This third party has since gone bankrupt. Criminal proceedings have been opened, in which Record Bank is no longer prosecuted.

In Luxembourg, ING Luxembourg is confronted with several litigations about an alleged responsibility of the bank for fraud by an ex-employee for fraudulent fund collection before 2005. ING Luxembourg is also involved in two cases concerning so called fraudulent operations regarding cash companies before 2002. In these cases, ING Luxembourg and an ex-employee are pursued before the criminal and civil court in Belgium. A settlement has been reached in the civil court case. In one of these criminal cases, ING Luxembourg and its ex-employee have on the other hand been convicted in first instance. An appeal against the judgment has been lodged.

Pension and other staff-related liabilities

ING Belgium sponsors defined-benefit retirement plans in the major countries in which it operates. These plans are all completely or partially funded by ING. They generally cover all employees and provide them with benefits, in particular upon retirement. Annual contributions are paid to the funds at a rate that is necessary to adequately finance the accrued liabilities of the plans, calculated in accordance with local legal requirements. In all countries, the plans comply with applicable local regulations concerning investments and funding levels. During 2018, the expected contributions to be paid by ING Belgium to defined benefit retirement plans are estimated to be EUR 10.6 million.

The bank provides certain employees with other post-employment and post-retirement benefits. These are primarily post-retirement health-care benefits and post-employment defined-benefit early retirement plans provided to employees and former employees. Certain group companies sponsor defined-contribution pension plans. The assets of all of ING Belgium's defined-contribution plans are held in independently administered funds. Contributions are generally determined as a percentage of pay. As at 31 December 2017, all defined-contribution plans are funded according to the minimal return guarantee imposed by law in Belgium moreover, new defined contribution plan in force for new employees to ING Belgium as from January 2007, present an overfunding of about EUR 9.7 million (4.5% of individual account amount) that has been funded by ING Belgium as minimum guarantee reserve.

Evolution of defined benefit pension plans

In EUR thousands	2017	2016
Present value of the defined benefit obligation	749,850	791,591
Fair value of plan assets (-)	-664,355	-657,581
Surplus or deficit (-) in the defined benefit pension plan	85,495	134,010
Presented as:		
- Other assets	-76	-468
- Other liabilities	85,571	134,478

Movements in defined benefit obligations

In EUR thousands	2017	2016
Opening balance	791,591	746,380
Current service costs	19,447	16,740
Interest costs	9,064	12,739
Actuarial gains (-) or losses arising from changes in demographic assumptions	-10,185	-12,196
Actuarial gains (-) or losses arising from changes in financial assumptions	-16,667	65,495
Employees' contributions	2,126	1,381
Benefits paid	-40,222	-39,312
Past service costs	0	0
Effect of curtailment or settlement	0	0
Exchange rate differences	-5,304	364
Changes in the composition of the group and other changes	0	0
Closing balance	749,850	791,591

PM: "Current service costs" and "Interest costs" are booked via Profit & Loss in current year's Pension costs (see also note 27) whereas "Actuarial losses/gains arising from changes in demographic assumptions" and "Actuarial losses/gains arising from changes in financial assumptions" are booked via Other comprehensive income.

Consolidated annual accounts - continued

Movements in the fair value of plan assets

In EUR thousands	2017	2016
Opening balance	657,581	617,813
Expected return on plan assets	7,026	9,942
Actuarial gains (-) or losses on plan assets	27,571	28,232
Employer's contributions	15,713	39,432
Employees' contributions	2,126	1,381
Benefits paid	-40,219	-39,311
Effect of settlement	0	0
Exchange rate differences	-8,161	93
Changes in the composition of the group and other changes	2,718	0
Closing balance	664,355	657,581

PM: "Expected return on plan assets" is booked via Profit & Loss in current year's Pension costs (see also note 27) whereas "Actuarial gains and losses on plan assets" are booked via Other comprehensive income.

Weighted averages of basic actuarial assumptions

In %	2017	2016
Discount rates	1.3%	1.2%
Consumer price inflation	2.0%	2.0%
Expected rates of salary increases (excluding promotional increase)	Age based salary scale	Age based salary scale

Sensitivity analysis: impact of changes in significant actuarial assumptions on the defined benefit obligation (2017)

In EUR thousands	Financial impact of increase	Financial impact of decrease
Discount rates - increase or decrease of 1%	-74,666	88,365
Mortality rates - increase or decrease of 1 year	10,524	-10,606
Expected rates of salary increase (excluding promotional increase) - increase or decrease of 0.25%	19,445	-17,887
Consumer price inflation - increase or decrease of 0.25%	7,905	-7,546

As of 31 December 2016, it has been decided to perform also an IAS19 valuation of all Defined Contribution plans (considered as Defined Benefit plans under IAS19 rules with respect to the legal guaranteed interest rate).

According to the plan rules the valuation method (PUC) consists in the projection at retirement age of the minimum reserve vested for each employee with the minimum return as currently foreseen by law (1,75%). The net present value (using all actuarial assumption accordingly to the IAS19 rules such as discount rate, mortality and turnover) of the obtained minimum capital represent the defined benefit obligation.

In case of this defined benefit obligation would be higher than the individual account of the concerned person, a liability should be recognized. As result of the calculation made it appeared that the liability to be recognized is lower than the market value of the dedicated assets, the fund has built up in order to fund the minimum return obligation.

Pension investment strategy

The primary financial objective of the ING Belgium employee benefit plan is to secure participant retirement benefits. As such, the key objective in the plan's financial management is to promote stability and, to the appropriate extent, growth in funded status (i.e. the ratio of market value of assets to liabilities). The investment strategy for the plan's portfolio of assets (the fund) balances the requirement to generate returns with the need to control risk, in particular to minimize the plan assets' volatility. This strategy is under the responsibility of each independent legal entity entitled to manage the different plans.

The asset mix is recognized as the primary mechanism to influence the reward and risk structure of the fund in an effort to accomplish the plan's funding objectives. Desirable target allocations among identified asset classes are set, and within each asset class, careful consideration is given to balancing the portfolio between industry sectors, geographies, interest rate sensitivity, dependence on economic growth, currency and other factors than can effect investment returns.

The assets are managed by professional investment firms. They are bound by precise mandates and measured against specific benchmarks. Among the managers, consideration is given among others to balancing security concentration, investment style and the reliance on particular active investment strategies. The fund's asset mix is reviewed on a regular basis and is under the responsibility of the entities entitled to manage their fund.

Consolidated annual accounts - continued

Plan assets		
In EUR thousands	2017	2016
Equity instruments	276,736	233,382
Debt securities	304,219	329,001
Real estate	4,956	790
Others	78,444	94,408
Total	664,355	657,581

PM: 'Others' includes amounts that are not invested in equity, debt securities or real estate. It essentially represents cash or insurance reserves.

The plan assets of ING Belgium do not include any property occupied by ING or any own financial instruments except for a small number of own actions held by an index fund or by an actively managed fund. The actual return of the main defined-benefit plan in Belgium for 2017 was 7.02% net. The return of the main defined-contribution plan in Belgium for 2017 was 8.91% net.

Determination of expected return on assets

As from 1 January 2013 and accordingly to new IAS 19 standard, expected return on assets will be considered as equal to the discount rate i.e. the interest rate on AA-corporate with a duration of 10 years. Nevertheless, future return on assets is one of the key elements in the risk appreciation. Considering the strategic allocation of the asset portfolio of main plans, and using defensive assumptions per asset class, future return on asset are estimated to:

- 3.6% for the main defined benefit plan in Belgium (closed plan);
- 4% for the main defined contribution plan in Belgium.

Other risks

Main other risks of current plans are related to discount rate evolution, inflation, salary increase and mortality. Sensitivity to those factors, for the main defined-benefit plan in Belgium (scope ING Belgium NV/SA), are showed here after:

- Discount rate evolution:**
An increase of the discount rate with 1% would mean a reduction about 8% of the liabilities (84.8 million) while a decrease if the discount rate with 1% would results in an increase of the liabilities with about 9.3% (97.8 million).
- Inflation:**
An increase of the inflation with 0.25% p.a. would mean an increase of about 0.5% of the liabilities (6.5 million) while a decrease of the inflation with 0.25% p.a. would results in an decrease of the liabilities with about 0.5% (6.3 million).
- Salary increase:**
An increase of the salary growth (excluding inflation) with 0.25% p.a. would mean an increase with about 1.5% of the liabilities (16.7 million) while a decrease of salary growth with 0.25% p.a. would results in a decrease of the liabilities with about 1.5% (15.4 million).
- Mortality:**
Assuming current and future beneficiaries would be one year older than they are would results in a decrease of the liability with about 1% (11.3 million) while assuming they would be one year younger would increase the liability with 1% (11.2 million).
This result comes mainly from the pensioners population for who the liability decrease with age.

Based on these results, one could conclude that assumption leading to the highest volatility is the discount rate. Salary growth and inflation are also sensible factors but in a lower way. Regarding the mortality assumption, as pensioners population is limited and decreasing, the risks related to mortality deviation is limited and will continue to decrease.

Segment information

ING Belgium's segments are based on the internal reporting structures by lines of business.

Recognition and measurement of segment results are in line with the accounting policies as described in the chapter "Accounting policies".

The segment "Retail" stands for income from retail and private banking activities, including the SME and mid-corporate segments. The main products offered are current and savings accounts, business lending, mortgages and other consumer lending. Next to that, "Wholesale" represents income from wholesale banking activities (a full range of products is offered from cash management to corporate finance), real estate and lease. "Special items" include items of income or expense that are significant and arise from events or transactions that are clearly distinct from the regular operating activities. Finally, "Corporate" is a reflection of capital management activities and certain expenses that are not allocated to the banking businesses.

The following tables specify the segments by line of business and the main sources of income of each of these segments:

Segment information (2017)					
	Statement of Profit and Loss, per segment				
In EUR thousands	Retail	Wholesale	Special items	Corporate	Total
Total Net Interest Income	1,841,839	458,365	0	92,619	2,392,823
Total Net Commission Income	407,545	199,929	0	18,171	625,645
Total Other Income	221,574	113,619	0	-2,923	332,270
Total income	2,470,957	771,913	0	107,868	3,350,738
Total expenses (-)	-1,583,468	-487,258	0	48,847	-2,021,879
Additional to Loan Loss Provisions (-)	-104,351	-60,507	0	81	-164,777
Result before tax	783,139	224,148	0	156,796	1,164,082
Taxation (-)	-293,772	-81,590	0	-49,747	-425,109
Net result from continuing operations	489,367	142,557	0	107,048	738,973
Profit or Loss (-) of the year	489,367	142,557	0	107,048	738,973
Net result attributable to Non-controlling interests	-1,902	43	0	1	-1,858
Net result attributable to Equity holders of the parent	491,269	142,515	0	107,047	740,831

Segment information (2016)					
	Statement of Profit and Loss, per segment				
In EUR thousands	Retail	Wholesale	Special items	Corporate	Total
Total Net Interest Income	1,936,207	475,745	0	134,834	2,546,786
Total Net Commission Income	390,273	164,426	0	5,652	560,351
Total Other Income	247,229	101,027	0	-334	347,922
Total income	2,573,709	741,199	0	140,151	3,455,059
Total expenses (-)	-1,437,798	-359,677	-704,268	24,595	-2,477,148
Additional to Loan Loss Provisions (-)	-174,993	-33,549	-0	-43	-208,584
Result before tax	960,918	347,973	-704,268	164,704	769,327
Taxation (-)	-306,140	-73,330	239,381	-55,828	-195,917
Net result from continuing operations	654,778	274,643	-464,887	108,876	573,410
Profit or Loss (-) of the year	654,778	274,643	-464,887	108,876	573,410
Net result attributable to Non-controlling interests	1,383	21	0	1	1,405
Net result attributable to Equity holders of the parent	653,396	274,622	-464,887	108,875	572,005

Country by country

Based on article 420 of the Belgian banking law of 25 April 2014, ING Belgium is required to disclose the following information as presented below on a consolidated basis. The country by country reporting includes all entities in the scope of consolidation of ING Belgium.

ING Belgium consolidated, country by country (2017)						
In EUR thousands / in FTE	Activity	Turnover ¹	Number of employees	Profit or loss before tax	Tax on result	Government grants received
Belgium	Banking, other financial services and real estate	2,818,365	8,231	444,628	359,189	0
Luxemburg	Banking, other financial services and insurance	298,106	787	717,849	27,509	0
Canada	Other financial services	61	0	336	-1	0
United States of America	Other financial services	327	0	-41	1	0
Switzerland	Banking, other financial services	223,583	218	1,309	38,412	0

1. Turnover includes: fee and commission income/expenses, net exchange differences (gains or loss), other operating income/expenses.

SCOPE:

Belgium: ING Belgium NV/SA, Cel Data Services NV/SA, Immo Globe NV/SA, ING Contact Center NV/SA, ING Lease Belgium NV/SA, New Immo-Schuman NV/SA, Record Bank NV/SA, Record Credit Services CVBA/SCRL, Sogam NV/SA, Sogès-Fiducem NV/SA

Luxemburg: ING Luxembourg SA, ING Lease Luxembourg SA, ING Belgium International Finance Luxembourg SA

Canada: Belgium Overseas Agencies Ltd

United States of America: Belgian Overseas Issuing Corp

Switzerland: ING Belgium Genève (branch)

Auditor's remuneration

KPMG Bedrijfsrevisoren – Réviseurs d'Entreprises burg. CVBA/SCRL civile is the auditor of ING Belgium. The table below shows audit and non-audit fees for the group for the years 2016 and 2017. All fees were expressly approved by the Audit Committee of ING Belgium NV/SA and the Audit Committee of ING Group NV (Amsterdam).

Auditor's remuneration		
In EUR thousands	2017	2016
Auditor's fees		
Fees for the exercise of the audit mandate ¹	2,685	2,293
Fees for extraordinary duties or special assignments executed for the group		
being: other control assignments	0	0
being: tax advice assignments	0	0
being: other non-audit assignments	10	0
Total	2,695	2,293
Professional working partners' fees		
Fees for the exercise of the audit mandate	0	0
Fees for extraordinary duties or special assignments executed for the group		
being: other control assignments	0	0
being: tax advice assignments	0	0
being: other non-audit assignments	0	0
Total	0	0

1. Remark on "Fees for the exercise of the audit mandate" for 2017: the amount includes an overrun of 440 kEUR.

Remuneration of the members of the Board of Directors and Executive Committee

Breakdown of remuneration paid to members of the Board of Directors

As determined by the General Meeting the total remuneration allocated to the serving Directors of the Board for 2017 was EUR 798,000. This amount includes both the fees of the members of the Board of Directors and the fees relative to the participation of the Committees.

Loans and advances to members of the Board of Directors

Loans and advances to members of the Board of Directors		
In EUR thousands	2017	2016
Loans and advances	3,190	2,670
Total	3,190	2,670

The loans and advances granted to the members of the Board of Directors are at market conditions.

Breakdown of remuneration paid to members of the Executive Committee

Total compensation for members of the Executive Committee now consists of two main components:

- the base salary, which represents the total guaranteed annual income;
- variable remuneration, of which payment takes place in two portions: an upfront portion and a deferred portion.
 - the upfront portion is half cash and half ING Group shares or similar financial instruments. The latter half is subject to a retention period of one year;
 - the deferred portion with deferral period of three (or five) years applying a tiered vesting schedule. Each annual allocation is half cash and half ING Group shares or similar financial instruments. The latter half is, however, subject to a retention period of one year.

Variable remuneration is awarded under the condition precedent of the non-occurrence of any of the following circumstances: misbehaviour or serious error, malfeasance, fraud, significant failure of risk management, significant changes in the economic and regulatory Capital Base, specific conduct which has led to material re-statement of the Group's annual account or caused significant harm.

In addition to the base salary and incentive plans, the members of the Executive Committee also enjoy benefits similar to those granted to most other employees of ING Belgium, such as medical insurance, death insurance, use of company cars and representation allowances.

Breakdown of remuneration paid to members of the Executive Committee		
In EUR thousands	2017	2016
Short term employee benefits	3,669	3,597
Post-employment benefits	1,115	927
Other long term benefits	239	282
Termination benefits	0	0
Share-based payments	577	629
Total	5,600	5,434

Pension scheme for members of the Executive Committee

The pensions of the members of the Executive Committee are based on a defined-contribution group insurance plan, insured through a contract with AXA Belgium NV/SA.

Other principal contractual stipulations regarding remuneration of members of the Executive Committee

If an individual's function as a member of the Executive Committee is terminated otherwise than through retirement, dismissal or serious misconduct, remuneration will be paid to equal 12 months of the base salary. In case of termination for other reason than performance, the Board of Directors can decide to extend the remuneration to maximum 18 months (base salary and variable).

In case of long-term illness, the Executive Committee member will receive 100% of his last base salary during the first 12 months, 90% during the next 12 months and 50% afterwards.

No termination allowance or long-term illness allowances were paid in 2017.

Risk management

ING Belgium risk management

Introduction

ING Belgium operates through a comprehensive risk management framework to ensure the risks are identified, well understood, accurately measured, controlled and pro-actively managed at all levels of the organisation so that ING Belgium's financial strength is safeguarded.

The Risk Management section describes the key risks that arise from ING Belgium's business model. It explains how the risk management function is embedded within the organisation based on the 'three lines of defence'. This includes front office as 'first line of defence', independent risk management as the 'second line of defence' and the internal audit function as the 'third line of defence'. The key risks resulting from the bank's business model are managed by dedicated and specific risk management departments that each covers its own area of expertise. ING Belgium's risk management disclosures provide qualitative and quantitative disclosures about credit, market, liquidity and funding, business and non-financial risks.

The risk management section is in line with the accounting standards relating to the nature and the extent of the risks as required by IFRS7 'Financial Instruments: Disclosures' as adopted by the European Union and covered by an opinion of the External Auditors as part of the notes to the consolidated financial statements.

Purpose and business model

The purpose of ING Belgium's risk management function is to contribute to ING Belgium's results by managing the associated risks. The following principles support this purpose:

- The risk management function is embedded in all levels of ING Bank's organisation and is part of the daily business activities and strategic planning to have a sustainable competitive advantage;
- Products and portfolios are structured, underwritten, priced, approved and managed properly and compliance with internal and external rules is monitored;
- Delegated authorities are consistent with the overall Bank strategy and risk appetite; and
- Transparent communication to internal and external stakeholders on risk management.

Risk governance

Effective risk management requires a firm-wide risk governance. ING Belgium's risk and control structure is based on the 'three lines of defence' governance model, whereby each line has a specific role and defined responsibilities in such a way that the execution of tasks is separated from the control of the same tasks. At the same time, they have to work closely together to identify, assess and mitigate risks. This governance framework ensures that risk is managed in line with the risk appetite as approved by the Management Board Bank (MBB) and the Supervisory Board (SB), and is cascaded throughout ING Bank.

The head of ING's line of business and their delegates form the first line of defence and have primary accountability for the performance, operations, compliance and effective control of risks affecting their respective businesses. They originate loans, deposits and other products within applicable frameworks and limits, they know our customers well and are well-positioned to act in both the customers' and ING's best interest. The COO is responsible and accountable for proper security and controls on global applications and IT-platforms servicing the Bank.

The second line of defence consists of oversight functions with a major role for the risk management organisation headed by the Chief Risk Officer (CRO), the ultimate responsible officer. Risk Management at corporate level is responsible for (i) the development of overall policies and guidance, (ii) objectively challenge the execution, management and control processes and (iii) coordinate the reporting of risks and controls by the first line of defence. It also has an escalation/veto power in relation to business activities that are judged to present unacceptable risks for ING.

The internal audit function forms the third line of defence. It provides an on-going independent (i.e. outside of the businesses and the risk organisation) and objective assessment of the effectiveness of internal controls of the first two lines, including financial and non-financial risk management.

Regional and business unit level

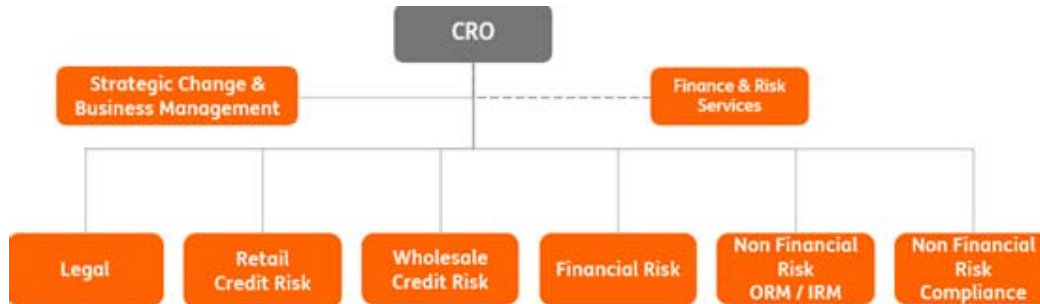
ING Belgium's CRO is responsible for the analysis, control and management of risks across the whole value chain (from front to back office), based on which a robust control structure is maintained and reports both to the ING Bank's CRO and to the head of ING Belgium. This dual reporting system aims to ensure that the ING Belgium's risk management function is independent from the operating functions and that it is aligned with the corporate risk policies and goals.

Risk management function

Organisational structure

Based on the three lines of defence, an independent risk management function has oversight in all levels of ING Belgium's organisation. ING Belgium's CRO, an ExCo member, bears primary overall responsibility for the risk management function and reports directly to ING Belgium's Chief Executive Officer. The CRO is responsible for the management and control of risk on a consolidated level to ensure that ING Belgium's risk profile is consistent with its financial resources and the risk appetite. The CRO is also responsible for establishing and maintaining a robust organisational basis for the management of risk throughout the organisation.

As announced in October 2016, ING is accelerating its Think Forward strategy. Therefore, ING has introduced a number of initiatives to further improve the customer experience, further grow primary customers and lending, and increase efficiency. For Risk, it has initiated a Target Operating Model (TOM) programme to enable further convergence of our operations, which resulted in a new risk organisation in ING Belgium which started on 1 July 2017, illustrated by below chart.



Risk policies, procedures and standards

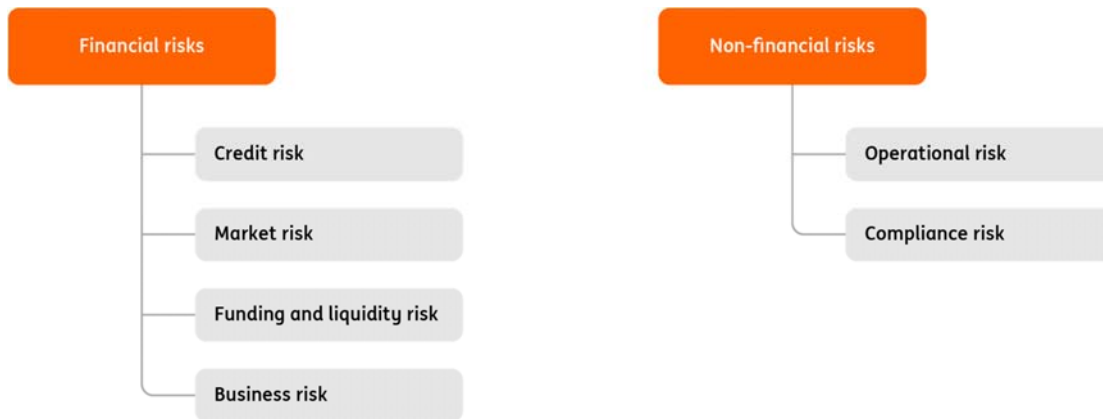
ING Bank has a framework of risk management policies, procedures and minimum standards in place to create consistency throughout the organisation, and to define requirements that are binding to all business units. The governance framework of ING Belgium aligns with ING Bank's framework and meets local (regulatory) requirements.

Risk profile

ING Belgium is exposed, to varying degrees of a variety of risks. The main financial risks ING Belgium is exposed to can be divided into credit risk (including transfer risk), market risk (including interest rate, equity, real estate, credit spread, and foreign exchange risks), funding & liquidity risk and business risk. Furthermore, ING Belgium is exposed to non-financial risks, e.g. operational and compliance risks.

Key risk categories

The table below presents the key risk categories (financial as well as non-financial risks) that are associated with ING Belgium's business activities.



Financial risks:

- Credit risk: the risk of potential loss due to default and/or credit rating deterioration by ING Belgium's debtors;
- Market risk: the risk of potential loss due to adverse movements in market variables. Market risks include interest rate, credit spread, equity, real estate and foreign exchange risks, as well as customer behaviour risk;
- Funding and liquidity risk: the risk that ING Belgium cannot meet its financial liabilities when they come due, at reasonable cost and in a timely manner. Liquidity risk can materialise both through trading and non-trading positions;
- Business risk: the exposure to value loss due to fluctuations in volumes, margins and expenses. These fluctuations can occur because of internal, industry, or wider market factors. It is the risk inherent to strategy decisions and internal efficiency, and as such strategic risk is included in business risk.

Non-financial risks:

- Operational risk: the risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems or from external events. It includes reputational risk, as well as legal risk;
- Compliance risk: the risk of impairment of ING Belgium's integrity as a result of failure (or perceived failure) to comply with applicable laws, regulations, ING Belgium policies and minimum standards and the ING Values as part of the Orange Code.

Credit risk**Introduction**

Credit risk is the risk of loss from the default and/or credit rating deterioration of counterparties. Credit risks arise in ING Belgium's lending, financial market and investment activities. The credit risk section provides information on how ING Belgium manages, measures and monitors credit risk and gives an insight into the ING Belgium portfolio from a credit risk perspective.

Governance

Credit risk within ING Belgium is part of the second line of defence (the front office being the first, internal audit the third). ING Belgium's credit risk strategy is to maintain a diversified loan and bond portfolio, avoiding large risk concentrations. The emphasis is on managing business developments within the business lines by means of a top-down risk appetite framework, which sets concentration limits. The aim is to support relationship-banking activities, while maintaining internal risk/reward guidelines and controls.

Credit analysis at portfolio level is monitored using metrics such as economic capital, regulatory capital, exposure at default (EAD), probability of default (PD) and loss given default (LGD). To ensure efficient use of ING Belgium's capital, the risk appetite is monitored and managed at portfolio level by risk and finance together. Credit analysis at transactional level focuses on the risk amount, tenor, structure of the facility and profile of the borrower. ING Belgium's credit risk managers make use of publicly available information, information provided by the counterparty, peer group comparisons, industry comparisons and quantitative techniques.

Within ING Bank, the ultimate approval authority for credit proposals resides with the Management Board Banking (MBB). The MBB has delegated authorities based on amounts, tenors and risk ratings to lower levels in the organisation. Transactions are approved via a dual signatory approval system that requires an individual sign-off from both front office and credit risk management. For larger and higher risk credits a committee structure exists whereby the credit risk chair takes the final decision with support of the respective committee members, thereby ensuring accountability. Retail has a delegated authority to decide within policies and mandates approved by credit risk. Any decisions outside those policies or above the delegated mandate require a specific credit risk approval.

The credit risk role encompasses the following activities:

- Measuring, monitoring and managing credit risks in the Bank's portfolio;
- Challenging and approving new and modified transactions and borrower reviews;
- Managing the levels of provisioning and risk costs, and advising on impairments; and
- Providing consistent credit risk policies, systems and tools to manage the credit lifecycle of all activities.

Credit risk categories

Credit risk uses risk categories to differentiate between the different types of credit risk. All products within ING Belgium are aggregated to one of the following risk categories:

- **Pre-settlement (PS) risk:** arises when a counterparty defaults on a transaction before settlement and ING Belgium has to replace the contract by a trade with another counterparty at the then prevailing (possibly unfavourable) market price. The pre-settlement risk is the (potential or expected risk) cost of ING Belgium replacing a trade in the market. This credit risk category is associated with dealing room products such as options, swaps, and securities financing transactions. Where there is a mutual exchange of value, the amount of credit risk outstanding is generally based on the replacement value (mark-to-market) plus a potential future volatility concept, using a 3-7 year historical time horizon and a 97.5% confidence level.
- **Money market (MM) risk:** arises when ING Belgium places short-term deposits with a counterparty in order to manage excess liquidity. As such, money market deposits tend to be short-term in nature. In the event of a counterparty default, ING Belgium may lose the deposit placed. Money market risk is measured as the accounting value of the deposit, excluding any accrued and unpaid interest or the effect of any impairment.
- **Lending risk:** arises when ING Belgium grants a loan to a counterparty, or issues guarantees on behalf of a counterparty. This includes term loans, mortgages, revolving credits, overdrafts, guarantees, letters of credit, etc. The risk is measured as the accounting value of the financial obligation that the counterparty has to repay to ING Belgium, excluding any accrued and unpaid interest, discount/premium amortisations or impairments.

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- **Investment risk:** is the credit default and risk rating migration risk that is associated with ING Belgium's investments in bonds, commercial paper, securitisations, and other similar publicly traded securities. This can be viewed as the worst-case loss that ING Belgium may incur as a result of holding a position in underlying securities whose Issuer's credit quality deteriorates or defaults. All investments in the banking book are classified in the investment risk category. The primary purpose of ING Belgium's investments in the banking books is for liquidity management.
- **Settlement risk:** is the risk that arises when there is an exchange of value (funds or instruments) for the same value date or different value dates and receipt is not verified or expected until after ING has given irrevocable instructions to pay or has paid or delivered its side of the trade. The risk is that ING Belgium delivers but does not receive delivery from its counterparty. ING manages settlement risk in the same way as other risks including a risk limit structure per borrower.

Reconciliation between credit risk categories and financial assets

Credit risk category	Mainly related to	Notes in the Annual Accounts
Lending risk	Loans and advances to customers	Note 1: Cash and balances with central banks
	Loans and advances to banks	Note 2: Loans and advances to banks
	Cash and balances with central banks	Note 5: Loans and advances to customers
	Off-balance sheet items e.g. obligations under financial guarantees and letters of credit and undrawn credit facilities	
Investment risk	Investments (available-for-sale and held-to-maturity)	Note 4: Investments
	Loans and advances to customers	Note 5: Loans and advances to customers
Money market (MM) risk	Cash and balances with central banks	Note 1: Cash and balances with central banks
	Loans and advances to banks	Note 2: Loans and advances to banks
	Loans and advances to customers	Note 5: Loans and advances to customers
Pre-settlement (PS) risk	Financial assets at fair value through profit or loss (trading assets and non-trading derivatives)	Note 3: Financial assets at fair value through profit or loss
	Financial liabilities at fair value through profit or loss (trading assets and non-trading derivatives)	Note 14: Financial liabilities at fair value through profit or loss
	Securities financing	
Settlement risk	Financial assets at fair value through profit or loss (trading assets and non-trading derivatives)	Note 3: Financial assets at fair value through profit or loss
	Financial liabilities at fair value through profit or loss (trading assets and non-trading derivatives)	Note 4: Investments Note 11: Other assets
	Investments (available-for-sale and held-to-maturity)	Note 14: Financial liabilities at fair value through profit or loss
	Amounts to be settled	Note 17: Other liabilities

Credit Risk Appetite and Concentration Risk Framework

The credit risk appetite and concentration risk framework enables ING to prevent undesired high levels of credit risk and credit concentrations within various levels of the ING portfolio. Concentration risk is measured based on the credit risk exposure amount. Credit risk exposure is the total amount of outstanding plus the unused portion of commitments. It can be measured on various levels, such as customer, legal or economic one obligor group, product, portfolio, customer type, industry, and country.

Credit risk appetite statements boundaries and concentration limits are set and reviewed on an annual basis. The bank-wide credit risk boundaries and concentration limits are approved by the Risk Committee of the Board of Directors of ING Belgium and the Global Credit and Trading Policy Committee (GCTP) of ING Bank, respectively.

Credit risk portfolio

ING Belgium's credit exposure is mainly related to traditional lending to individuals and businesses. Loans to individuals are mainly mortgage loans secured by residential property. Loans (including guarantees issued) to businesses are often collateralised, but can be unsecured based on internal analysis of the borrowers' creditworthiness.

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The portfolio breakdown of ING Belgium per exposure class and per risk category, based on regulatory Exposure at Default (READ) in accordance with CRD/CRR is shown below. The figures shown in the Credit Risk section are including loans to Group, unless stated otherwise:

Exposure classes per risk category, as % of total regulatory EAD (2017)

In %	Lending		Invest- ments	Money market	Pre- settlement	Total		
	AIRB	SA	AIRB	AIRB	AIRB	AIRB	SA	AIRB+SA
Sovereigns	3.1	0.0	6.0	5.5	0.2	14.8	0.0	14.8
Institutions	7.0	0.0	1.7	2.6	1.9	13.1	0.0	13.2
Corporate	39.6	1.0	0.3	0.0	0.9	40.8	1.0	41.8
Residential mortgages	20.8	0.0	0.0	0.0	0.0	20.8	0.0	20.8
Other retail	8.3	0.1	0.0	0.0	0.0	8.3	0.1	8.5
Securitisation	0.1	0.0	0.8	0.0	0.0	0.9	0.0	0.9
Total	79.0	1.2	8.7	8.2	3.0	98.8	1.2	100.0

Exposure classes per risk category, as % of total regulatory EAD (2016)

In %	Lending		Invest- ments	Money market	Pre- settlement	Total		
	AIRB	SA	AIRB	AIRB	AIRB	AIRB	SA	AIRB+SA
Sovereigns	3.5	0.0	7.0	3.1	0.2	13.8	0.0	13.8
Institutions	6.3	0.0	2.5	2.5	1.8	13.1	0.0	13.1
Corporate	40.4	0.7	0.2	0.1	1.0	41.7	0.7	42.4
Residential mortgages	20.3	0.0	0.0	0.0	0.0	20.3	0.0	20.3
Other retail	8.5	0.1	0.0	0.0	0.0	8.6	0.1	8.7
Securitisation	0.3	0.0	1.4	0.0	0.0	1.7	0.0	1.7
Total	79.3	0.9	11.2	5.6	3.0	99.1	0.9	100.0

During 2017 the total ING Belgium portfolio increased with 4.2% to € 166 billion in terms of Regulatory EAD. This increase was mainly driven by deposits to the Central Banks (in Sovereigns/Money Market, representing +2.0% of the total increase), increased exposure for Corporates (+2.8%), Mortgages (+1.3%), Institutions (+0.6%) and Other Retail (+0.2%). There were also some offsetting factors, mainly driven by a decreased exposure for Securitisations (-0.7%, almost completely due to BSO One B.V.), the currency impact (-1.7%, almost completely due to the US Dollar depreciation), and a decreased exposure to Central/Regional Governments (in Sovereigns, -0.4%).

The impact of the US Dollar depreciation was concentrated in the corporate lending bucket mainly impacting the Structured Finance portfolio, both in the portfolio of Belgium and Luxembourg (Belux) and the Geneva portfolio (Trade Commodity Finance), and the Working Capital Solutions portfolio in Belux. A reduced concentration in Investment was observed in Sovereigns (-10.9% of Regulatory EAD) and Institutions (-30.5% of Regulatory EAD). The lower sovereigns concentration was mainly caused by decreased government bonds toward the governments of France, Belgium and Italy. The lower institutions concentration was largely due to decreased covered bonds towards several French and Spanish financial institutions. The increased concentration in the SA portfolio was caused by shifts of the subordinated debt LGD model from the AIRB to the SA approach and the increased exposure for Factoring.

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Risk rating buckets per line of business and credit risk types

Risk rating buckets are defined based upon the quality of the exposures in terms of creditworthiness, varying from investment grade to non-performing loan expressed in S&P, Moody's and Fitch equivalents.

Risk classes per line of business, as % of total outstandings^{1, 2, 3}

in %	Wholesale banking		Retail banking		Total	
	2017	2016	2017	2016	2017	2016
1 (AAA)	11.9	10.9	0.0	0.0	5.6	5.2
2-4 (AA)	20.5	21.2	8.2	16.6	14.0	18.8
5-7 (A)	20.1	19.6	18.0	10.3	19.0	14.7
8-10 (BBB)	22.2	23.9	26.0	24.9	24.2	24.4
11-13 (BB)	19.7	18.9	30.1	29.4	25.2	24.4
14-16 (B)	4.3	4.0	12.2	12.7	8.5	8.6
17-22 (CCC and NPL)	1.3	1.5	5.5	6.1	3.5	3.9
Total	100.0	100.0	100.0	100.0	100.0	100.0

1. Based on credit risk measurement contained in lending, pre-settlement, money market and investment activities.

2. Covered bonds are presented on the basis of the external credit rating of the issuer in question. Covered bond issues generally possess a better external credit rating than the issuer standalone, given structural features of such covered bonds.

3. Outstandings (OS) split per business line: Wholesale banking (EUR 72 billion OS), Retail banking (EUR 81 billion OS)

The total ING Belgium portfolio outstanding amounted to € 153 billion at the end of 2017, which was an increase of +4.0% compared to 2016. Overall the largest part of the exposure for ING Belgium remained concentrated in the BBB and BB rating classes. The risk rating distribution across business lines and credit risk types showed various shifts over the year however.

The largest shift was related to a one notch rating downgrade for the government of Belgium (from rating 3 to 4, so still remaining in AA), causing Belgian government related organisations (GL rating model) to be downgraded throughout the year, shifting exposure from rating class AA (rating 4) to A (rating 5). This impact is seen in the business lines "Retail Banking" and "Wholesale Banking" and the risk category "Lending" and "Pre-Settlement".

The change in distribution for Money Market was only the result of a changed exposure position towards the 3 dominant counterparties in this risk category: ING Bank (A), National Bank of Belgium (AA) and Central Bank of Luxembourg (AAA). The exposure towards all 3 counterparties increased, however relatively much more towards the Central Bank of Luxembourg.

As already mentioned there was a reduced concentration in Investment, but the decrease was relatively larger in the BBB rating class, due to the decreased government bonds toward the government of Italy and the decreased covered bonds towards several Spanish financial institutions.

Risk classes per risk category, as % of total outstandings¹

in %	Lending		Investments		Money markets		Pre-settlement		Total	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
1 (AAA)	0.3	1.2	29.5	26.7	30.8	18.2	0.0	0.0	5.6	5.2
2-4 (AA)	7.4	12.5	53.7	54.7	35.2	32.9	5.0	14.8	14.0	18.8
5-7 (A)	16.4	10.9	12.4	12.7	33.6	48.4	54.2	45.9	19.0	14.7
8-10 (BBB)	28.9	28.8	3.4	4.8	0.3	0.5	32.1	29.7	24.2	24.4
11-13 (BB)	31.8	30.7	1.0	1.1	0.0	0.0	6.4	7.9	25.2	24.4
14-16 (B)	10.8	10.9	0.0	0.0	0.0	0.0	1.7	1.3	8.5	8.6
17-22 (CCC and NPL)	4.5	5.0	0.0	0.0	0.0	0.0	0.6	0.4	3.5	3.9
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

1. Based on credit risk measurement contained in lending, pre-settlement, money market and investment activities. The ratings reflect probabilities of default and do not take collateral into consideration.

Risk industry concentration

ING Bank uses a common industry classification methodology based on the NAICS system (North American Industry Classification System). This methodology has over 1,500 detailed industry descriptions, which are aggregated into 22 industry classes at the highest level. Certain countries require ING Bank to report locally based on other industry classification methodologies, which are generally derived from the NAICS classifications presented here. Residential mortgages are generally extended to private individuals.

Risk concentration per line of business as % of total outstandings ¹						
in %	Wholesale banking		Retail banking		Total	
	2017	2016	2017	2016	2017	2016
Private individuals	0.0	0.1	27.2	27.7	14.3	14.6
Natural resources	25.0	24.3	0.5	0.9	12.2	12.0
Services	3.6	3.5	17.4	16.2	10.9	10.2
Commercial banks	17.3	18.2	0.2	0.2	8.3	8.7
Central governments	10.5	12.2	3.5	3.2	6.8	7.5
Real estate	3.3	3.6	8.9	8.4	6.3	6.1
General industries	3.8	3.3	7.8	7.5	5.9	5.5
Central banks	12.1	7.9	0.2	0.2	5.9	3.8
Lower public administration	2.1	2.2	6.7	8.8	4.5	5.6
Food, beverages and personal care	4.5	4.7	3.8	3.7	4.1	4.2
Builders and contractors	2.3	2.1	5.1	5.0	3.8	3.6
Chemicals, health and pharmaceuticals	2.5	2.3	4.2	4.3	3.4	3.3
Non-bank financial institutions	4.8	6.6	1.4	1.4	3.0	3.9
Transportation and logistics	3.7	4.3	1.7	1.6	2.6	2.9
Retail	0.5	0.6	3.8	3.7	2.3	2.3
Others	4.0	4.2	7.2	7.1	5.7	5.7
Total	100.0	100.0	100.0	100.0	100.0	100.0

1. Based on the total amount of credit risk in the respective column using ING Bank's internal credit risk measurement methodologies. Economic sectors below 2% are not shown separately but grouped in Other.

During 2017 the total ING Belgium portfolio increased with +4.0% to € 153 billion in terms of outstandings, despite the USD dollar depreciation effect, which had an estimated impact of -1.8%.

This increase in outstandings was mainly (representing +2.3% of the total increase) driven by deposits to the Central Banks.

Wholesale Banking increased with +3.3% and Retail Banking with +4.5%.

When excluding however the exposure to the Central Banks (Belgium, Luxembourg & Switzerland) and the USD depreciation impact, there was an increase of +2.6% in Wholesale Banking, mainly accounted for by Natural Resources (industry with the largest amount in USD exposure), General Industries and Chemicals, Health & Pharmaceuticals, respectively increasing with +18.2%, +23.2% and 19.2%, for a large part being offset by the exposures for Central Governments and Non-Bank Financial Institutions, with respective decreases of -11.2% and -23.5% compared to last year, both related to the Investment portfolio as mentioned earlier.

The increase in Retail Banking (where the USD depreciation impact is rather negligible) is mainly due to Services, Real Estate and General Industries, respectively increasing with +12.0%, +10.8% and +9.0%, partially being offset by Lower Public Administration with a decrease of -19.9%.

Country risk concentration

Country risk exposures per geographic area as % of total regulatory EAD¹

in %	Wholesale banking		Retail banking			Total
	2017	2016	2017	2016	2017	2016
Europe	84.7	86.2	99.7	99.7	92.7	93.3
Belgium	30.9	29.2	94.1	94.4	64.5	63.4
Luxembourg	13.4	9.2	3.9	3.7	8.4	6.3
Netherlands	12.0	12.6	0.3	0.3	5.8	6.2
Rest of Europe	28.4	35.2	1.4	1.4	14.0	17.5
America	8.0	7.9	0.1	0.1	3.8	3.8
Asia	5.7	4.5	0.1	0.1	2.7	2.2
Africa	1.4	1.3	0.0	0.1	0.7	0.6
Rest of the world	0.2	0.2	0.0	0.0	0.1	0.1
Total	100.0	100.0	100.0	100.0	100.0	100.0

1. Geographic areas are based on Country of Residence. For Europe, the top 3 countries are shown, all others were put in Rest of Europe. Remaining countries were grouped per continent, of which the top 3 are shown with the remainder in Rest of the world.

The shift within Europe for Wholesale Banking is mainly due to the evolutions of the deposits with the Central Banks of Luxembourg (+184%), Belgium (+70%) and Switzerland (-97%), resulting in higher concentrations for Luxembourg and Belgium, while Rest of Europe significantly decreases.

The increase in Asia can mainly be attributed to one country, being the United Arab Emirates, almost completely due to the increased Trade Commodity Finance business (+126%).

The risk concentration distribution of the other continents remains rather stable. As does the distribution of the Retail Banking portfolio.

Credit risk mitigation

ING Belgium's lending and investment businesses are subject to credit risk. As such, the creditworthiness of our customers and investments is continually monitored for their ability to meet their financial obligations to ING Belgium. In addition to determining the credit quality and creditworthiness of the customer, ING Belgium uses various credit risk mitigation techniques and instruments to mitigate the credit risk associated with an exposure and to reduce the losses incurred subsequent to an event of default on an obligation a customer may have towards ING Belgium. The most common terminology used in ING Belgium for credit risk protection is 'cover'. While a cover can be an important mitigant of credit risk and an alternative source of repayment, generally it is ING Belgium's practice to lend on the basis of the customer's creditworthiness rather than exclusively relying on the value of the cover. Within ING Belgium, there are two distinct forms of covers: assets and third party obligations.

Cover forms

Assets

The asset that has been pledged to ING Belgium as collateral or security gives ING Belgium the right to liquidate it in cases where the customer is unable to fulfil its financial obligation. As such, the proceeds can be applied towards full or partial compensation of the customer's outstanding exposure. An asset can be tangible (such as cash, securities, receivables, inventory, plant & machinery and mortgages on real estate properties) or intangible (such as patents, trademarks, contract rights and licenses).

Third party obligation

Third Party Obligation, indemnification or undertaking (either by contract and/or by law) is a legally binding declaration by a third party that gives ING Belgium the right to expect and claim from that third party to pay an amount, if the customer fails on its obligations to ING Belgium. The most common examples are guarantees (such as parent guarantees and export credit insurances) and letters of comfort.

Cover valuation methodology

General guidelines for cover valuation are established to ensure consistency of the application within ING Group. These general guidelines also require that the asset values underlying the covers needs to be monitored on a regular basis, in principle at least annually. Cover assets are revalued accordingly and whenever there is reason to believe that the market is subject to significant changes in conditions. The frequency of monitoring and revaluation depends on the type of covers.

Cover values

This section provides insight on the type of covers and to which extent a loan is collateralised. The cover disclosures are presented by risk category: Lending, Investment, Money-Market and Pre-settlement. The cover amounts are presented by the most relevant collateral forms, being mortgages and financial collateral (cash and securities), and the most relevant third party obligation being guarantees. ING obtains covers which are eligible for credit risk mitigation under CRR/CRDIV, as well as those that are not eligible.

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The cover values are presented for the total portfolio of ING Belgium. Covers of both AIRB and SA portfolios are presented in detail reflecting ING Belgium's complete portfolio. Next to that, detailed information is provided on the cover coverage for the performing and non-performing portfolio. To increase the understanding of the reader on the nature of the collateralised loans, insight is given in the industry and geography breakdown of ING Belgium's portfolio as well. For comparability reasons with previous tables, outstandings are used to show ING Belgium's portfolio.

Exposures are categorised into different Value to Loan (VTL) buckets that give insight in the level of collateralisation of ING Belgium's portfolio. VTL is calculated as the cover value divided by the outstanding at the balance sheet date. For the purpose of aggregation, the coverage of all outstanding is capped at 100%. Over-collateralisation is ignored in this overview. Each limit is subsequently assigned to one of the six defined VTL buckets: no cover, >0% to 25%, >25% to 50%, >50% to 75%, >75% to <100%, and $\geq 100\%$. As the nature of the Pre-settlement portfolio determines that collateral is netted, these VTL buckets are not shown.

The first two tables give an overview of the collateralisation of the total portfolio of ING Belgium:

Cover values including guarantees received (2017)¹

In EUR millions / In %	Out-standing	Mort-gages	Eligible financial collateral	Other CRR/CRD IV eligible	Gua-rantees	Cover type		Value to loan	
						Non CRR/CRD IV eligible	No cover	Partially covered	Fully covered
Consumer lending	42,436	58,893	881	271	758	29,395	4.3	6.1	89.6
Business lending	77,268	33,982	4,172	12,903	23,493	42,880	34.2	23.7	42.1
Investments and Money Markets	27,473	0	0	0	20	0	99.9	0.0	0.1
Total Lending, Investments and Money Markets	147,178	92,875	5,053	13,174	24,270	72,276	37.8	14.2	48.0
Pre-settlement ²	6,036								
Total	153,214	92,875	5,053	13,174	24,270	72,276	37.8	14.2	48.0

1. Cover values are not capped at outstanding.

2. More information on the credit risk mitigants of the Pre-settlement exposure can be found in the Pre-settlement section.

Cover values including guarantees received (2016)¹

In EUR millions / In %	Out-standing	Mort-gages	Eligible financial collateral	Other CRR/CRD IV eligible	Gua-rantees	Cover type		Value to loan	
						Non CRR/CRD IV eligible	No cover	Partially covered	Fully covered
Consumer lending	40,248	55,014	913	316	854	25,819	4.4	6.6	89.0
Business lending	74,628	33,401	3,617	14,219	27,104	39,917	32.1	25.8	42.1
Investments and Money Markets	25,864	0	0	0	20	58	99.7	0.0	0.3
Total Lending, Investments and Money Markets	140,740	88,414	4,529	14,535	27,978	65,794	36.6	15.6	47.8
Pre-settlement ²	6,630								
Total	147,370	88,414	4,529	14,535	27,978	65,794	36.6	15.6	47.8

1. Cover values are not capped at outstanding.

2. More information on the credit risk mitigants of the Pre-settlement exposure can be found in the Pre-settlement section.

Over the year, the collateralisation level of ING Belgium's total portfolio remained stable. Excluding the pre-settlement portfolio for which covers are netted to derive the outstanding at risk, 48.0% of the total ING Belgium's outstanding (from 47.8% in 2016) were fully collateralised in 2017. Since investments traditionally do not require covers, the no covers ratio in this portfolio is close to 100%. However, 99% of the investment outstanding are at investment grade. In the lending portfolio, coverage within consumer lending increased slightly. The coverage of the business lending portfolio remained stable in 2017.

Consumer lending portfolio

The consumer lending portfolio comprises of residential mortgage loans and other consumer lending loans, which mainly comprise credit cards, term loans and overdrafts to consumers. As a result, most of the collateral consists of mortgages covers.

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The below tables show the values of different covers and the VTL split between performing and non-performing loans for the consumer lending portfolio.

Cover values including guarantees received – Consumer lending portfolio (2017)¹

In EUR millions / In %			Cover type					Value to loan				
	Out-standings	Mortgages	Eligible financial collateral	Other CRR/CRD IV eligible	Guarantees	Non CRR/CRD IV eligible	No cover	>0%-25%	>25%-50%	>50%-75%	>75%-<100%	≥ 100%
Performing												
Residential mortgages (Private individuals)	32,405	49,685	221	108	264	23,449	0.0	0.1	0.2	0.6	4.2	94.9
Residential mortgages (SME)	4,882	7,411	68	67	155	1,342	0.0	0.4	1.2	1.6	7.7	89.1
Other consumer lending	4,044	246	580	84	305	4,008	43.0	1.7	0.5	1.3	3.6	49.9
Total	41,330	57,341	869	259	724	28,799	4.2	0.3	0.3	0.8	4.6	89.8
Non-performing												
Residential mortgages (Private individuals)	845	1,298	11	4	15	523	0.4	0.1	0.7	1.7	7.2	89.9
Residential mortgages (SME) ¹	159	249	0	5	10	21	0.7	1.9	0.6	1.8	10.7	84.2
Other consumer lending	102	6	1	2	9	52	65.2	2.9	1.0	1.8	5.3	23.8
Total	1,106	1,552	12	12	34	596	6.4	0.6	0.7	1.7	7.5	83.0
Total Consumer lending	42,436	58,893	881	271	758	29,395	4.3	0.3	0.3	0.8	4.7	89.6

1. Cover values are not capped at outstanding.

Cover values including guarantees received – Consumer lending portfolio (2016)¹

In EUR millions / In %			Cover type					Value to loan				
	Out-standings	Mortgages	Eligible financial collateral	Other CRR/CRD IV eligible	Guarantees	Non CRR/CRD IV eligible	No cover	>0%-25%	>25%-50%	>50%-75%	>75%-<100%	≥ 100%
Performing												
Residential mortgages (Private individuals)	30,173	45,442	210	126	299	19,851	0.0	0.1	0.1	0.5	4.9	94.4
Residential mortgages (SME) ¹	4,439	6,717	62	70	145	1,021	0.0	0.4	0.4	1.3	8.6	89.2
Other consumer lending	4,429	1,184	625	103	369	4,348	38.3	1.3	1.0	1.3	4.1	54.0
Total	39,041	53,342	897	299	813	25,220	4.4	0.2	0.3	0.7	5.2	89.2
Non-performing												
Residential mortgages (Private individuals)	921	1,399	14	5	20	508	0.5	0.2	0.8	1.7	7.9	88.9
Residential mortgages (SME)	176	261	1	10	10	29	0.8	0.3	1.1	2.1	13.4	82.2
Other consumer lending	110	12	1	2	11	62	59.7	2.7	0.9	1.7	7.7	27.2
Total	1,206	1,672	16	17	41	598	5.9	0.5	0.8	1.8	8.7	82.3
Total Consumer lending	40,248	55,014	913	316	854	25,819	4.4	0.3	0.3	0.7	5.3	89.0

1. Cover values are not capped at outstanding.

The increase in Residential Mortgages (90.2% in 2017 versus 88,7% in 2016) can be explained by portfolio growth (+2,2 billion outstanding) and a change in the classification of loans secured only by a mortgage mandate (without a combined Mortgage cover). A mortgage mandate gives the Bank the irrevocable and unconditional right to create a valid mortgage. In 2016 loans covered only by a mandate were considered as Other Consumer Lending. As of 2017 these loans are included in Residential Mortgages (private individuals and SME) where they better fit (shift of EUR 0,5 billion outstanding). The growth of mortgage covers is in line with the portfolio growth of Residential Mortgages leading to a stable collateralisation for this portfolio in 2017 in comparison with 2016.

Consolidated annual accounts - continued

A decline in the collateralisation can be observed for the Other Consumer Lending portfolio related to a decline in mortgage covers. The decline can be explained by the shift of loans covered only by mortgage mandates from Other consumer lending to Residential Mortgages (private individuals and SME). Due to their mortgage cover these loans are better collateralised than other types of Other Consumer Lending resulting in the decline of Value to Loan.

Business lending portfolio

Business lending is an important business of ING Belgium, accounting for 50.4% of ING Belgium's total outstanding. In line with our objective to give stakeholders insight into the portfolio, we present the business lending portfolio per Industry breakdown in accordance with the NAICS definition and per Region and main market. Business Lending presented in this section does not include Pre-settlement and Investment & Money Market exposures.

Business lending per economic sector**Cover values including guarantees received – Business lending portfolio per economic sector (2017)¹**

In EUR millions / In %	Cover type											Value to loan	
	Out-standings	Mortgages	Eligible financial collateral	Other CRR/CRD IV eligible	Guarantees	Non CRR/CRD IV eligible	No cover	>0%-25%	>25%-50%	>50%-75%	>75%-<100%	≥ 100%	
Natural resources	18,530	273	1,356	2,439	2,177	4,502	39.2	19.5	13.2	10.6	5.7	11.7	
Real estate	9,287	12,601	331	368	2,824	5,814	9.2	2.0	2.7	4.7	6.6	74.9	
Services	8,472	4,925	1,694	829	3,335	5,301	27.0	2.5	2.1	3.2	9.3	55.9	
Lower public administration	4,846	3,722	61	1,010	2,046	3,480	23.4	3.5	3.9	4.9	7.3	56.8	
Builders and contractors	4,775	87	17	70	1,073	196	76.6	0.1	0.4	0.7	1.2	21.1	
Food, beverages and personal care	4,451	1,472	40	1,080	1,409	3,312	36.8	1.3	4.4	6.1	4.0	47.4	
General industries	4,150	2,233	34	595	1,314	1,872	37.9	2.3	1.6	3.7	7.8	46.7	
Chemicals, health and pharmaceuticals	4,084	1,955	59	904	1,452	3,524	27.9	2.4	4.9	6.6	4.8	53.4	
Transportation and logistics	3,622	1,206	34	2,215	1,553	3,307	18.2	3.7	0.8	4.1	10.7	62.4	
Commercial banks	2,979	5	51	34	256	306	76.6	6.6	0.3	6.2	1.0	9.3	
Non-bank financial institutions	2,283	733	105	2,230	1,083	5,101	16.8	3.1	0.5	15.7	2.6	61.2	
Others ²	9,792	4,771	389	1,129	4,970	6,435	36.2	2.8	2.2	3.8	6.1	48.8	
Total Business lending	77,268	33,982	4,172	12,903	23,493	43,150	34.2	6.6	4.9	6.1	6.0	42.1	
of which: total non-performing	1,571	1,605	60	498	707	1,100	19.6	4.5	7.6	2.2	7.6	58.4	

1. Cover values are not capped at outstanding.

2. 'Others' comprises industries with outstandings below EUR 2 billion

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Cover values including guarantees received – Business lending portfolio per economic sector (2016)¹

In EUR millions / In %	Out-standings		Cover type									Value to loan	
			Mortgages	Eligible financial collateral	Other CRR/CRD IV eligible	Guarantees	Non CRR/CRD IV eligible	No cover	>0%-25%	>25%-50%	>50%-75%	>75%-<100%	≥ 100%
Natural resources	17,460	686	1,558	5,567	5,407	5,827	28.1	9.0	21.4	14.2	13.7	13.5	
Real estate	8,696	11,865	287	418	2,712	4,718	10.6	3.5	1.9	3.3	8.0	72.8	
Services	7,546	5,132	835	842	3,256	3,592	26.5	2.6	2.8	3.0	9.7	55.4	
Lower public administration	6,127	34	0	107	1,129	168	81.9	0.0	0.1	0.2	1.4	16.3	
Builders and contractors	4,415	3,460	47	1,071	1,885	2,990	23.3	2.7	5.4	3.9	7.1	57.7	
Food, beverages and personal care	4,025	1,684	78	847	1,879	4,070	22.5	1.5	3.1	6.9	5.7	60.3	
General industries	3,916	1,487	122	1,047	1,522	3,368	24.2	3.7	6.5	5.5	5.6	54.4	
Chemicals, health and pharmaceuticals	3,882	2,291	56	607	1,378	1,974	37.8	1.5	1.5	4.1	9.5	45.7	
Transportation and logistics	3,757	1,511	32	2,176	1,318	2,538	17.2	1.3	3.2	5.1	14.4	58.8	
Commercial banks	2,563	128	58	42	224	337	70.3	5.0	1.5	4.3	6.8	12.1	
Non-bank financial institutions	2,374	643	131	399	1,410	3,583	18.6	2.5	1.7	12.7	2.2	62.2	
Others ²	9,866	4,480	411	1,095	4,984	6,750	38.9	1.9	2.9	3.8	5.2	47.4	
Total Business lending	74,628	33,401	3,617	14,219	27,104	39,917	32.1	3.9	7.1	6.4	8.5	42.1	
of which: total non-performing	1,535	1,325	41	953	868	1,072	17.8	0.6	1.9	5.9	5.8	67.9	

1. Cover values are not capped at outstanding.

2. 'Others' comprises industries with outstandings below EUR 2 billion.

The coverage of the total business lending portfolio remained stable in 2017. Largest outstanding increase was seen in Commercial Banks (+16.2%) mainly driven by an intragroup increase. Important increases in outstanding were also observed the lending portfolios of General Industries (13.7%) and Services (12.3%). The largest decrease in outstanding was observed in Lower Public Administration (-22,1%) where some large clients were drawing less on their limits and 1 client shifted from industry type Lower Public Administration to Others (Central governments: EUR 0.8 billion). As the decline of Lower Public Administration outstanding didn't have a large influence the cover amounts, an increase in the value to loan can be observed.

Business lending per region

The two tables below provide the collateralisation of ING Belgium's business lending portfolio with a breakdown per geographical region or main market, which are defined based on the residence of the borrowers. The Business Lending portfolio of ING Belgium is mainly concentrated in Europe with the most important region being Belgium. Rest of Europe mainly contains the Netherlands, United Kingdom and France.

Cover values including guarantees received – Business lending portfolio per region (2017)¹

In EUR millions / In %	Out-standings		Cover type									Value to loan	
			Mortgages	Eligible financial collateral	Other CRR/CRD IV eligible	Guarantees	Non CRR/CRD IV eligible	No cover	>0%-25%	>25%-50%	>50%-75%	>75%-<100%	≥ 100%
Africa	1,084	4	34	7	644	207	37.4	2.7	6.4	21.8	6.6	25.1	
America	4,073	15	111	1,797	282	1,055	44.1	7.2	5.0	6.1	7.5	30.1	
Asia	4,606	9	333	469	453	469	53.7	18.5	5.6	12.7	1.4	8.1	
Australia	109	0	0	83	2	33	13.0	9.8	0.0	45.9	2.6	28.7	
Europe													
Belgium	45,314	31,805	1,225	5,928	17,295	25,807	27.6	1.9	2.8	4.0	6.3	57.4	
Switzerland	6,984	15	549	583	239	1,087	47.7	20.0	8.2	8.4	8.7	7.0	
Luxemburg	5,327	1,311	1,212	2,606	1,854	9,527	29.0	4.3	16.7	11.4	2.8	35.7	
Rest of Europe	9,771	822	708	1,430	2,723	4,696	44.1	15.0	5.8	6.2	6.1	22.9	
Total Business lending	77,268	33,982	4,172	12,903	23,493	42,880	34.2	6.6	4.9	6.1	6.0	42.1	
of which: total non-performing	1,571	1,605	60	498	707	1,100	19.6	4.5	7.6	2.2	7.6	58.4	

1. Cover values are not capped at outstanding.

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Cover values including guarantees received – Business lending portfolio per region (2016)¹

In EUR millions / In %			Cover type					Value to loan				
	Out-standings	Mortgages	Eligible financial collateral	Other CRR/CRD IV eligible	Guarantees	Non CRR/CRD IV eligible	No cover	>0%-25%	>25%-50%	>50%-75%	>75%-<100	≥ 100%
Africa	842	4	53	537	618	338	8.7	22.3	11.6	12.2	7.6	37.8
America	3,440	237	89	2,006	1,064	1,254	34.5	4.3	3.4	5.4	14.8	37.7
Asia	3,825	3	83	755	1,368	698	43.7	10.1	25.1	4.8	10.7	5.6
Australia	85	0	4	92	0	3	5.7	0.0	52.7	31.9	7.3	2.4
Europe												
Belgium	43,706	30,587	1,527	5,865	17,220	24,852	29.0	2.1	2.6	4.0	6.2	56.1
Switzerland	7,618	23	507	1,618	1,191	1,028	46.9	6.3	10.0	14.2	15.7	7.0
Luxemburg	4,840	1,205	104	730	2,035	7,073	23.0	3.5	20.2	9.8	2.9	40.6
Rest of Europe	10,271	1,342	1,251	2,616	3,608	4,671	35.5	5.8	11.7	9.9	12.2	24.9
Total Business lending	74,628	33,401	3,617	14,219	27,104	39,917	32.1	3.9	7.1	6.4	8.5	42.1
of which: total non-performing	1,535	1,325	41	953	868	1,072	17.8	0.6	1.9	5.9	5.8	67.9

1. Cover values are not capped at outstanding.

The coverage of the total business lending portfolio remained stable in 2017. The increase in covers of Belgium is in line with the increase in outstanding. The increase in outstanding for Luxemburg was for a large part due to an increase in exposure to the Central Bank of Luxemburg. As this exposure is not collateralised, a decline can be observed in the value to loan of Luxemburg.

Credit quality

Following, the somewhat higher credit risk levels seen as a result of the financial crisis and economic downturn, the credit quality has continued the improving trend in 2017.

Credit risk categories

	Regular	Watch list	Restructuring ¹	Non-performing ¹
Possible ratings	1-19	1-19	11-20	20-22
Typical ratings	1-14	15-17	18-20	20-22
Deterioration in risk	Not significant	Significant	Significant	Significant
Significant intervention	Not required	Not required	Required	Required
Includes impairments	No	No	Yes	Yes
Account Ownership	Front Office	Front Office	Front Office	Front Office
Credit Risk Management	Regular	Regular	Credit Restructuring	Credit Restructuring
Primary Manager	Front Office	Front Office	Credit Restructuring	Credit Restructuring
Accounting provisioning	IBNR	IBNR	IBNR/INSFA/ISFA	INSFA/ISFA

1. More information on the Restructuring and Non-performing categories can be found in the Credit restructuring section.

Credit quality portfolio, outstandings¹

In EUR millions	2017	2016
Neither past due nor non-performing	121,083	110,015
Consumer lending past due but performing (1-90 days)	1,594	1,802
Non-performing	2,682	2,747
Total	125,359	114,564

1. Based on lending and investments activities.

In context of volume increase, the credit quality of the ING Belgium portfolio improved with lower past due and non-performing assets. Improvements are observed mainly in retail (including mid-sized) segment. Defaulted loans in retail segment have decreased with - 6% during 2017. This decline is partly offset by increase in wholesale banking segment.

Past-due obligations

Retail Banking continuously measures its portfolio in terms of payment arrears. The retail portfolios are closely monitored on a monthly basis to determine if there are any significant changes in the level of arrears. The methodology is principally extended to loans to private individuals, such as residential mortgage loans, car loans, and other consumer loans. An obligation is considered 'past-due' if a payment of interest or principal is more than one day late. If the arrears continue to exist, the obligor is transferred to a restructuring unit. The obligor is downgraded to risk rating 20 (non-performing) when the arrears exceed 90 days. The table below captures all past due exposures starting from day 1.

Aging analysis (past due but performing) consumer lending portfolio, outstandings ¹		
In EUR millions	2017	2016
Past due for 1-30 days	1,302	1,496
Past due for 31-60 days	239	259
Past due for 61-90 days	53	47
Total	1,594	1,802

1. Based on consumer lending. The amount of past due but performing financial assets in respect of non-lending activities was not significant.

Wholesale Banking: for business loans (governments, institutions, corporates), ING Belgium classifies the relevant obligors as non-performing when any of the below listed default triggers occurs:

- Bankruptcy or financial reorganisation: The borrower has sought or has been placed (or is likely to seek or be placed) in bankruptcy or similar protection, where this would avoid or delay repayment of the financial asset;
- The borrower has failed in the payment of principal or interest/fees and such payment failure has remained unresolved for the following period:
 - Corporates: more than 90 days; and
 - Financial Institutions and Governments: from day 1, however, a research period of 14 calendar days will be observed in order for ING Bank to establish whether the payment default was due to non-operational reasons (i.e. the deteriorated credit quality of the financial institution) or due to operational reasons. The latter does not trigger default.
- ING Bank thinks the borrower is unlikely to pay: The borrower has evidenced significant financial difficulty, to the extent that it will have a negative impact on the future cash flows of the financial asset. The following events could be seen as examples of financial difficulty indicators:
 - (1) The borrower (or 3rd party) has started insolvency proceedings.
 - (2) NPL status of a group company/co-borrower.
 - (3) Significant fraud (affecting the company's ability to service its debt)
 - (4) There is doubt as to the borrowers' ability to generate stable and sufficient cash flows to service its debt.
 - (5) Restructuring of debt includes a partial (debt waiver) or debt-equity conversion
- ING Belgium has granted concessions relating to the borrower's financial difficulty, the effect of which is a reduction in expected future cash flows of the financial asset below current carrying amount.

Wholesale Banking has an individual name approach, using Early Warnings indicators to signal possible future issues in debt service.

Non-performing loans

The ING Belgium loan portfolio is under constant review. Loans with past due financial obligations of more than 90 days are reclassified as non-performing. For the commercial lending portfolios, there generally are reasons for declaring a loan non-performing prior to being 90 days past due. These include, but are not limited to, ING Belgium's assessment of the customer's perceived inability to meet its financial obligations, or the customer filing for bankruptcy or bankruptcy protection.

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The table below represents the economic sector breakdown of credit risk outstanding for loans and positions that have been classified as non-performing loans:

Non-performing loans portfolio, outstandings by economic sector ¹		
In EUR millions	2017	2016
Private individuals	544	590
Services	448	483
General industries	307	319
Builders and contractors	274	268
Natural resources	245	122
Real estate	211	240
Food, beverages and personal care	169	177
Retail	140	180
Others	343	357
Total	2,682	2,747

1. Economic activities not specified in the overview are grouped in 'Others'.

The defaulted loans have decreased in almost all industrial classifications, with the exception of "Natural Resources" & "Builders & Contractors". These decreases, mainly in "Private Individuals", "Retail" and "Services", are however for a large part offset by an increase in "Natural Resources" (due to 2 files in the corporate segment).

Provisioning

Loan Loss Provisions (LLP) are calculated and accounted for in accordance with IFRS. LLP are reported for financial assets that are measured against amortised costs (loans and receivables, held-to-maturity investments). There are three types of LLP:

- Individually Significant Financial Asset (ISFA) provisions: when there is objective evidence that a financial asset is defaulted as result of one or more prescribed default trigger events. In such cases, ING assigns a risk rating 20, 21 or 22. Specific provisions are calculated if the exposure to a borrower exceeds EUR 1 million. Provisions are calculated based on discounted future cash flows under 1 or more likely scenarios to arrive at a best estimate of future recoveries. Provisions are made on a quarterly basis;
- Individually Not Significant Financial Asset (INSFA) provisions: are made for non-performing loans (ratings 20-22), if the exposure to a borrower is below the threshold amount. A collective model based approach is taken to determine these provisions; and
- Incurred But Not Recognised (IBNR) provisions: are made for the 'performing' loan portfolio as an estimate or proxy for the losses/defaults that may have already occurred in the portfolio. The PD time horizon used in the calculation of IBNR provisions refers to the period during which an asset is impaired (in default), but not yet recognised as such - due to lack of objective evidence - and the moment that objective evidence of impairment occurs and becomes available to ING ('loss emergence period').

ISFA, INSFA and IBNR provisions are reported and calculated by using common standards across ING Bank. In case there is objective evidence that one of the default triggers is applicable, ISFA or INSFA provisions are calculated. An analysis takes place on a quarterly basis in order to determine the appropriate level of LLP and Risk Costs. The ING Bank Provisioning Committee (IPC) discusses and approves the LLP for ING Belgium, on the basis of proposals originating from ING Belgium.

Provisions portfolio ¹						
in EUR millions	Wholesale banking		Retail banking			Total
	2017	2016	2017	2016	2017	2016
Opening balance	101	70	618	640	719	710
Amounts written off	-30	-2	-123	-157	-152	-158
Recoveries of amounts written off	0	0	5	11	5	11
Net additions to loan loss provisions	61	34	102	175	164	208
Exchange rate or other movements	-1	-1	-14	-50	-15	-51
Closing balance	131	101	590	618	721	719

1. Wholesale Banking and Retail Banking segments based on ING Provisioning Committee (IPC) segmentation. Figures based on quarterly Sign Off documents sent to IPC.

The stability of overall loan loss provisions is explained by the fact that increase in wholesale banking (due limited number of non-performing files in Corporates & Structured Finance segments) is offset by decreases in retail (including midsized) segment. The defaulted loans in the retail segment have decreased by 6% during 2017. Despite an observed volume increase in this segment, the level of provisions for performing loans has remained unchanged.

Forbearance

Forbearance occurs when a client is considered to be unable to meet its financial commitments under the contract due to financial difficulties and ING decides to grant concessions towards the client. Forborne exposures are exposures in respect of which forbearance measures have been granted. Forbearance measures can be either modifications to existing contractual terms and conditions or total or partial refinancing. Examples include reduction of loan principal and/or interest payments, extended payment terms, debt consolidations and deferral of foreclosures.

For corporate customers, ING Belgium applies forbearance measures to support clients with fundamentally sound business models that are experiencing temporary difficulties. The aim is to maximise the repayment ability of the clients.

For retail, clear criteria have been established to determine whether a client is eligible for forbearance – generally as part of an automated process. Specific approval mandates are in place to approve the measures, as well as procedures to manage, monitor and report the forbearance activities.

Exposures with forbearance measures can be either performing (Risk Ratings 1-19) or non-performing (Risk Ratings 20-22). ING applies criteria to move forborne exposures from non-performing to performing as well as criteria to remove the forbearance status that are consistent with the corresponding EBA standards. An exposure is reported as forborne for a minimum of two years, plus a probation period observed for forborne exposures to move from non-performing back to performing.

ING Bank implemented its forbearance policy in 2014. In the course of 2016 based on a detailed re-assessment of the relevant standards set by EBA and subsequent regulatory guidance, ING Bank tightened the definitions under its forbearance policy. Key policy revisions that led to an increase in the scope of forbearance relate to the inclusion of concessions where the risk is significantly mitigated by the client and waivers or modifications of key financial covenants. As a result of these revisions in definition and scope, performing forborne exposure recognised by ING Belgium increased significantly as measures taken (in previous periods) were now recognized as forbearance.

Summary forborne assets¹

In EUR millions / in %	2017				2016			
	Forborne assets	of which: performing	of which: non-performing	Percentage of total portfolio	Forborne assets	of which: performing	of which: non-performing	Percentage of total portfolio
Wholesale banking	346	202	144	0.42	617	298	319	0.84
Retail banking	751	302	449	1.72	706	252	454	1.70
Total	1,097	504	592	0.87	1,323	550	773	1.15

1. Undrawn commitments are excluded.

Market risk

Introduction

Market risk is the risk that movements in market variables, such as interest rates, equity prices, foreign exchange rates, credit spreads and real estate prices negatively impact the bank's earnings, capital, market value or liquidity position. Market risk either arises through positions in banking books or trading books. The banking book positions are intended to be held in the long-term (or until maturity) or for the purpose of hedging other banking book positions. The trading book positions are typically held with a short-term trading intent or in order to hedge other positions in the trading book. This means that financial instruments in the trading books should be free of restrictions on their tradability. Policies and processes are in place to monitor inclusion of positions into either a trading or a banking book and transfer of risk from trading to banking book and vice versa.

Governance

A governance framework has been established defining specific roles and responsibilities of business management, market risk management and internal approval bodies per activity.

Within ING Bank, the overall risk appetite is set by the Supervisory Board. Market risk falls under the supervision of the MBB and is delegated to the ALCO function, where ALCO Bank is the highest approval authority. ALCO Bank monitors adherence to the risk appetite for market risk and sets additional limits where appropriate. These limits are cascaded through the organisation through lower level ALCO's. This ALCO structure within ING Bank facilitates top-down risk management, limit setting and the monitoring and control of market risk.

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The Balance Sheet Risk (BSR) department and the Credit & Trading Risk (C&TR) department are the designated independent departments that are responsible for the design and execution of the bank's market risk and counterparty credit risk management functions in support of the ALCO function. Balance Sheet Risk focuses on the market risks in the banking books, Capital Management department and the Bank Treasury department, whereas Credit & Trading Risk is responsible for counterparty credit risk and market risks resulting from the Financial Markets trading books. The organisational structure recognises that risk taking and risk management to a large extent occur at the regional/local level. Bottom-up reporting allows each management level to fully assess the market risk relevant at the respective levels.

BSR and C&TR are responsible for determining adequate policies and procedures for actively managing market risk in banking and trading books and for monitoring the compliance with these guidelines. An important element of the risk management function is the assessment of market risk in new products and businesses. Furthermore the two departments maintain an adequate limit framework in line with ING Bank's Risk Appetite Framework. The businesses are responsible for adhering to limits that ultimately are approved by ALCO Bank. Limit excesses are reported to senior management on a timely basis and the business is required to take appropriate actions to reduce the risk position.

This market risk paragraph elaborates on the various elements of the risk management approach for:

- Market risk economic capital for trading and banking books;
- Market risks in the banking books

Economic capital for market risk

Economic capital for market risk is the economic capital necessary to withstand unexpected value movements due to changes in market variables and model risk.

Model disclosure

Economic Capital for market risk is calculated for exposures both in trading portfolios and banking portfolios and includes interest rate risk, equity price risk, foreign exchange rate risk, real estate risk and model risks. Economic capital for market risk is calculated using internally developed methodologies with a 99.95% confidence interval and a horizon of one year. To arrive at the economic capital for market risk, a simulation based model is used which includes scaling to the required confidence interval and holding period. In determining this scaling factor, several other factors are also taken into account like the occurrence of large market movements (events) and management interventions.

Embedded options, e.g. the prepayment option and offered rate option in mortgages in the banking books, result in non-linear interest rate risk in the banking books. The embedded options are economically hedged using a delta-hedging methodology, leaving the mortgage portfolio exposed to convexity and volatility risk. For the calculation of economic capital for this non-linear interest rate risk ING Belgium performs a Monte Carlo simulation.

Real estate price risk includes the market risks in both the real estate investment and the development portfolio of ING Wholesale Banking. The economic capital for real estate price risk is calculated by stressing the underlying market variables. While aggregating the different economic capital market risk figures for the different portfolios, diversification benefits (based on stressed correlations) are taken into account as it is not expected that all extreme market movements will appear at the same moment.

Market risk in banking books

ING Belgium makes a distinction between trading and banking (non-trading) books. Positions in banking books originate from the market risks inherent in commercial products that are sold to clients, the Bank Treasury exposures and from the investment of own funds (core capital). Both the commercial products, and the products used to hedge market risk exposures in these products are intended to be held until maturity, or at least for the long-term.

Risk transfer

An important element of the management of market risks in the banking books is the process of risk transfer. In this process the interest rate, FX, funding and liquidity risks are transferred from the commercial books through matched funding to Bank Treasury, where it is centrally managed.

Risk measurement

The main concepts and metrics used for measuring market risk in the banking books are described below per risk type.

Interest rate risk in banking book

Interest rate risk in the banking books is defined as the exposure of a bank's earnings, capital and market value to adverse movements in interest rates originated from positions in the banking books.

Governance

The management of interest rate risk follows the interest rate risk in the banking book framework as approved by ALCO Bank. This framework describes roles and responsibilities, risk metrics, and it defines the policies and procedures related to interest rate risk management. Furthermore, on an overall level, ALCO Bank sets the risk appetite for interest rate risk, which is translated into limits for interest rate risk metrics.

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The ING Bank approach to interest rate risk management, as set forth in this framework, is centralisation of risks from commercial books (that capture the products sold to clients) to central interest rate risk books. This enables a clear demarcation between commercial business results and results on unhedged interest rate positions.

ING Bank distinguishes three types of activities that generate interest rate risk in the banking books:

- Investment of own funds (by Capital Management)
- Commercial business (e.g. retail business)
- The strategic interest rate position (Bank Treasury)

Risk profile

In the following sections, the interest rate risk exposures in the banking books are presented. ING Bank uses risk measures based on both an earnings and a value perspective. Earnings Sensitivity (ES) is used to provide the earnings perspective and the Net Present Value (NPV)-at-Risk and Basis Point Value (BPV) figures provide the value perspective. Also corrective management actions are not taken into account in these figures.

Earnings Sensitivity (ES)

Earnings sensitivity ('Earnings' are defined as the "net interest income", the difference between received interest rates and paid interest rates on the originated assets and liabilities, before taxes) is modelled as described above and measures the impact of changing interest rates on (before tax) net interest income of the banking books, this excludes credit spread sensitivity. The Earnings Sensitivity figures in the tables below reflect an instantaneous interest rate shock of 1% and a time horizon of one year for 2016, and a ramped parallel shock of 0.9% and a time horizon of one year for 2017. The full framework to calculate interest rate risk has been reviewed in the course of 2017. The numbers of 2016 are not reported since they are not comparable to the 2017 numbers. The scope of the reported metrics is all positions in the Bank Treasury books and the mortgage loans, current accounts and savings accounts in the business books.

Earnings Sensitivity banking book per currency (ramped parallel shock)

In EUR millions	2017	
	-90 bps	+90 bps
Euro	-27	9
US Dollar	1	-1
Others	1	0
Total	-26	8

Earnings Sensitivity banking book per business (ramped parallel shock)

In EUR millions	2017	
	-90 bps	+90 bps
Wholesale banking	-19	32
Retail banking	-6	-23
Total	-26	8

The Earnings sensitivity is mainly influenced by the sensitivity of savings to interest rate movements due to pass through rate differences between savings rates and investment yields and is partially offset by the sensitivity of mortgages. The investment of own funds only impacts the Earnings sensitivity marginally, as only a relatively small part has to be (re)invested within the 1-year horizon.

Year-on-year variance analysis

The year-on-year evolution is difficult to compare, since the methodology to calculate the earnings sensitivity and the shocks that are used have been reviewed in 2017. The market risk policy of ING states that all risks are fully transferred to a centralized Bank Treasury book and the risks are managed within a risk appetite framework that is defined by the Alco Belux committee. The risk appetite has not changed and all positions have been managed within these limits.

Net Present Value (NPV) at Risk

NPV-at-Risk measures the impact of changing interest rates on value. For NPV-at-Risk calculations, an instantaneous shock of 1% is applied for the 2016 numbers, while an instantaneous shock of 0.9% is applied for the 2017 numbers. The numbers of 2016 are not reported since they are not comparable to the 2017 numbers. The scope of the reported metrics is all positions in the Bank Treasury books and the mortgage loans, current accounts and savings accounts in the business books.

Consolidated annual accounts - continued

The full value impact cannot be directly linked to the balance sheet or profit and loss account, as fair value movements in banking books are not necessarily reported through the profit and loss account or through equity. The value mutations are expected to materialise over time in the profit and loss account, if interest rates develop according to forward rates throughout the remaining maturity of the portfolio.

NPV-at-Risk banking books per currency (instantaneous parallel shock)

In EUR millions	2017	
	-90 bps	+90 bps
Euro	68	-349
US Dollar	-2	2
Others	1	-1
Total	67	-348

NPV-at-Risk banking books per business (instantaneous parallel shock)

In EUR millions	2017	
	-90 bps	+90 bps
Wholesale banking	110	-80
Retail banking	-43	-268
Total	67	-348

NPV-at-Risk banking books per accounting category (instantaneous parallel shock)

In EUR millions	2017	
	-90 bps	+90 bps
Loan and receivables, and Held to maturity	-771	444
Available for sale	797	-797
Fair value through profit or loss	40	4
Total	67	-348

The NPV-at-Risk is dominated by the interest rate sensitive long-term investments of own funds, as the equity itself is not modelled and hence is not presented as an offset for the investments of own funds. The value of these investments is impacted significantly if interest rates move up by 1%.

Year-on-year variance analysis

The year-on-year evolution is difficult to compare, since the methodology to calculate the NPV-at-risk and the shocks that are used have been reviewed in 2017. The market risk policy of ING states that all risks are fully transferred to a centralized Bank Treasury book and these risks are managed within a risk appetite framework that is defined by the Alco Belux committee. The risk appetite has not changed and all positions have been managed within these limits.

Basis Point Value (BPV)

BPV measures the impact of a one basis point increase in interest rates on value. To a large extent the BPV and NPV-at-Risk reflect the same risk - the difference being that BPV does not reflect convexity risk, given the small shift in interest rates. The numbers of 2016 are not reported since they are not comparable to the 2017 numbers. The scope of the reported metrics is all positions in the Bank Treasury books and the mortgage loans, current accounts and savings accounts in the business books.

BPV banking books per currency

In EUR thousands	2017	
	Euro	
US Dollar		17
Others		-7
Total		-2,643

In line with NPV-at-Risk, the bank's overall BPV position is dominated by the long-term investment of own funds, as the present value of this position is significantly impacted if interest rates move up by one basis point.

Consolidated annual accounts - continued

Foreign exchange (FX) risk in banking books

FX exposures in banking books result from core banking business activities (business units doing business in other currencies than their base currency), foreign currency investments in subsidiaries (including realised net profit and loss) and strategic equity stakes in foreign currencies. The policy regarding these exposures is briefly explained below.

Governance – Core banking business

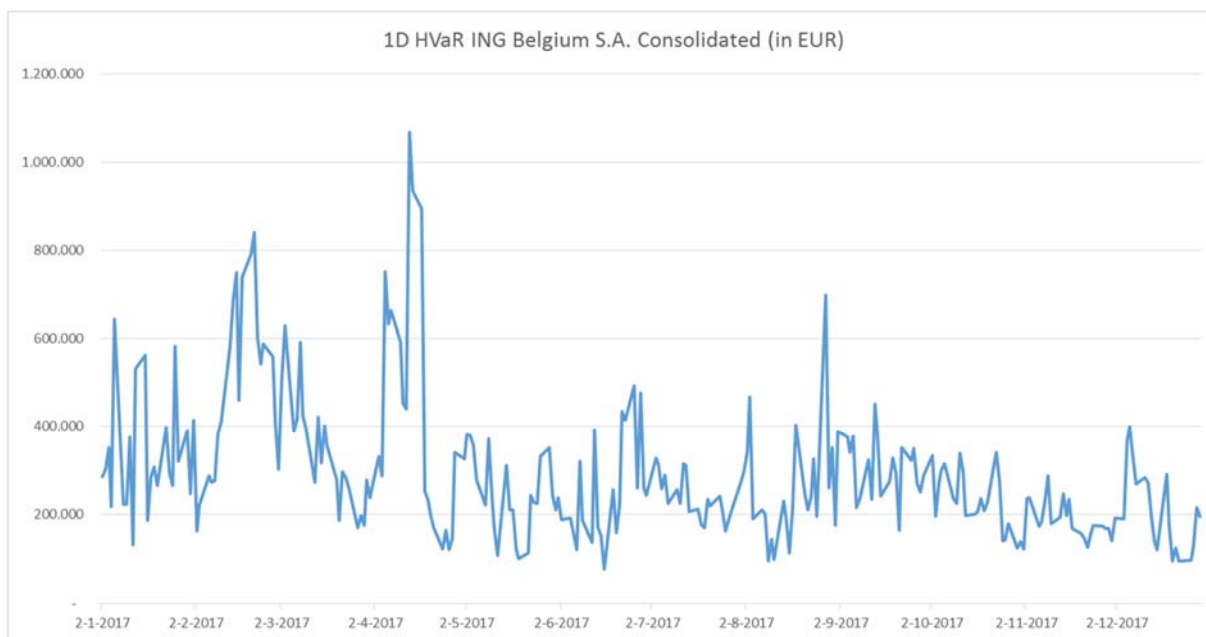
Every business unit hedges the FX risk resulting from core banking business activities into its base currency. Consequently, assets and liabilities are matched in terms of currency.

Governance – FX translation result

ING Bank's strategy is to keep the target CET1 ratio within a certain range when FX rates fluctuate, whilst limiting the volatility in the profit and loss account. Therefore, hedges are only done to the extent that they can be hedge accounted for against equity. This hedge is done at ING Group level. Taking this into account, the CET1 ratio hedge can be achieved by deliberately taking foreign currency positions equal to certain target positions, such that the target CET1 capital and risk-weighted assets are equally sensitive in relative terms to changing FX rates. A selection of emerging market currencies that meet specific requirements do not have a target position, but are allowed to remain open under the policy.

Market risk in trading books

Within the trading portfolios, positions are maintained in the professional financial markets. These positions are often a result of transactions with clients and may serve to benefit from short-term price movements. The historical simulation Value at Risk (VaR) methodology is used as primary related risk measure. The VaR for market risk quantifies, with a one-sided confidence level of 99%, the maximum overnight loss that could occur due to changes in risk factors (e.g. interest rates, equity prices, foreign exchange rates, credit spreads, implied volatilities) if positions remain unchanged for a time period of one day. For ING Belgium these trading positions and related VAR are limited as indicated by below stated chart.



Funding and liquidity risk

Introduction

Funding and liquidity risk is the risk that ING Bank or one of its subsidiaries cannot meet its financial liabilities when they come due, at reasonable cost and in a timely manner. ING Belgium incorporates funding and liquidity management in its business strategy. In order to optimise its funding and liquidity risk management, ING Belgium has developed a funding and liquidity risk framework aimed at maximising liquidity access and minimising funding risks and costs. The main objective of ING's funding and liquidity risk management is to maintain sufficient liquidity to ensure safe and sound operations under normal market circumstances and in times of stress.

Governance

Within ING Bank, the MBB, staff departments from the CRO and CFO domain, Capital Management and Bank Treasury have oversight of and are responsible for managing funding and liquidity risk. The MBB defines the funding and liquidity strategy, target funding and liquidity position and the risk appetite based on recommendations from Bank Treasury, Capital Management, Balance Sheet Risk and Finance. Liquidity risk management within ING Bank falls under the supervision of the ALCO function, with ALCO Bank as the highest approval authority overseeing the execution of the overall strategy set by the MBB.

Management

Framework

ING's liquidity risk management framework incorporates all relevant risk principles with regard to the daily and on-going management of funding and liquidity risk. The framework contains the following key elements:

- *Liquidity risk appetite:* This is set by ALCO Belux (which includes most ExCo members) in line with ING's complexity, business mix and liquidity risk profile. The risk appetite is reviewed on an annual basis and forms part of the input of business units in their medium term business plans. The defined risk appetite is allocated to the lower level ALCO's;
- *Funding:* The Bank Treasury function sets and updates the funding strategy and funding planning, taking into account diversification in sources and tenor of funding;
- *Intraday Liquidity Management:* Bank Treasury actively manages its short term liquidity positions and risks to meet payment and settlement obligations on a timely basis under both normal and stressed conditions;
- *Collateral Position Management:* Bank Treasury actively manages the liquidity risk of its collateral positions to meet ING's collateral needs, and resources, under both normal and stressed conditions and in accordance with all internal and regulatory rules;
- *Liquidity buffers:* ALCO Belux ensures that sufficient liquidity is maintained, in accordance with Bank- and regulatory rules and standards, including a buffer of unencumbered, high quality liquid assets, to withstand stress events, such as those involving the loss or impairment of both unsecured and secured funding sources;
- *Liquidity risk transfer and pricing:* ALCO Bank sets and maintains a Funds Transfer Pricing (FTP) framework that optimises Bank-wide funding and liquidity risk management, whereby all business units must transfer their structural funding and liquidity risks to Bank Treasury whilst managing their own customer behaviour liquidity risk costs. Any negative carry resulting from necessity to keep a buffer of liquid assets as contingent liquidity is not captured in FTP, this negative carry is captured and allocated through a separate contingent liquidity charging (CLC) mechanism;
- *Stress testing:* ALCO ensures that liquidity stress tests are planned, designed, conducted and reviewed, to identify sources of potential liquidity strain, to determine how these can and will be addressed and to ensure that current exposures remain within the established liquidity risk tolerance; and
- *Contingency Funding Plan:* ALCO ensures the design, regular test and maintenance of formal Contingency Funding planning, setting out the strategies for addressing liquidity shortfalls in emergency situations, outlining procedures to manage these situations, establishing clear lines of responsibility, and articulating clear implementation and escalation procedures.

Liquidity risk appetite

ING's liquidity risk appetite expresses the level of liquidity risk ING is willing to take in pursuit of its strategic objectives. The Liquidity Risk Appetite Statements (RAS) are aligned with the ING strategy and are allocated to the ING entities by way of limits, where needed per ING entity. ING's Liquidity RAS is build up of three levels:

- RAS Level 1 are considered in conjunction with each other for the purpose of steering the ING Belgium's liquidity positions as they differ in assumptions, horizon and scope. The level 1 risk appetite statements (i) assure compliance with regulatory requirements (LCR and NSFR) and (ii) set adequate buffers related to internally defined stress scenarios;
- RAS Level 2 are additional principles that allow assessing different aspects of ING consolidated liquidity position and/or balance sheet (ratios). They can ultimately affect RAS Level 1, or they can be complementary to RAS Level 1 (where the differences lie in either the metrics, the assumption, the data source or both). The level 2 risk appetite statements focus on (i) ING Belgium's resilience to prolonged internally defined stress scenarios, (ii) the asset encumbrance ratio, (iii) intraday liquidity risk ratios; and
- RAS Level 3 are additional principles that allow assessing aspects of the liquidity position that concern certain parts of on- and off- balance sheet items, or represent a further specification of RAS Level 1 or Level 2.

Funding

In detailing the activities of the bank regarding utilisation of professional market funding sources, the following key principles apply:

- Maintaining adequate market access in both normal and stressed but operable market conditions;
- Managing risk by adhering to internally and externally imposed risk limits and balance sheet ratios; and
- Optimising the cost of funding under the principles above.

With respect to funding sources, ING Belgium manages its balance sheet prudently, whereby short-term funding is primarily utilised for funding short-term assets. The bank aims to fund longer term assets and investments by stable and longer term liabilities. Next to this, ING Belgium monitors exposures in major currencies such as the USD. Monitoring and control of the USD funding is effectuated through a dedicated USD funding and liquidity risk framework.

ING Belgium reviews its funding plan on at least a quarterly basis, assessing market developments and funding requirements.

Intraday liquidity management

The objective of managing intraday liquidity and its risks at ING is twofold: it is focused on preventing damage to the institution's own liquidity position, and, in light of its role in global financial markets, ING also takes into account the potential damage to other parties which can arise through chain effects in payment and securities transactions. Intraday liquidity management is managed through the intraday risk appetite statement, by setting amongst others monitoring metrics and triggers on daily net negative liquidity positions and levels of payments outflows.

Collateral position management

The objective of the Collateral Management is to ascertain that ING Belgium can meet collateral requirements for ING's collateral needs. ING Belgium maintains a liquidity buffer existing of cash, cash equivalents and other highly liquid unencumbered assets to facilitate this. Tactical (short term) management of the liquidity buffer is performed, by increasing or decreasing the liquidity coverage with collateral transformation by execution of repos, in order to meet internal and regulatory requirements. Reporting and analysis is performed, providing availability of collateral for emergency financing, its eligibility and its route to cash in an efficient manner.

Liquidity buffers

The liquidity buffer ING Belgium holds can be seen as the short-term part of the counterbalancing capacity, i.e. the total of available sources and measures within ING to generate liquidity (including also stopping professional lending), and serves as a cushion for liquidity needs under normal and stressed conditions.

The size and composition of the Liquidity buffer depends on ING's risk appetite and regulatory liquidity standards. In the buffer, only assets that are included that are 'unencumbered' and freely available for liquidity purposes. Bank Treasury ensures functional management of all liquidity buffers within ING Belgium.

The liquidity buffer is held as an insurance against a range of stress scenarios, covering the additional need for liquidity that may arise over a defined short period of time under stress conditions.

Stress testing

Stress testing allows ING to examine the effect of exceptional but plausible future events on the liquidity position of the bank and provides insight into which business lines or portfolios are vulnerable to which type of risks and/or in which type of scenarios. Liquidity stress testing is an important tool in identifying, assessing, measuring and controlling funding and liquidity risks, providing a complementary and forward-looking perspective to other liquidity and funding risk management tools.

In line with SREP and EBA guidance, ING's liquidity position is stress tested on a monthly basis under a particular scenario that is a mix between a market event and an ING specific event. The outcome of stress tests are evaluated and provide input to any follow-up on the need for additional contingency measures.

Contingency funding plan

In the contingency funding plan, contingency liquidity risk is addressed which specifically relates to the organisation and planning of liquidity management in time of stress. Within ING Belgium, for contingency purposes, a dedicated crisis team – consisting of key ExCo members and senior management representatives is responsible for liquidity management in times of crisis.

Consolidated annual accounts - continued

Analysis of assets and liabilities by maturity

Analysis of assets by contractual maturity (2017)

In EUR thousands	Less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 year	Maturity not applicable	Total
Cash and balances with central banks	9,558,201	0	0	0	0	0	9,558,201
Amounts due from banks	6,574,511	1,760,921	423,937	1,000,024	456,296	0	10,215,689
Financial assets at fair value through profit or loss							
- Trading assets	392,495	241,494	857,763	1,198,745	2,085,224	0	4,775,721
- Non-trading derivatives	97,570	147,763	328,452	1,287,098	1,572,410	0	3,433,293
- Designated as at fair value through profit or loss	29,633	20,777	28,907	2,656	945	0	82,918
Investments							
- Available-for-sale	370,473	349,618	850,537	8,019,692	4,867,340	66,163	14,523,823
- Held-to-Maturity	0	130,968	153,966	353,135	0	0	638,069
Loans and advances to customers	16,233,221	7,748,479	8,072,904	29,258,452	45,131,060	0	106,444,117
Intangible assets	0	0	13,860	55,441	0	33,399	102,700
Assets held for sale	0	0	0	0	0	0	0
Other assets	886,318	9,359	161,522	182,735	22,856	0	1,262,790
Remaining assets (where maturities are not applicable)	0	0	0	0	0	780,522	780,522
Total	34,142,422	10,409,379	10,891,848	41,357,978	54,136,131	880,084	151,817,842

Analysis of assets by contractual maturity (2016)

In EUR thousands	Less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 year	Maturity not applicable	Total
Cash and balances with central banks	5,008,639	0	0	0	0	0	5,008,639
Amounts due from banks	6,754,934	246,383	1,237,499	925,300	721,305	0	9,885,421
Financial assets at fair value through profit or loss							
- Trading assets	741,729	418,148	921,769	2,711,155	3,881,971	0	8,674,772
- Non-trading derivatives	148,956	132,494	367,373	1,520,462	2,243,759	0	4,413,044
- Designated as at fair value through profit or loss	33,614	22,068	29,994	2,274	0	0	87,950
Investments							
- Available-for-sale	355,780	194,569	1,739,097	8,199,040	6,479,024	55,414	17,022,923
- Held-to-Maturity	0	45,440	218,532	575,109	86,817	0	925,897
Loans and advances to customers	16,503,099	6,782,661	6,887,692	28,457,333	43,001,884	0	101,632,669
Intangible assets	0	0	33,308	66,617	0	2,557	102,483
Assets held for sale	0	0	0	0	0	0	0
Other assets	1,234,921	28,114	64,338	210,434	209,574	0	1,747,381
Remaining assets (where maturities are not applicable)	0	0	0	0	0	917,541	917,541
Total	30,781,672	7,869,877	11,499,602	42,667,723	56,624,334	975,512	150,418,720

Consolidated annual accounts - continued

Analysis of liabilities by contractual maturity (2017)

In EUR thousands	Less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 year	Maturity not applicable	Total
Subordinated loans	0	0	0	0	1,252,255	717,118	1,969,372
Debt securities in issue	324,592	311,474	1,762,165	3,483,307	1,079,914	0	6,961,453
Other borrowed funds	0	0	0	0	0	0	0
Amounts due to banks	9,331,972	879,449	115,659	5,863,859	454,023	0	16,644,961
Customer deposits and other funds on deposit	95,308,032	3,773,384	854,169	739,917	220,742	0	100,896,245
Financial liabilities at fair value through profit or loss							
- Trading liabilities	357,442	251,891	845,886	1,195,648	2,217,087	0	4,867,954
- Non-trading derivatives	164,161	122,243	355,707	1,359,983	2,742,573	0	4,744,667
- Designated as at fair value through profit or loss	25,017	7,297	90,508	1,121,253	58,836	0	1,302,911
Other liabilities	2,675,551	188,974	364,026	770,563	157,569	0	4,156,683
Remaining liabilities (where maturities are not applicable)	0	0	0	0	0	87,208	87,208
Total	108,186,767	5,534,711	4,388,121	14,534,530	8,182,999	804,326	141,631,454

Analysis of liabilities by contractual maturity (2016)

In EUR thousands	Less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 year	Maturity not applicable	Total
Subordinated loans	0	0	87,961	33,889	1,318,579	0	1,440,429
Debt securities in issue	214,016	270,278	789,536	4,652,614	1,816,807	0	7,743,252
Other borrowed funds	0	0	0	0	0	0	0
Amounts due to banks	9,579,213	778,285	70,781	2,182,714	722,636	0	13,333,629
Customer deposits and other funds on deposit	91,162,586	4,072,133	849,298	660,815	301,466	0	97,046,298
Financial liabilities at fair value through profit or loss							
- Trading liabilities	633,535	444,450	1,004,082	2,635,542	4,091,265	0	8,808,874
- Non-trading derivatives	230,886	118,016	366,418	1,401,802	3,956,990	0	6,074,112
- Designated as at fair value through profit or loss	19,100	102,683	272,029	1,206,482	189,036	0	1,789,330
Other liabilities	2,274,801	2,616	469,109	811,302	241,243	0	3,799,071
Remaining liabilities (where maturities are not applicable)	0	0	0	0	0	94,002	94,002
Total	104,114,137	5,788,460	3,909,214	13,585,161	12,638,022	94,002	140,128,997

Funding and Liquidity profile

Funding sources

In 2017, ING Belgium had readily access to a large variety of funding sources, both short term and long term. In the table below, the various funding sources are presented in the funding mix:

Funding mix, per type

In %	2017	2016
Retail deposits	44.0	46.0
Corporate and other deposits	35.0	34.0
Interbank (including central banks)	15.0	12.0
Lending and repurchase agreements	0.0	0.0
Public debts	6.0	8.0
Subordinated debts	0.0	0.0
Total	100.0	100.0

The table provides an overview of the commercial funding sources of ING Belgium. Over 2017, the funding mix remained very diversified.

Non-Financial risk

Introduction

The Non-Financial Risk (NFR) function encompasses the operational and compliance risk management functions. It ensures appropriate risk controls in these functional areas by implementing clear policies and minimum standards which are embedded in ING Bank business processes in all divisions. The necessary infrastructure is in place to enable management to track events and non-financial risk issues. A comprehensive system of internal controls that are reviewed and updated as necessary creates an environment of continuous improvement in managing non-financial risk.

ING Belgium believes that fully embedding controls preserves and enhances the trust of its customers, staff and shareholders and is essential to build sustainable businesses. The Orange Code sets the foundation for the high ethical standards ING Bank expects from all its business activities. The Orange Code requires all staff to conduct themselves, not only within the spirit and letter of laws and regulations, but above all, with integrity, whilst being honest, prudent and responsible.

Governance

Non-Financial Risk Committees (NFRCs) and Management Teams (MTs) manage, measure and monitor operational and compliance risks. NFRCs exist at Bank level and at other relevant levels. They are chaired by the first line of defence and steer the risk management activities of the first and second lines of defence in their scope. Non-financial risk topics are an integral part of the agenda of regular MTs at all levels in the organisation. The Bank NFRC is the primary approval and oversight committee for non-financial risk matters.

The Head of Operational Risk Management (ORM) and the Chief Compliance Officer report to the Chief Risk Officer (CRO) of ING Belgium and are jointly responsible for developing the framework of non-financial risk policies and standards within ING Belgium and for monitoring the quality of non-financial risk management in the organisation.

The Chief Compliance Officer (CCO) is the general manager of ING Belgium's Compliance Risk Management department. This is an independent function responsible for developing and establishing the policies and minimum standards for managing compliance risks. The CCO assists and supports the ExCo in managing ING Belgium's compliance risks and control framework. The CCO is a permanent participant of the Risk Committee of the BoD and meets regularly with its Chairman.

To avoid potential conflicts of interests, it is imperative that staff in this function are independent and objective when advising business management on non-financial risk matters in their business unit or business line. To facilitate this, a strong functional reporting line to the next higher level within Operational Risk Management (ORM) and Compliance is in place. The functional reporting line has clear accountabilities with regard to objectives setting, remuneration, performance management and appointment of new staff as well as obligations to veto and escalate.

Framework

ING Belgium has a comprehensive framework for non-financial risks that supports and governs the process of identifying, measuring, mitigating, monitoring and reporting non-financial risks. It reflects the stages described in the Enterprise Risk Management model of COSO (Committee of Sponsoring Organisations of the Treadway Commission).

Processes are in place to identify key threats, vulnerabilities and the associated risks which might cause adverse events. Event identification is performed proactively and precedes a risk assessment. Different techniques for risk identification exist within ING Belgium, e.g. Risk & Control Self-Assessments, scenario analysis, external events inventories, internal events analyses (e.g. lessons learned based on information from event reporting), key risk indicators and threat scans.

Advanced Measurement Approach (AMA)

ING Belgium applies ING Bank's Operational Risk Capital model in which the risk profile is closely tailored to the internal risk profile of ING Bank and its divisions, by using scenario data for capturing severe risks and internal loss and RCSA data for capturing day-to-day risks. The business has a strong role in assessing scenario severities and the ORM function in validating the results. The internal data are combined with external loss data (ORX) in the AMA capital calculation.

Risk mitigations

ING Bank is currently not using any insurance or risk transfer mechanisms for the mitigation of risk in the context of the AMA capital calculation.

Operational risk

Definition

Operational risk is defined as the risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems or from external events.

Risk categories

ING Bank categorises operational risks in a number of risk areas:

- Information (Technology) risk is the risk of financial loss, regulatory sanctions or reputational damage due to breaches of confidentiality, integrity or availability within business processes or information or lack of information quality;
- Continuity risk is the risk of financial loss, regulatory sanctions or reputational damage due to business disruptions (loss of people, processes, systems, data, premises);
- Control risk is the risk of financial loss, regulatory sanctions or reputational damage due to ineffective organisation structures and governance procedures (including unclear roles and responsibilities and inadequate reporting structure); monitoring and enforcement of risk mitigating measures; and risk culture;
- Internal fraud risk is the risk of financial loss, regulatory sanctions or reputational damage due to deliberate abuse of procedures, systems, assets, products and/or services of ING by employees (incl. temporary workers, third party contractors, internships and consultants) who intend to deceitfully or unlawfully benefit themselves or others;
- External fraud risk is the risk of financial loss, regulatory sanctions or reputational damage due to deliberate abuse of procedures, systems, assets, products and/or services of ING by external parties (clients, potential clients or other third parties, including vendors and outside agencies) who intend to deceitfully or unlawfully benefit themselves or others;
- Unauthorised activity risk is the risk of financial loss, regulatory sanctions or reputational damage due to employees performing outside the normal course of their business, intentionally giving unauthorised approvals or overstepping of their authority;
- Personal and physical security risk is the risk of financial loss, regulatory sanctions or reputational damage due to criminal and environmental threats that might endanger the security or safety of ING personnel at work, people in ING locations, ING assets or assets entrusted to ING, people at ING event locations, or might have an impact on ING organisation's confidentiality, integrity or availability;
- Processing risk is the risk of financial loss, regulatory sanctions or reputational damage due to failed (transaction) processing (input, execution, output) or failing process management; and
- Employment practice risk is the risk of financial loss, regulatory sanctions or reputational damage due to acts inconsistent with employment, health and/or safety laws, regulations or agreements, from payment of personal injury claims, or from diversity /discrimination events.

Operational risk includes the related risk of reputation loss, as well as legal risk but strategic risks are not included. Reputational risk is defined as the potential that adverse publicity regarding ING Belgium's business practices and associations, whether accurate or not, will cause a loss of confidence in the integrity of ING Belgium. Reputational risk is multidimensional and reflects the perception of other market participants, like customers, counterparties, shareholders, investors or regulators that can adversely affect ING Belgium's ability to maintain existing, or establish new, business relationships and continued access to sources of funding (e.g. through the interbank or securitisation markets).

Legal risk is defined as the risk related to (i) a failure (or perceived failure) to adhere to applicable laws, regulations and standards, (ii) contractual liabilities or contractual obligations that are defaulted or cannot be enforced as intended, or are enforced in an unexpected or adverse way, and (iii) liability (tort) towards third parties due to an act or omission contributable to ING Belgium (potentially) resulting in impairment of ING Belgium's integrity, leading to damage to ING Belgium's reputation, legal or regulatory sanctions, or financial loss. Given the heavy reliance on IT systems in financial institutions, controls that monitor the various aspects of IT risk, such as integrity and confidentiality, are embedded in ING Belgium's risk and control framework.

Compliance risk

Definition

Compliance risk is defined as the risk of impairment of ING Belgium's integrity, leading to damage to ING's reputation, legal or regulatory sanctions, or financial loss, due to a failure (or perceived failure) to comply with applicable laws, regulations and standards and the ING Values as part of the Orange Code. We aim to effectively manage compliance risks that could expose ING Belgium to reputational damage, fines, civil and criminal penalties, payment of damages, court orders and suspension or revocation of licenses that would adversely impact our customers, staff, shareholders and other stakeholders.

Risk categories

ING Bank categorises compliance risk into four conduct-related integrity risk areas:

- *Client conduct* refers to the compliance risks arising from the relationship with or generated by the conduct of our clients and/or business partners, like money laundering or terrorist financing. Those risks are generally defined within ING Bank as Financial Economic Crimes (FEC);
- *Personal conduct* refers to the compliance risks arising from the conduct of ING employees;
- *Financial Services conduct* refers to the compliance risks arising from or generated by the conduct of ING Bank when developing, marketing and/or selling products and services to its clients;
- *Organisational conduct* refers to the compliance risks arising from the way the Bank is organising itself to develop its activities. This category covers for instance the licences required to perform its regulated banking activities or the operating effectiveness of its information barriers.

Consolidated annual accounts - continued

The controls to mitigate the compliance risks associated with the above mentioned risk areas are designed and embedded within ING Belgium. The effectiveness of the controls as designed is tested periodically, and senior management is aware about their responsibility to ensure their processes are compliant with applicable laws and regulations, internal policies and the Orange Code.

In cases where an employee from ING Belgium suspects a breach of external laws and regulations, internal policies and minimum standards and/or the Orange Code they are encouraged to (anonymously) speak up in line with the Whistle-blower policy using the most appropriate channel, e.g. the (external) ethics line.

Financial Economic Crime (FEC) Policy and Minimum Standards

The ING Bank FEC Policy and Minimum Standards directly reflect relevant national and international laws, regulations and industry standards.

Management of ING Belgium maintains local procedures to comply with local laws, regulations and the ING Bank FEC Policy and Minimum Standards. Where local laws and regulations are more stringent, the local laws and regulations are applied. Likewise the FEC Policy and Minimum Standards prevail when the standards therein are stricter than stipulated in local laws and regulations and if not specifically forbidden (data privacy or bank secrecy).

Capital management

Objectives

The Capital Management department of ING Belgium is responsible for the sufficient capitalisation of ING Belgium and its subsidiaries at all times, in order to manage the risks associated with ING Belgium's business activities. This involves the management, planning and allocation of capital within ING Belgium.

Capital Management monitors and plans capital adequacy on a consolidated and stand-alone levels. ING Belgium takes an integrated approach to assessing the adequacy of its capital position in relation to its risk profile and its operating environment, including regulatory requirements.

ING applies the following main capital definitions:

- Common Equity Tier 1 (CET1): mainly composed of common stock and retained earnings, reduced by prudential filters and deductible elements;
- Tier 1 capital: composed of Common Equity Tier 1 and hybrid capital;
- Total capital: composed of Tier 1 and Tier 2 capital (subordinated term debt);
- CET1, Tier 1 and Total capital divided by Risk Weighted Assets equal the CET1, Tier 1 and Total capital ratios, respectively.

Developments

In January 2014, ING Belgium officially began reporting capital requirements and available capital as per the CRDIV and CRR1 (commonly referred to as Basel III). ING Belgium maintains healthy solvency ratios following the change.

In March 2015, ING Belgium proceeded with the issue of USD 600 mio subordinated Tier 2 capital. This CRD IV compliant instrument has an original tenor of 10 years, and was issued to parent company ING Bank NV. This issue, in addition to the previous issue of EUR 750 mio in June 2014, brings total Tier 2 to EUR 1.3 bio since 31 March 2015.

In December 2017, ING Belgium proceeded with the issue of EUR 725 million of hybrid capital (i.e. "Additional Tier 1" or "AT1"), as two intragroup perpetual contingent convertible loans from ING Bank NV to ING Belgium NV/SA. One for an amount of USD 590 million and the other one for an amount of EUR 225 million. These AT1 loans are CRD IV compliant instruments.

Policies

The activities of Capital Management are executed on basis of established policies, guidelines and procedures. The main documents that serve as guidelines for managing capital are the Capital Plan (comprising the approved internal targets and regulatory requirements for capital), the ING Bank Capital Investment Policy and the Local Capital Management Policy.

The above-mentioned capital definitions and policies have been approved by the ING Bank Executive Board or delegated authorities.

Processes for managing capital

Capital Management ING Belgium also ensures that sufficient capital is available by setting targets and limits relevant to the above-mentioned metrics for ING Belgium, and by ensuring adherence to the set limits and targets through planning and executing capital management transactions.

This process is supplemented by solvency stress testing and scenario analysis. The ongoing assessment and monitoring of capital adequacy is embedded in Capital Management's capital planning process and results in a quarterly capital update report. The main objective of the assessment is to ensure that ING Belgium as a whole has sufficient capital relative to its risk profile for both the short and medium term (at least 3 years), in compliance with internal and regulatory requirements.

Capital Adequacy Assessment

During 2017, the entities of ING Belgium were adequately capitalised in relation to their risk profile and strategic objectives.

Following the introduction of the Single Supervisory Mechanism (SSM) at the end of 2014, ING Bank and its subsidiaries file a single Internal Capital Adequacy Assessment Process (ICAAP) report to the European Central Bank (ECB).

On a yearly basis ING Belgium provides extensive documentation on the ICAAP to the ECB Joint Supervisory Team as prescribed in the Basel III framework. This documentation includes a description of ING's operating environment, current and forward-looking capital position, risk appetite, stress testing and Economic Capital analysis.

Regulatory capital requirements

Capital is required to support credit, market and operational risks. The adequacy of ING Belgium's capital is monitored using, among other measures, the rules and ratios established by the Basel Committee on Banking Supervision ('BIS rules/ratios') and European Community Directives and Regulations as implemented by the NBB. The BIS solvency ratios compare the amount of eligible capital (CET1, Tier 1 and Total capital) with the total of risk-weighted assets (RWAs).

The revised capital adequacy directive (CRD IV) aims at strengthening the resilience of banks, in particular through the introduction of capital buffers. These buffers are phasing-in annually since January 2016 until they are fully implemented in January 2019.

The Capital Conservation buffer (2.5% of RWA, fully loaded) is designed to ensure that banks build up capital buffers outside periods of stress, which can be drawn down as losses are incurred. This buffer has been phasing in since January 2016 (0.625%).

The Countercyclical buffer (ranges from 0% to 2.5% of RWA) aims to counter the adverse effects of a build-up of system-wide risk. The level of countercyclical buffer requirement per country of exposure and its time of application are determined by national authorities (NBB in Belgium), based on macroeconomic developments.

Banks may also be subject to a Systemic Bank buffer (currently 1% to 5%) determined to reflect their impact on the global economy (Global Systemically Important Banks - GSIB) or on the domestic economy (Domestic Systemically Important Banks - DSIB). The list of GSIBs is published annually by the Financial Stability Board. ING Bank NV is considered a GSIB resulting in a 3% additional capital requirement. ING Belgium is subject to a DSIB buffer of 1.5% in 2018, phasing in annually over 3 years since January 2016.

Excluding the impact of the capital buffers, in 2017 the minimum Pillar I capital requirements were as follows:

- Common Equity Tier 1 ratio: 4.5%,
- Tier 1 ratio: 6%
- Total Capital ratio: 8%.

In order to determine the overall Pillar I capital requirements, these ratios need to be augmented with the combined buffer requirements, i.e. for ING Belgium, on a fully loaded basis: 2.5% Capital Conservation Buffer, 1.5% (DSIB) systemic buffer and 0.04% counter-cyclical buffer. This results in the following ratios:

- Core Tier 1 ratio: 8.54%
- Tier 1 ratio: 10.04%
- Total Capital ratio: 12.04%.

Consolidated annual accounts - continued

Hereunder the calculation of the Capital Position and the Capital Ratio of ING Belgium:

In EUR millions / in %	2017		2016	
	2017 rules (CRR/CRD IV phased in)	2019 rules (CRR/CRD IV fully loaded)	2016 rules (CRR/CRD IV phased in)	2019 rules (CRR/CRD IV fully loaded)
Shareholders' equity	10,186	10,186	10,290	10,290
Regulatory adjustments				
Minority interests counting as Common equity Tier 1	29	-32	43	-21
Goodwill and intangibles deducted from Tier 1 ¹	-103	-103	-102	-102
Provision shortfall ²	-266	-266	-242	-242
Revaluation reserve debt securities	-281	0	-316	0
Revaluation reserve equity securities	0	0	0	0
Revaluation reserve real estate	0	0	0	0
Revaluation reserve cash flow hedges	294	294	140	140
Prudent valuation adjustments	-18	-18	-19	-19
Investments >10 Fls, exceeding 10% threshold	0	0	0	0
Prudential filters				
Profit of the year	-741	-741	-572	-572
Defined benefit remeasurement (IAS19R)	0	0	0	0
Net defined benefit pension fund assets	0	0	0	0
Deferred tax assets	-1	-1	-1	-1
Own credit risk adjustments to derivatives (DVA)	18	18	19	19
Foreseeable dividend	-503	-503	-858	-858
Available capital – Common equity tier 1	8,615	8,835	8,381	8,633
Subordinated loans qualifying as Tier 1 capital	717	717	0	0
Deduction of goodwill and other intangibles ¹	0	0	0	0
Provision shortfall ²	0	0	0	0
Investments >10 Fls, exceeding 10% threshold	0	0	0	0
CRD IV eligible Tier 1 hybrids	0	0	0	0
Investments >10 Fls, exceeding 10% threshold	0	0	0	0
Excess deductions allocated to CET 1 capital	0	0	0	0
Minority interests counting as additional Tier 1 capital	0	0	0	0
Available capital – Tier 1	9,332	9,552	8,381	8,633
Supplementary capital – Tier 2	1,250	1,250	1,332	1,332
Provision shortfall ²	0	0	0	0
IRB excess provision	0	0	14	14
Investments >10 Fls, exceeding 10% threshold	-0	-0	-1	-1
Minority interests counting as Tier 2 capital	0	0	0	0
Available Tier 3 funds	0	0	0	0
BIS capital	10,583	10,802	9,727	9,979
Risk weighted assets³	60,262	60,626	58,744	59,359
Common equity Tier 1 ratio	14.30	14.57	14.27	14.54
Tier 1 ratio	15.49	15.76	14.27	14.54
Total Capital ratio	17.56	17.82	16.56	16.81

1. Intangibles: mainly capitalised software

2. In Basel III the provision shortfall is deducted fully from Common Equity Tier 1, while the significant investments in financial institutions, conditionally to certain thresholds, are 250% risk weighted. During the phase-in period (2014-2017) they are gradually shifting from 50% deduction from Additional Tier 1 capital and 50% from Tier 2 capital towards full deduction from Common Equity Tier 1.

3. The internal models related to the Risk Weighted Assets are not audited but validated by the National Bank of Belgium.

Statutory Auditor's report to the general meeting of shareholders of ING Belgium NV/SA on the Consolidated Financial Statements of the year ended 31 December 2017

The Auditor's report relates to the chapters up to 'Consolidated annual accounts'.



Statutory auditor's report to the general meeting of ING Belgium nv/sa on the consolidated annual accounts as of and for the year ended 31 December 2017

In the context of the statutory audit of the consolidated annual accounts of ING Belgium nv/sa ("the Company") and its subsidiaries (jointly "the Group"), we provide you with our statutory auditor's report. This includes our report on the audit of the consolidated annual accounts for the year ended 31 December 2017, as well as our report on other legal, regulatory and professional requirements. These reports are one and indivisible.

We were appointed as statutory auditor by the general meeting of 27 April 2016, in accordance with the proposal of the Board of directors issued on the recommendation of the Audit committee and as presented by the workers' council. Our mandate will expire on the date of the general meeting deliberating on the annual accounts for the year ended 31 December 2018. We have performed the statutory audit of the consolidated annual accounts of ING Belgium nv/sa for two consecutive financial years.

Report on the audit of the consolidated annual accounts

Unqualified opinion

We have audited the consolidated annual accounts of the Group as of and for the year ended 31 December 2017, prepared in accordance with International Financial Reporting Standards as adopted by the European Union, and with the legal and regulatory requirements applicable in Belgium. These consolidated annual accounts comprise the consolidated statement of financial position as at 31 December 2017, the consolidated statements of profit or loss, comprehensive income, changes in equity and cash flows for the year then ended and notes, comprising a summary of significant accounting policies and other explanatory information. The total of the consolidated statement of financial position amounts to EUR 151,817,843 thousand and the consolidated statement of profit or loss shows a profit for the year of EUR 738,973 thousand.

In our opinion, the consolidated annual accounts give a true and fair view of the Group's equity and financial position as at 31 December 2017 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union, and with the legal and regulatory requirements applicable in Belgium.

Basis for our unqualified opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the "Statutory auditors' responsibility for the audit of the consolidated annual accounts" section of our report. We have complied with the ethical requirements that are relevant to our audit of the consolidated annual accounts in Belgium, including the independence requirements.

KPMG België nv/sa - Belgium NV/SA, a Belgian and CVRAGOR, and a member firm of the KPMG network of independent member firms affiliated with the KPMG International Cooperative ("KPMG International"), a Swiss entity. Discussed in the document: KPMG Public.

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KPMG International Cooperative
("KPMG International") - Swiss entity
discussed in the document of a
separate firm: 19870
BRTN - TVA BE 0419 122 543
RPR Brussel - RPR Bruxelles



Statutory auditor's report to the general meeting of ING Belgium nv/sa on the consolidated annual accounts as of and for the year ended 31 December 2017

We have obtained from the board of directors and the Company's officials the explanations and information necessary for performing our audit.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated annual accounts of the current period. These matters were addressed in the context of our audit of the consolidated annual accounts as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Estimation uncertainty with respect to impairment losses on loans and advances to customers

Refer to 'Accounting policies' sections Financial assets and Impairment of financial assets and related credit risk disclosures in the 'Risk Management' paragraph of the Consolidated Annual Accounts

Description

The Group's net portfolio of loans and advances to customers amounts to EUR 106,444 million and represents 70% of total assets as at 31 December 2017. These loans and advances to customers are measured at amortized cost, less a provision for loan losses (EUR 673 million). Certain aspects of the accounting for loan losses require significant judgement by the Management, such as the identification of loans and advances to customers that are deteriorating, the assessment of objective evidence for impairment, the value of collateral, and the estimation of the recoverable amount.

Due to the significance of loans and advances to customers and the related estimation uncertainty behind the accounting for loan losses, we consider the valuation of loans and advances to customers as a key audit matter.

Our audit procedures

With the assistance of our IT and financial risk management specialists, we performed the following audit procedures:

- We assessed the design and evaluated the operating effectiveness of key controls around the accuracy of loans and advances to customers, and collateral data, the determination of risk ratings, the identification of arrears and the management thereof, and the approval of the provision for impairment losses, as well as the periodic evaluation of the parameters applied in these models.
- We assessed the appropriateness of the collective impairment methodologies. We evaluated the models and assumptions used by Management to determine the collective provision for impairment losses.
- We assessed the methodology and framework designed and implemented by the Group to determine whether the collective provision model outcomes should be adjusted to better reflect the current circumstances of the portfolio performance and of the general economic conditions.



Statutory auditor's report to the general meeting of ING Belgium nv/sa on the consolidated annual accounts as of and for the year ended 31 December 2017

- We evaluated data used in the modelling such as loans and advances to customers data and collateral data used to determine the collective impairment. For a sample of loans and advances to customers, we compared data used in the models with underlying documentation such as contracts.
- We tested a sample of loan exposures that either continued to be, have become, or were at risk of being individually impaired. For the selected loan files, we challenged management's estimate of the recoverable amount, including the cash generating capacity and, where applicable, the value of realizable collateral, based on available financial information, market information and, where applicable, the analysis of alternative recovery scenarios.

IT systems and control over financial reporting

Description

We identified IT systems and controls over financial reporting as a key audit matter for the Group because its financial accounting and reporting systems are fundamentally reliant on IT systems and IT controls to process significant transaction volumes. Automated accounting procedures and general control activities over technology, which include IT governance, general IT controls over program development and changes, access to programs and data and IT operations, are required to be designed and to operate effectively to ensure accurate financial reporting. Of particular importance are systems calculations, other IT application controls (including logical access) and interfaces between IT systems.

Our audit procedures

With the assistance of our IT specialists, we performed the following procedures:

- We assessed the framework of governance over the Group's IT organisation;
- We assessed the design and evaluated the operating effectiveness of general IT controls over program development and changes, access to programs and data and IT operations (e.g. job scheduling, backup and recovery procedures);
- We assessed the design and evaluated the operating effectiveness of IT application controls in the key processes impacting financial reporting of the Group;
- We assessed the integrity of data transmission through the different IT systems to the financial reporting systems.

Estimation uncertainty with respect to the restructuring provision

Refer to the 'Accounting policies' section Provisions in the Consolidated annual accounts and related disclosures of reorganization provisions in Note 16 and Note 28 of the consolidated annual accounts.



Statutory auditor's report to the general meeting of ING Belgium nv/sa on the consolidated annual accounts as of and for the year ended 31 December 2017

Description

We identified the restructuring provision as a key audit matter for the Group due to the combination of the significance of the ongoing restructuring and the high degree of judgment involved:

- The restructuring provision recorded as a consequence of the 'Accelerating Think Forward' strategy publicly announced on 3 October 2016 by ING Group amounts to EUR 576 million as of December 31, 2017.
- The measurement of the restructuring provisions and the determination and selection of underlying assumptions requires significant judgement by management.

Our audit procedures

- We assessed the design and tested the operating effectiveness of controls over the selection and determination of the relevant assumptions and data elements and over the measurement and evaluation of the restructuring provision.
- We assessed the reasonableness of assumptions made and key judgements applied by the Group through a detailed analysis of the contractual arrangements derived from collective bargaining and discussions with the Human Resources and Finance departments.
- We assessed the experience, objectivity and capability of management's actuarial expert used in the preparation of the estimate, involved an actuarial specialist and performed sensitivity analysis over significant assumptions to verify the reasonableness of significant assumptions, we evaluated the consistency of measurement methodologies used and we verified that the provision of the collective labor agreement were properly reflected in the assumptions used to calculate the provision.
- Additionally, we considered whether the disclosures of the application of judgement in estimating provisions adequately reflect the uncertainties associated with determining the restructuring provision.

Estimation of the impact of the adoption of IFRS 9 accounting standard

Refer to the 'Accounting policies' section Upcoming changes in IFRS - EU effective in 2017, IFRS 9 'Financial Instruments'.

Description

The Group is adopting IFRS 9 'Financial Instruments' effective 1 January 2018 as a result of which it has disclosed an estimate of the financial impact on the opening equity and balance sheet as at 1 January 2018 of the adoption of this new accounting standard in accordance with IAS 8 'Accounting Policies, Change in Accounting Estimates and Errors'. The determination of the impact of the adoption of IFRS 9 requires judgement and management estimates in particular with respect to the classification and measurement of financial assets and liabilities and the impairment of financial assets.



Statutory auditor's report to the general meeting of ING Belgium nv/sa on the consolidated annual accounts as of and for the year ended 31 December 2017

Our audit procedures

Our audit approach included testing both the design and effectiveness of controls around management's process for determining the estimated impact of adopting IFRS 9 as well as other audit procedures regarding the disclosure required by IAS 8.

- We considered the appropriateness of key technical positions taken and judgements made in determining the estimate considering the requirements of IFRS 9, the Group's operating model, and our knowledge of the sector. Our procedures over controls included testing controls around the process put in place by management to develop its technical positions.
- Assisted by our financial risk management specialists, we have assessed the Group's controls around the development and implementation of the expected credit loss methodology. In particular, we tested the Group's controls over the selection of multiple macroeconomic scenarios used in the calculation of expected credit losses and over the design, internal validation and implementation of the most significant models used to estimate the expected credit losses.
- Assisted by our financial risk management specialists, we independently verified for a sample of financial instruments the appropriateness of the allocated business model and of management's assessment of the applicability of the solely payment of principal and interest criteria.
- Assisted by our financial risk management specialists, we have assessed the methodology and framework designed and implemented by the Group to determine whether the provision model outcomes and stage allocations (stage 1: Financial instruments that have not had a significant increase in credit risk since initial recognition, stage 2: Financial instruments that have a significant increase in credit risk since initial recognition and stage 3: Financial instruments that have been impaired), appear reasonable and reflective of Group's expectations of future economic conditions.
- We evaluated the disclosure against the criteria of IAS 8.

Board of directors' responsibilities for the preparation of the consolidated annual accounts

The board of directors is responsible for the preparation of these consolidated annual accounts that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union, and with the legal and regulatory requirements applicable in Belgium, and for such internal control as board of directors determines, is necessary to enable the preparation of consolidated annual accounts that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated annual accounts, the board of directors is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the board of directors either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.



Statutory auditor's report to the general meeting of ING Belgium nv/sa on the consolidated annual accounts as of and for the year ended 31 December 2017

Statutory auditor's responsibilities for the audit of the consolidated annual accounts

Our objectives are to obtain reasonable assurance as to whether the consolidated annual accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of the users taken on the basis of these consolidated annual accounts.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional skepticism throughout the audit. We also perform the following procedures:

- Identify and assess the risks of material misstatement of the consolidated annual accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- Obtain an understanding of internal controls relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by board of directors;
- Conclude on the appropriateness of board of directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated annual accounts or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern;
- Evaluate the overall presentation, structure and content of the consolidated annual accounts, including the disclosures, and whether the consolidated annual accounts represent the underlying transactions and events in a manner that achieves fair presentation;



Statutory auditor's report to the general meeting of ING Belgium nv/sa on the consolidated annual accounts as of and for the year ended 31 December 2017

— Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated annual accounts. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

For the matters communicated with the Audit committee, we determine those matters that were of most significance in the audit of the consolidated annual accounts of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

Report on the other legal, regulatory and professional requirements

Responsibilities of the Board of Directors

The board of directors is responsible for the preparation and the content of the board of directors' annual report on the consolidated annual accounts, and the other information included in the annual report.

Statutory auditor's responsibilities

In the context of our mandate and in accordance with the Belgian standard which is complementary to the International Standards on Auditing as applicable in Belgium, our responsibility is to verify, in all material respects, the board of directors' annual report on the consolidated annual accounts and the other information included in the annual report, and to report on these matters.

Aspects concerning the board of directors' annual report on the consolidated annual accounts and other information included in the annual report

Based on specific work performed on the board of directors' annual report on the consolidated annual accounts, we are of the opinion that this report is consistent with the consolidated annual accounts for the same period and has been prepared in accordance with article 119 of the Companies' Code.

In the context of our audit of the consolidated annual accounts, we are also responsible for considering, in particular based on the knowledge gained throughout the audit, whether the board of directors' annual report on the consolidated annual accounts and other information included in the annual report:



Statutory auditor's report to the general meeting of ING Belgium nv/sa on the consolidated annual accounts as of and for the year ended 31 December 2017

— The information on Corporate Governance and Diversity

contain material misstatements, or information that is incorrectly stated or misleading. In the context of the procedures carried out, we did not identify any material misstatements that we have to report to you.

We do not express any form of assurance on the board of directors' annual report on the consolidated annual accounts and the other information included in the annual report

Information about the independence

— Our audit firm and our network have not performed any engagement which is incompatible with the statutory audit of the consolidated annual accounts and our audit firm remained independent of the Group during the term of our mandate.

— The fees for the additional engagements which are compatible with the statutory audit referred to in article 134 of the Companies' Code were correctly stated and disclosed in the notes to the consolidated annual accounts.

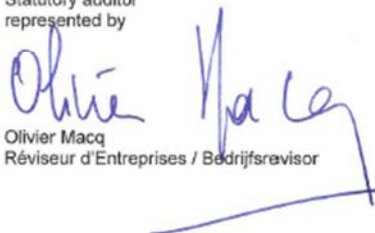
Other aspect

— Reference is made to the board of directors' annual report on the consolidated accounts which states management's view that the Group is exempt from the obligation to prepare and disclose the non-financial information as required by article 119 §2 of the Companies' Code since the Group is a subsidiary of ING Group NV, who prepares a consolidated board of directors' annual report, that includes the consolidated non-financial information, in accordance with the applicable EU directive.

— This report is consistent with our additional report to the Audit committee on the basis of Article 11 of Regulation (EU) No 537/2014.

Zaventem, 10 April 2018

KPMG Bedrijfsrevisoren / Réviseurs d'Entreprises
Statutory auditor
represented by



Olivier Macq
Réviseur d'Entreprises / Bedrijfsrevisor

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