

Our strategy and progress

At ING we believe that our purpose as a financial institution is to contribute to the sustainable development of society by empowering people to stay a step ahead in life and in business. In 2015, we made good progress implementing our strategy and promoting the organisation and culture we need to deliver on our Customer Promise.

Purpose

In 2015, we continued to build on our Think Forward strategy to empower customers and provide them with a differentiating customer experience. That includes a focus on being leaders in the digital customer experience based on easy, 24/7 access, simple products and services, and tools to help customers make sound financial decisions.

Those goals are reflected in our Customer Promise to be clear and easy, make financial services available anytime-anywhere, empower, and to keep getting better for customers.

Our appeal to customers was demonstrated in 2015 by the growing number of primary relationships – customers with current accounts and at least one other product with us – and also in ING's high NPS scores, with customers rating us number one compared to peer banks in seven of our leading markets.

Contributing to the sustainable development of society is also an integral part of the Think Forward strategy. Our sustainability direction focuses on two areas: enhancing the financial capabilities of clients and non-clients, and supporting companies to make the transition to more sustainable business models.

We financially empower by making banking accessible and easier to understand in line with our Customer Promise. We serve communities where we operate through programmes to teach financial literacy in schools. Through our partnership with UNICEF we support life skills training, including financial literacy training for adolescents in less developed countries.

We see sustainability as a source of competitive advantage for companies. The sustainable transitions financed by ING amounted to EUR 23.8 billion at end-2015. We also broadened our sustainability approach in Industry Lending and in General Lending and extended it to other parts of Wholesale Banking.

Staying relevant for customers

The success of our strategy will ultimately depend on how well it enables us to adapt to change and continue to deliver a superior experience for our customers.

The pace of disruption affecting the banking industry further accelerated in 2015. There are an increasing number of new entrants in many areas traditionally serviced by banks, including payments, lending, investment services and foreign exchange. New business models based on easily accessible, digital services are challenging bank revenue streams. They are focusing not on price leadership but on offering a superior customer experience, confirming that this is the area banks will need to focus on to succeed.

Consumers are rapidly turning to digital services for an increasing number of needs. What they are experiencing with digital leaders is shaping their expectations. In ING's case, nearly 90 percent of retail customers now use digital channels to contact us, and just under 70 percent use them exclusively. This makes it more and more important for that digital contact to be clear and easy for them, with for example digital on-boarding and end-to-end mobile sales processes.

We continue to face a challenging economic environment. Economic growth has returned to the main markets where we are active, but it remains sluggish. Interest rates remain at historic lows, putting pressure on savings and lending margins, which make up a large portion of our revenues. As a response, we are increasing our focus on services to customers that generate fee income, such as investment services.

Regulation is another challenging area for financial services. Many regulations have been introduced since the financial crisis to increase the stability of the banking system. New regulatory initiatives in the pipeline could further increase capital requirements for banks, putting pressure on returns. This will require banks to look for new sources of income and to lower costs. At the same time, EU initiatives to create a Digital Single Market are increasing competition, but the slow pace of development of the European Banking Union makes it challenging to benefit from cross-border opportunities.

All these developments in the external environment confirm to us that we are on the right track with our strategy to create a differentiating customer experience based on digital leadership. We support that through the clear and easy approach embodied in our Customer Promise.



Customers will soon have tools at their fingertips to make all their financial decisions, from buying shares to renovating homes. Will they be happy to be their own money managers?

Financially Fit

The Financially Fit initiatives enable customers in the Netherlands to make decisions that improve their financial situation. These include an online tool to plan retirement income, and a partnership with an employment agency to help mortgage customers who have been made redundant. At ING, we're always looking for the next step ahead.

Our strategy and progress – continued

Our strategy on a page

With the launch of our Think Forward strategy in March 2014, a one-page overview was created to show our new strategy in a clear and visual way to all our stakeholders.

Purpose

Empowering people to stay a step ahead in life and in business

Customer Promise

Clear and Easy



Anytime, Anywhere



Empower



Keep Getting Better

Strategic Priorities**Creating a differentiating customer experience**

- 1 Earn the primary relationship
- 2 Develop analytics skills to understand our customers better
- 3 Increase the pace of innovation to serve changing customer needs
- 4 Think beyond traditional banking to develop new services and business models

Enablers

Simplify &
Streamline

Operational
Excellence

Performance
Culture

Lending
Capabilities

Our strategy and progress – continued

Elements of our strategy

Our Think Forward strategy was launched in March 2014 and guides everything we do. In this section we give you an overview of the strategy illustrated with concrete examples of how we are putting it into practice.

Strategic priorities

To deliver on our Customer Promise and create a differentiating customer experience, we have identified four strategic priorities:

1. Earn the primary relationship

The better we know our customers, the better we will be able to empower them to make smart financial decisions and continue to be relevant for them. We can do this best if they do a range of banking with us – if we are the bank our customers go to for their daily transactions. We call that the primary relationship.

In Retail Banking, we define the retail primary relationship as a payment account with recurrent income and at least one other product with ING. In Wholesale Banking, we aim to increase primary relationships by increasing our so-called “flow” relationships (e.g. transaction services, working capital solutions) and the percentage of relationships where we are the client's lead finance provider.

In 2015, the number of retail primary relationships grew by almost 7% to 8.9 million, putting us well on track to reach our goal of 10 million primary retail customers in 2017.

New customer-bank relationship model – Spain

In Spain, an innovative omnichannel platform gives customers new ways to access banking services, with features like expense categorisation, simulators, peer comparison and an interactive financial dashboard. It is strengthening the customer relationship and boosting mobile adoption. Customer contact is rising by 10 percent a year and in 2015 reached an average of 12 per month, with 60 percent via the mobile app. One out of four loan applications is now submitted via the mobile app.

2. Develop data analytics

The relationship between banks and their customers, as in other industries, is increasingly a digital one. Digitalisation challenges banks to maintain intimacy with a customer who they rarely meet face to face. But the digital interface also provides a wealth of data on customers' preferences and needs that gives banks important insights to provide the kind of experience customers now expect from businesses they interact with online. Developing analytic skills is essential to serving customers in a digital world. This is not only important for improving customer services, but also for preventing fraud, improving operational processes, reducing risks and generating services that go beyond traditional banking so we can stay relevant for customers.

To make this happen, an international Advanced Analytics team based in Frankfurt and Amsterdam acts as a centre of excellence and supports all business units. At the same time, local advanced analytics teams have been established in the Netherlands, Belgium, Spain, Poland and in Wholesale Banking.


Our Chief Data Management Officer appointed in October 2015 will oversee the implementation of global data management together with local data officers.

Pre-approved loans – Poland

Starting in 2015, an advanced analytics project in Poland has been using data mining to offer retail and small business customers pre-approved loans. By the end of 2015, these included pre-approved loans for 94,000 entrepreneurs to help them grow their businesses.

3. Increase the pace of innovation to serve changing customer needs

Customer expectations, new technologies and new competitors are transforming the banking industry faster than anticipated. To address that, we need to increase the pace of innovation. We promote an internal culture of innovation and also partner with external parties with specialised knowledge to accelerate the pace of innovation.

 Read more in the “Operational excellence and innovation” chapter.

Payconiq – Belgium

Payconiq is a mobile, contactless and card-free payment app being piloted in Belgium. The only thing a customer needs is a smartphone and an IBAN, which can be from any European bank. The app facilitates both online and offline payments and reduces charges for the small-business owners.

4. Think beyond traditional banking to develop new services and business models

Thinking beyond traditional banking is crucial given that disruption in the banking industry puts a significant portion of revenues at risk. Our payments value chain is already under threat from many bank and non-bank players. To be successful, banks need to expand the concept of what a bank is and what it means to customers, by for example finding ways to be relevant to customers earlier in their purchasing decision-process.

Bazar – Romania


The Bazar mobile app aims to revolutionise shopping. It is available to customers of ING Romania and provides users with tailored shopping promotional offers and allows them to collect and store loyalty cards, make mobile payments and save money. With merchants including adidas, Lego and MOL involved, 26,000 ING users redeemed 146,000 promotional offers, enrolled 17,000 loyalty cards and generated more than EUR 5 million in sales by the end of 2015.

Enablers

Four strategic enablers support the implementation of our strategy: simplifying and streamlining our organisation, further striving for operational excellence, enhancing the performance culture within our company and diversifying our lending capabilities.


1. Simplify & streamline

Simplify and streamline refers to ING's efforts to become a more effective and agile organisation with increased decision-making speed to enable innovation and collaboration, and to lower cost.

 Read more in the "Operational excellence and innovation" chapter.


Agile working in the Netherlands and Spain

We have simplified and delayered the organisations in Spain and the Netherlands. Both introduced the agile methodology and now work in autonomous, multidisciplinary teams to deliver an omnichannel customer experience.

 Read more in the "People" chapter on agile working.

2. Operational excellence

Operational excellence requires continuous focus to ensure that ING's operations deliver a seamless and flawless customer experience. Our operational excellence vision concentrates on delivering the Customer Promise. That means we need to upgrade and streamline our processes and IT systems, transforming ING into a next generation digital bank. We aim to bring best-in-class service to customers every day and at the right price. At the same time that we pursue our digital bank ambition, we are also making significant investments to provide stable IT systems and platforms to ensure we are there for our customers when they need us and to provide them with the highest standards of data security.

 Read more in the "Operational excellence and innovation" chapter.


Wholesale Banking's Target Operating Model

Wholesale Banking's Target Operating Model transformation programme aims to simplify doing business with ING by creating an easier client experience based on a more uniform approach across countries, products and services, and providing easier digital access. InsideBusiness, the online and mobile platform introduced in 2015, is a digital gateway for corporate clients offering tools that provide financial insights and easy access to a range of products and services.

 Read more in the "Wholesale Banking" chapter.

3. Performance culture

Performance culture is what ultimately makes a strategy work: our people make it work. That is why we introduced the Orange Code in 2015 – a new set of values and behaviours that sets out our way of working. At the same time we are also making improvements to the way in which we manage performance and will introduce a new leadership curriculum early in 2016, all as part of our efforts to enhance our performance culture and ensure we deliver on our Customer Promise.


 Read more in the "People" chapter.

Orange Code

In 2015, we introduced the Orange Code. It comprises ING's new values and behaviours. Input from thousands of employees from more than 40 countries as to the values and behaviours needed to achieve our strategy went into developing the code. It was the basis for senior leaders' performance management from 1 January 2015 and for all employees from 1 January 2016.

4. Lending capabilities

Broadening our lending capabilities to match deposit franchises is our fourth strategic enabler. We need to diversify our lending capabilities in order to continue to grow our client franchises. To do so, we are seeking opportunities in Retail, SME and Consumer Lending, as well as focusing on Wholesale Banking lending growth in our Challengers & Growth Markets.

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

Industry Lending

Wholesale Banking's lending growth, particularly in the area of Industry Lending, contributed to more sustainable balance sheets in Challengers & Growth Markets. In 2015, we expanded local expertise in some of our funding-rich countries to support balance sheet integration. In Germany our Wholesale Banking loans increased from EUR 7.5 billion in 2014 to EUR 13.5 billion at year-end 2015 as we continue to grow the franchise and optimise the balance sheet.

Strong performance in 2015

We made progress on many fronts during 2015 in building a bank able to support our customers and fulfil its obligations to other stakeholders in the future. We believe we are well positioned to continue to be successful.

Financial performance was strong in 2015. We achieved solid profitability and have already met most of our 2017 financial ambitions, including in the areas of capital, return on equity, leverage and dividend.

Our savings and lending franchises performed well. Net customer deposits grew by EUR 25.1 billion, or 5.1 percent. Our core lending grew by net 4.2 percent, or EUR 21.7 billion, in 2015, demonstrating the strength of our lending business. There was good growth in Industry Lending, which also supported lending growth in Challengers & Growth Markets. This is driving sustainable growth in the balance sheets of these countries where we have strong savings franchises.

We support our Wholesale Banking clients with a global network operating in over 40 countries. We added to this network in 2015, expanding our presence in the Americas, Asia and Europe.

Our strong balance sheet attests to the quality of our risk management. We are among the best-capitalised listed banks in the eurozone. We consistently demonstrate our ability to generate capital and now have a limited need for professional funding.

Our capital position was further strengthened in 2015 by the reduction of our stake in NN Group from 68.1% to 25.8% at year's end and the divestment of our remaining stake in Voya Financial Inc. These transactions improved ING Group's Common Equity Tier 1 ratio and also turned double leverage at the Group level into a cash surplus, providing us with ample financial flexibility. In early 2016, our total stake in NN Group was further reduced to 14.1%. We are well on track to sell our stake in NN Group by the end of 2016.

Our financial roadmap

We have published financial targets for 2017 reflecting our ambitions. These include a Common Equity Tier 1 ratio above 12.5 percent for ING Group, a leverage ratio at around 4 percent, 50-53 percent cost/income ratio and a 10-13 percent return on equity. As also stated in our Ambition 2017 programme, ING is committed to returning capital to shareholders through a sustainable dividend policy.

As of year-end 2015, we already met many Ambition 2017 targets, including in the areas of return on equity, leverage ratio and dividend. We exceeded our Ambition 2017 fully loaded CET1 ratio target for the Group of 12.5%. We will grow into a comfortable buffer over time above the prevailing fully-loaded requirements.

The Board proposes to pay a total 2015 dividend of EUR 2,515 million, or EUR 0.65 per (depository receipt for an) ordinary share, subject to the approval of shareholders at the 2016 Annual General Meeting. This comprises the previously announced interim dividend of EUR 0.24 paid in August 2015 and a final dividend of EUR 0.41 per share. We are committed to maintaining a healthy Group CET1 ratio in excess of the prevailing 12.5% fully-loaded CET1 requirement and to returning capital to our shareholders. We aim to pay a progressive dividend over time.

Geographical presence and strategic approach

ING has a presence in over 40 countries. Though our local businesses vary in terms of their market positions all are guided by our purpose of empowerment and strategy to provide customers with a differentiating customer experience through digital leadership.

Market Leaders

These are our businesses in mature markets in the Benelux where we have leading positions in retail and wholesale banking. Our strategy is to grow in selected segments, continue to invest in digital leadership with a digital-first model, deliver on operational excellence programmes and create greater cost efficiency in order to fund business expansion in growth markets.

Challengers


These are markets where we offer both retail and wholesale banking services. Our retail activities are mainly direct-banking offered online with a significant cost advantage over traditional banks. Our strategy is to leverage our strong savings franchises in these markets to expand into payments accounts and increase the number of primary customer relationships. We are also using our direct banking experience to grow the lending business at low cost in areas like consumer and SME lending. And we are using our strong savings businesses to fund expansion of Wholesale Banking, particularly to support clients in Industry Lending and working capital solutions.

Growth Markets

These are markets with a full range of retail and wholesale banking services in markets with expanding economies and strong growth potential. We are investing to achieve sustainable franchises and will focus on digital leadership by converging to the direct-first model and by prioritising innovation.

Wholesale Banking

We are a network bank for our clients across Europe with global reach and strong positions in a number of global franchises, including Industry Lending, Financial Markets and Transaction Services. We are investing in our business transformation programme Target Operating Model and are targeting growth in our corporate client base, Industry Lending and Transaction Services. In Challenger countries we are expanding our lending activities to build locally optimised balance sheets and sustainable franchises.

 For information on the progress and performance of our banking businesses, please see the "Retail banking" and "Wholesale Banking" chapters.

Our strategy and progress – continued

Geographic areas in which we are active

