



Executive Board

VEB

For the attention of Mr Koster, director VEB

BY E-MAIL

Copy to:

EY

KPMG

Date: 13 November 2018

Subject: VEB/ ING – questions following the findings of the Public Prosecution Service

Dear Mr Koster,

With reference to your letters dated 6 September and 3 October 2018, please find below the answers to the questions raised under 4 in your 6 September letter. In answering those questions we have incorporated the input of both EY and KPMG where relevant and as requested by you in said letters.

Settlement between the DPPS and ING and SEC resolution

On 4 September 2018 ING announced that, on that date, it had reached a settlement agreement related to a criminal investigation by the Dutch Public Prosecution Service (DPPS).

Given the complexity and unprecedented nature of the case it was uncertain whether an out of court settlement would be the outcome as it had to be approved by the Minister of Justice ('Minister voor Rechtsbescherming') and if so, based on what terms and conditions. Without such approval an out of court settlement would not have been the outcome of said case.

On 3 September 2018 the approval by the Minister was obtained by the DPPS and subsequently a settlement agreement between ING and the DPPS was signed, which was published by ING on 4 September 2018. Upon the approval of the Minister, the uncertainty of the outcome of the case, by way of a settlement, was taken away and a reliable estimate of the amount involved could be made based on (the terms and conditions of) the settlement reached.

In connection with the DPPS investigation ING also received information requests from the US Securities and Exchange Commission (SEC). The discussions with the SEC have been ongoing in parallel with an outcome that has been uncertain up until the formal announcement by the SEC on 4 September. On that day, ING received a formal notification letter from the SEC that it had concluded its investigation. In the letter the Division of Enforcement states that, based on information as of that date, it does not intend to recommend an SEC enforcement action against ING. This fact was published by ING by way of a press release on 5 September 2018.

Questions VEB letter dated 6 September 2018 and combined answers ING, EY & KPMG

1. How is it possible that, only six months ago, the supervisory board still wanted to change the remuneration policy for the management board, when it must have suspected (or known) at the time that the internal control was still inadequate?

At the time of the Supervisory Board's decision to change the Remuneration Policy in 2018 the following was applicable in regards the internal control as also stated in ING's Annual Report 2017 as part of the Dutch Corporate Governance Code Statement by the Executive Board:

The design and the operation of the internal risk management and control systems are discussed annually with the Risk Committee and the full Supervisory Board, whereas the design and the operation of internal control over financial reporting are discussed annually with the Audit Committee and the Supervisory Board. As part of this process, shortcomings in Know Your Customer processes were identified and discussed with the Risk committee of the Supervisory Board.

In discharging the responsibility, the Executive Board has made an assessment of the effectiveness of the ING Groep N.V.'s internal control and risk management systems. Based on this assessment, the Executive Board states that during the year under review:

- *the report of the Executive Board in the ING Group Annual report 2017 provides sufficient insights into shortcomings in the effectiveness of the internal risk management and control systems;*
- *those systems provide reasonable assurance that the ING Group Annual report 2017 does not contain material inaccuracies;*
- *based on the current state of affairs, it is justified that the ING Group Annual report 2017 is prepared on a going concern basis; and*
- *the report of the Executive Board in the ING Group Annual Report 2017 states those material risks and uncertainties that are relevant to the expectation of ING Groep N.V.'s continuity for the period of twelve months after the preparation of this report.*

It should be noted that the above does not imply that these systems and procedures provide absolute assurance to ING as to the realisation of financial and strategic business objectives, or that internal risk management and control systems can prevent or detect all misstatements, inaccuracies, errors, fraud and non-compliances with legislation, rules and regulations.

At that time the outcome and consequences of the DPPS's investigation was not known as also stated in the Legal Proceedings Paragraph of the Annual Report 2017:

ING Bank is the subject of criminal investigations by Dutch authorities regarding various requirements related to client on-boarding, money laundering and corrupt practices. ING Group has also received related information requests from US authorities. ING Group and ING Bank are cooperating with such ongoing investigations and requests. Management has concluded under IFRS that it is more likely than not that a present obligation per 31 December 2017 exists and that an outflow of resources is probable, but was not able to estimate reliably the possible timing, scope or amounts of any fines, penalties and/or other outcome, which could be significant. ING expects to receive more information from the Dutch authorities concerning the potential consequences of their investigation in the first half of 2018.

Ultimately in September 2018 the outcome of the DPPS investigation was certain to ING as also made public to the September 4, 2018 Press Release.

2. In the press message released in connection with the half-year figures dated 2 August 2018, ING indicated that it was unable to give a reliable estimate of - among other things - the expected size of the fine/settlement. How is this possible, given the very short period of time between this half-yearly publication and the agreement concluded with the Public Prosecution Service on 4 September?

ING applies IFRS-EU for its financial statements and interim reporting. As at 1 August 2018 (the date of the ING 2018 half year report), ING's Executive Board and the Supervisory Board (hereafter 'the Executive Board and the Supervisory Board') assessed - in line with previous quarters - whether it was necessary to recognize a provision in relation to the investigations by the DPPS and the SEC. Under IAS 37, a provision is recognized when:

- there is a legal or constructive obligation arising from a past event;
- it is more likely than not that there will be an outflow of benefits;
- the amount can be estimated reliably.

The Executive Board and the Supervisory Board assessed that the first two criteria were met at 1 August 2018. With respect to the third criterion, as of 1 August 2018, it was uncertain whether the investigation would be resolved by way of an out of court settlement.

This resulted in such a wide range of possible financial outflows that it was not possible to form a reliable estimate. Following the IAS 37 requirements as mentioned above, a provision therefore could not be recognized as at 30 June 2018, bearing in mind all facts and circumstances as at the date of issuance of the 2018 half year report.

The Executive Board and the Supervisory Board disclosed in the half year report 2018:
As previously noted ING Bank is the subject of criminal investigations by Dutch authorities regarding various requirements related to client on-boarding, money laundering and corrupt practices. ING Group has also received related information requests from the US authorities. ING Group and ING Bank have been cooperating with these investigations and requests. Management has concluded under IFRS that it is more likely than not that a present obligation exists and that an outflow of resources is probable, however is not able to estimate reliably the possible timing, scope or amounts of any fines, penalties and/or other outcome, which could be significant. ING has been engaged in discussions with the relevant authorities on a potential resolution of the issues but such discussions remain ongoing and their outcome uncertain.

The Executive Board and the Supervisory Board took into consideration that information in the financial statements and the interim report should be reliable and not misleading to the public. In addition, it should be noted that under IFRS it is not allowed to recognize the lowest or highest point in a range of possible outcomes in the financial statements or interim report, the latter for example for 'prudence reasons'.

On 3 September 2018 a settlement agreement between ING and the DPPS was signed, which was published by ING on 4 September 2018. As of that date, the uncertainty of a potential settlement was taken away and a reliable estimate of the amount involved could be made based on the settlement reached.

3. The document "Fact file and assessment Public Prosecution Service" mentions - put briefly - structural shortcomings at ING NL in the implementation of the FEC - CDD policy. Did KPMG and/or EY, during the annual accounts audits and/or interim review work, find any signs

indicating that ING did not comply with the requirements set out in the Wwft? If so, which signs were these?

During the audit of the financial statements as from 2010 through 2015, EY noted that inspections were performed by Corporate Audit Services and by external regulators, such as the Dutch Central bank and the European Central Bank. As part of the financial statements' audits EY concurred with management's assessments at the time that potential fines resulting from these inspections would not have a material impact on the financial statements involved. EY was not aware (nor was ING) of the investigation by the FIOD at the time they completed the 2015 financial statements' audit.

KPMG has reported to the Executive Board and the Supervisory Board their findings in relation to the audit activities in both 2016 and 2017. Their reporting included improvement observations in the area of compliance, client due diligence (CDD) and customer activity monitoring (CAM).

5. In the light of these observations, did KPMG and EY suggested areas for improvement to ING (management board, audit committee, internal audit and/or compliance)? How did KPMG monitor whether ING made sufficient progress in remedying them? Was KPMG satisfied with the progress?

Management explained on page 13 of the annual report that ING has started a bank-wide financial and economic crime (FEC) enhancement programme that aims to address shortcomings identified in Know Your Customer processes. The annual report 2017 discloses the following on page 287:

ING has started a bank-wide financial and economic crime (FEC) enhancement program that aims to address shortcomings identified in Know Your Customer (KYC) processes. Its objective is twofold : (i) to enhance the information the bank is required to maintain about its clients, in line with the additional requirements stemming from the 4th Anti- Money Laundering directive, and (ii) to address the areas for improvement that have been identified about the effectiveness of the control framework applicable to the Financial Economic Crime domain, especially with respect to its Client Activity Monitoring capabilities and the integrated risk profiles of the clients. The programme aims to develop solutions of a structural nature to support a compliant-by-design approach. The programme is expected to run till end of 2020.

As part of the audit procedures KPMG discussed with the Executive Board on the progress of the enhancement programme. KPMG has reported to the Executive Board and the Supervisory Board their findings in relation to their audit activities in both 2016 and 2017. This reporting included improvement observations in the area of compliance, client due diligence and customer activity monitoring.

As the FEC enhancement program was scheduled to run until the end of 2020, per year-end 2017 it was too early to be able to monitor whether sufficient progress was made.

6. As part of its audit work on the financial accounts for 2017, KPMG stated in the explanatory notes to the key audit matter concerned that ING's management "was unable to make a reliable estimate of the timing, size or amount of fines and/or other outcome".

Which questions did KPMG ask ING (management board, audit committee, internal audit and compliance) regarding the process and the estimate of the possible amount of the settlement/fine?

In the Executive Board report it was noted on page 45 that ING is the subject of criminal investigations by Dutch authorities, as well as a related information request from US authorities, regarding various requirements related to client on boarding, money laundering and corrupt practices.

The Supervisory Board noted in their report on page 63 of the annual report 2017 that one of their main focus points in 2017 was the Know-Your-Customer enhancement programme and that the Supervisory Board discussed on a regular basis the status of the criminal investigation by Dutch authorities regarding various requirements related to client on boarding, money laundering and corrupt practices and the related information requests received by ING from US authorities.

In the financial statements 2017 in note 45 Legal Proceedings (page 214)) the Executive Board and the Supervisory Board concluded that they were not able to estimate reliably the possible timing, scope or amounts of any fines, penalties and/or other outcome, which could be significant. ING disclosed that they expected to receive more information from the Dutch authorities concerning the potential consequences of the investigation in the first half of 2018.

Reference is also made to the answer to question 2. There is significant management judgment involved in whether the outcome can be reliably estimated, which is required to recognize a provision.

Both the Executive Board and Supervisory Board were advised by Dutch as well as US outside legal counsel.

KPMG challenged the Executive Board and the Supervisory Board extensively on this point during various board meetings in 2017 and 2018. As part of this challenge a possible range of outcomes was discussed between the Executive Board, the Supervisory Board and KPMG, as well as the fact that there is a high hurdle in IFRS for not being able to reliably estimate the amount of the obligation.

Because of the importance of the matter for investors, the significant judgments involved, the complexity and unprecedented nature of the case in a Dutch context, and as an indication of the significant amount of time spent on the matter within the context of their audit, KPMG included this matter as a so called key audit matter in the long form auditor's report, to put emphasis on the activities performed by KPMG. The key audit matter is included on page 312 of the financial statements. Reference is also made to question 9 with respect to the activities carried out by KPMG.

7. Did KPMG point out to ING that mentioning a range of the reasonably expected settlement/fine in the annual report for 2017 was recommended?

Reference is also made to the answers to Question 2 and 6.

IAS 37 states that when no reliable estimate can be made, a liability exists that cannot be recognized in the financial statements. ING disclosed that liability as a contingent liability under note 45 legal proceedings and explained it was not possible to estimate reliably the possible timing, scope or amounts of any fines, penalties and/or other outcome, which could be significant. ING obtained external legal advice to support this assessment.

In the financial statements 2017, ING noted that they expected to receive more information from the Dutch authorities concerning the potential consequences of the investigation in the first half of 2018. At the moment of publication of the financial statements 2017 it was not known how the issues would be resolved, and therefore it was not known whether the investigation would end up in a settlement.

As explained under Question 6, there is significant management judgment involved how to describe the contingent liability in the Legal Proceedings note in the financial statements. The case is complex in nature, one of a kind and no comparable external data points are available in a Dutch context. As part of this challenge a possible range of outcomes was discussed between the Executive Board, the Supervisory Board and KPMG, as well as the fact that there is a high hurdle in IFRS for not being able to reliably estimate the obligation. KPMG included this matter as a so called key audit matter in the long form auditor's report and concluded that the nature and extent of disclosure in Note 45 of this legal matter in the annual accounts is adequate.

In the financial statements 2017, in accordance with IAS 37.10, ING disclosed a contingent liability under note 45 legal proceedings and explained that it was not possible to estimate reliably the possible timing, scope or amounts of any fines, penalties and/or other outcome, which could be significant. ING obtained external legal advice to support this assessment.

The relevant IFRS requirement with regard to disclosure of contingent liabilities is in IAS 37.86. It states that: "[...]an entity shall disclose for each class of contingent liability at the end of the reporting period a brief description of the contingent liability, and where practicable [emphasis added] an estimate of the financial effect and an indication of the uncertainties relating to the amount or timing of any outflow."

ING assessed at year-end 2017, as well as at 1 August 2018, that it was not known whether there would be a settlement. Both an out of court settlement and a court case were realistic potential scenarios, which could result in such a wide range of possible financial outflows that it was not possible to form a reliable best estimate, nor that it would be meaningful, and potentially even misleading, to disclose such a wide range.

KPMG challenged ING's assessment on this point for year-end 2017, and subsequently for Q1 and half-year reporting purposes, and concurred with ING's assessment at those points in time. For 2017, KPMG included this matter as a so called key audit matter in the long form auditor's report and concluded that the nature and extent of disclosure in Note 45 of this legal matter in the annual accounts is adequate.

8. In the annual report for 2016, ING reported for the first time on a criminal investigation by the Dutch authorities into client acceptance, money laundering and corruption. KPMG had expressly not included this issue as a key audit matter in connection with the 2016 annual audit. In the 2017 audit, though, this individual case was one of the key audit matters. What were the reasons that it was a key audit matter in 2017, but not in 2016? Was this issue already discussed in 2016 with the audit committee as an important risk and point of attention? Why was it decided not to designate this matter as a key audit matter?

KPMG are the auditors of ING for the financial year 2016 and 2017 and were not involved before that date. Both for the auditors opinion with respect to the financial statements for the year 2016 and 2017 the investigation on (potential) shortcomings in compliance with WWft has been addressed.

The internal and external investigations evolved over the 30 months' time period between February 2016 (start of the investigations by the DPPS) and the date of the final settlement on 4 September 2018. The auditor's reports and the reported so called key audit matters in 2016 and 2017 related to the investigation are based on the facts and circumstances which were known at the date of signing these auditor's reports.

As key audit matter in the auditor's report 2016, KPMG explained their audit response with respect to the recognition and measurement of provisions and the disclosure of contingent liabilities in respect of amongst others litigation and regulatory measures. In this key audit matter 2016, KPMG explicitly referred to the disclosure for legal proceedings in Note 45 of the annual accounts, where it was disclosed that ING Bank is the subject of criminal investigations by Dutch authorities regarding various requirements related to the on-boarding of clients, money laundering, and corrupt practices.

The developments in the investigation during 2017 resulted again in a key audit matter on this matter, explaining the audit response by KPMG for the financial year 2017. Also this key audit matter explained the audit activities performed by KPMG in this area and explicitly referred to disclosures for legal proceedings in Note 45 of the annual accounts.

During 2016 and 2017, KPMG raised its observations regarding compliance with Wwft procedures with the Executive Board and Supervisory Board at each reporting date. The discussions included both the element of whether or not to recognize a provision in relation to the investigation, the related disclosure and also the procedures KPMG was required to perform based on their professional duties in accordance with international standards on auditing with respect to non-compliance with laws and regulations.

9. At the 2018 General Meeting of ING, KPMG, in response to answers from VEB, indicated that it had complied with NV COS standards 240 and 250. What specific work did KPMG perform in the context of the 2016 and 2017 annual accounts audit with regard to this issue?

In answering questions on the shareholders meeting 2018, KPMG explained that they followed the required proceedings following ISA 240/250. These standards describe the responsibilities of the auditor with respect to compliance with the law and regulations and possible indications of fraud.

In order to assess the facts and circumstances with respect to the investigation, KPMG performed amongst others the following activities:

- Inspection of underlying documentation of internal investigations performed and other relevant documents;
- Evaluation and discussion of internal audit reports in relation to compliance;
- Inspection of correspondence with regulators;
- Inspection of external lawyers' letters, legal opinions, minutes from relevant committee;
- Attendance of audit committee meetings and supervisory board meetings where this topic was discussed;
- Inquiry of senior management, legal counsel, compliance and external lawyers of ING;
- Involvement of forensic specialists;
- Close monitoring of involvement of external specialists engaged by ING;
- Assessment as to whether unusual transactions needed to be reported to the Financial Intelligence Unit;
- Obtained specific management representation in relation to compliance with laws and regulations and the investigation.

The activities by KPMG for these matters resulted in:

- Discussion in meetings with the Executive Board, Audit Committee and Supervisory Board;
- Reporting to the Executive Board, Audit Committee and Supervisory Board;
- Discussions in meetings with both DNB and ECB;
- Correspondence with AFM and DNB/ECB;
- Answering questions in the AGM;
- Inclusion as a key audit matter in the long form auditor's report.

10. How exactly did KPMG "challenge" ING (management board, audit committee, internal audit and compliance) with respect to the status - and possible consequences - of both the internal investigation and the investigation conducted by the Public Prosecution Service?

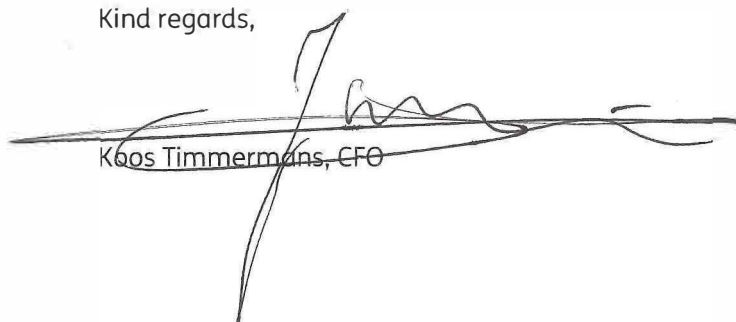
KPMG has been ING's auditor since the beginning of 2016. Since the start of their work in 2016 KPMG reported on the investigation and the observations regarding client due diligence and client activity monitoring to the Executive Board, Supervisory Board, the Audit committee as part of their written communication related to the audit and review activities .

ING took these signals seriously and further investigated them. In 2016 KPMG also informed the Supervisory Board orally and in writing about their role and responsibility with respect to the indications of possible irregularities.

In every reporting period, KPMG inquired with the Executive Board and the Supervisory Board and their advisors about the internal investigations and assessed the sufficiency of the steps being taken. KPMG does not have direct access to the investigations carried out by the DPPS during the period 2016-2018. KPMG did challenge management on the status and sufficiency of their internal investigations in line with the requirements as laid down in the international standards on auditing.

We trust to have sufficiently answered your questions with this letter but we are always available to answer any follow-up questions in a meeting if that would be helpful.

Kind regards,



Kees Timmermans, CFO