ISSUER FILING INFORMATION

Cover

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4. This Issuer Filing Information shall constitute and form the Issuer Filing Information (set forth in Article 27-32, Paragraph 1 of the Financial Instruments and Exchange Law of Japan (Law No.25, as amended) (the "FIEL")) as information set forth in Specified Exchange Regulations (as defined in Article 2, Paragraph 1, Item 1 of the Cabinet Office Ordinance on Providing and Publishing of Securities Information, Etc).

5. This document includes 'forward-looking statements' within the meaning of Section 27A of the United States Securities Act of 1933 (the "Securities Act") and Section 21E of the United States Securities Exchange Act of 1934 (the "Exchange Act"). All statements other than statements of historical fact included in this document, including, without limitation, those regarding the Issuer's financial position, business strategy, plans and objectives of management for future operations, are forward-looking statements. Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Issuer, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such forward-looking statements are based on numerous assumptions regarding the Issuer's present and future business strategies and the environment in which the Issuer will operate in the future. These forward-looking statements speak only as of the date of this document or as of such earlier date at which such statements are expressed to be given. The Issuer expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statement contained herein to reflect any change in the Issuer's expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

6. All prospective investors who purchase the Bonds should be aware that when they offer to purchase the Bonds, they shall be required to enter into and agree the terms of a transfer restriction agreement with the Issuer and/or the person making a solicitation. The terms of such transfer restriction agreement provide that prospective investors agree not to sell, transfer or otherwise dispose of the Bonds to be held by them to any person other than the Professional Investors, Etc. (Tokutei Toushika tou), as defined in Article 2, paragraph 3, Item 2 (b) (2) of the FIEL, except for the transfer of the Bonds to the following:)

   (a) the Issuer or the Officer (meaning directors, company auditors, executive officers or persons equivalent thereto) thereof, who holds shares or equity pertaining to voting rights exceeding 50% of all the voting rights in the Issuer which is calculated by excluding treasury shares or any non-voting rights shares (the "Voting Rights Held by All the Shareholders, Etc." (Sou Kabunushi Tou no Giketsuken)) (as prescribed in Article 29-4, paragraph 2 of the FIEL; the same shall apply hereinafter) of the Issuer under his/her own name or another person's name (hereinafter such Officer shall be referred to as the "Specified Officer" (Tokutei Yakuin) in this Paragraph), or a juridical person (excluding the Issuer) whose shares or equity pertaining to voting rights exceeding 50% of the Voting Rights Held by All the Shareholders, Etc., are held by the Specified Officer (the "Controlled Juridical Person, Etc." (Hi-Shihai Houjin Tou) including a juridical person (excluding the Issuer) whose shares or equity pertaining to voting rights exceeding 50% of the Voting Rights Held by All the Shareholders, Etc. are jointly held by the Specified Officer and the Controlled Juridical Person, Etc. (as prescribed in Article 11-2, paragraph 1, Item 2 (c) of the Cabinet Office Ordinance on Definitions under Article 2 of the Financial Instruments and Exchange Law (MOF Ordinance No. 14 of 1993, as amended)); or

   (b) a company that holds shares or equity pertaining to voting rights exceeding 50% of the Voting Rights Held by All the Shareholders, Etc. of the Issuer in its own name or another person's name.

7. When (i) a solicitation of an offer to acquire the Bonds or (ii) an offer to sell or a solicitation of an offer to buy the Bonds (collectively, "Solicitation of the Bond Trade") is made, the following matters shall be notified from the person who makes such Solicitation of the Bond Trade to the person to whom such Solicitation of the Bond Trade is made:

   (a) no securities registration statement (pursuant to Article 4, paragraphs 1 through 3 of the FIEL) has been filed with respect to the Solicitation of the Bond Trade;

   (b) the Bonds fall, or will fall, under the Securities for Professional Investors (Tokutei Toushika Muke Yukashoken) (as defined in Article 4, paragraph 3 of the FIEL);

   (c) any acquisition or purchase of the Bonds by such person pursuant to any Solicitation of the Bond Trade is conditional upon such person entering into an agreement providing for the restriction of transferability of the Bonds as set forth in 6 above with each of the Issuer and the person making such Solicitation of the Bond Trade (in the case of a solicitation of an offer to acquire the Bonds), or the person making such Solicitation of the Bond Trade (in the case of an offer to sell or a solicitation of an offer to buy the Bonds);

   (d) Article 4, paragraphs 3, 5 and 6 of the FIEL will be applicable to such certain solicitation, offers and other activities with respect to the Bonds as provided in Article 4, paragraph 2 of the FIEL;

(e) the Specified Securities Information, Etc. (Tokutei Shouken Tou Jouhou) (as defined in Article 27-33 of the FIEL) with respect to the Bonds and the Issuer Information, Etc. (Hakkosha Tou Jouhou) (as defined in Article 27-34 of the FIEL) with respect to the Issuer have been or will be made public by way of such information being posted on (i) the web-site maintained by the TOKYO PRO-BOND Market (http://www.tse.or.jp/rules/probond/index.html or any successor website), or (ii) the Issuer's web-site that discloses the information concerning the Issuer (http://www.ing.com/ or any successor website), in accordance with Articles 210 and 217 of the Special Regulations of Securities Listing Regulations Concerning Specified Listed Securities of the Tokyo Stock Exchange; and

(f) the Issuer Information, Etc. will be provided directly to the Bondholders or made public pursuant to Article 27-32 of the FIEL.

8. In this document, unless otherwise specified, references to a "Member State" are references to a Member State of the European Economic Area, references to "£", "GBP" or "sterling" are to the lawful currency of the United Kingdom, references to "€", "EUR" or "euro" are to the currency introduced at the start of the third stage of European economic and monetary union, and as defined in Article 2 of Council Regulation (EC) No 974/98 of 3 May 1998 on the introduction of the euro, as amended, and references to "yen" are to Japanese Yen.

ING Bank N.V.
2012 Annual Report

Contents

Management

COMPOSITION OF THE BOARDS

ING Bank N.V. ('ING Bank') has a two-tier board system, consisting of a Supervisory Board and a Management Board Banking. The Supervisory Board supervises the policy of the Management Board Banking and the general course of events in the company and assists the Management Board Banking by providing advice. The Management Board Banking is responsible for the daily management of the company.

The composition of the Management Board Banking and the Supervisory Board of ING Bank was as follows:

MANAGEMENT BOARD BANKING

Composition on 31 December 2012

Jan H.M. Hommen (69), chairman
J.V. (Koos) Timmermans (52), vice-chairman
Patrick G. Flynn (52), chief financial officer
Wilfred Nagel (56), chief risk officer
William L. Connelly (54), CEO Commercial Banking
C.P.A.J. (Eli) Leenaars (51), CEO Retail Banking Direct and International
Hans van der Noordaa (51), CEO Retail Banking Benelux

SUPERVISORY BOARD

Composition on 31 December 2012

Jeroen van der Veer (65), chairman
Peter A.F.W. Elverding (64), vice-chairman
J.P. (Tineke) Bahlmann (62)
Henk W. Breukink (62)
Jan H. Holsboer (66)
Sjoerd van Keulen[1] (66)
Piet C. Klaver (67)
Joost Ch.L. Kuiper (65)
Robert W.P. Reibestein[2] (56)
Yvonne C.M.T. van Rooy (61)
Luc A.C.P. Vandewalle (68)
Lodewijk J. de Waal (62)

(1) Resignation as of the annual General Meeting on 13 May 2013.
(2) Appointed in 2012 as of 1 January 2013.

COMMITTEES OF THE SUPERVISORY BOARD[3]

Composition on 31 December 2012

Audit Committee

Joost Kuiper, chairman
Tineke Bahlmann
Henk Breukink
Jan Holsboer
Yvonne van Rooy
Luc Vandewalle

Risk Committee

Piet Klaver, chairman
Tineke Bahlmann
Joost Kuiper
Luc Vandewalle
Jeroen van der Veer

Remuneration Committee

Peter Elverding, chairman
Piet Klaver
Jeroen van der Veer
Lodewijk de Waal

Nomination Committee

Jeroen van der Veer, chairman
Peter Elverding
Piet Klaver
Lodewijk de Waal

(3) The current composition of the Supervisory Board Committees can be found on the website (www.ing.com).

ING at a glance

ING BANK IS PART OF ING GROUP

ING GROUP

Our mission
ING's mission is to set the standard in helping our customers manage their financial future. We aim to deliver financial products and services in the way our customers want them delivered: with exemplary service, convenience and at competitive prices.

Our profile
ING is a global financial institution of Dutch origin, currently offering banking, investments, life insurance and retirement services.

We are concentrating on our position as a strong European bank with attractive home market positions in Northern Europe and growth options in Central and Eastern Europe and Asia, while creating an optimal base for independent futures for our insurance operations (including investment management).

Our strategy
To serve the interests of all stakeholders, increase management focus and create value for shareholders, ING is moving towards full separation of its banking and insurance operations. The separation is part of the Restructuring Plan required by the European Commission in order to gain approval for the Dutch state aid received in 2008/2009.

ING Group's strategic priorities are: strengthening our financial position, restructuring, streamlining the portfolio, repaying state aid and building both stronger banking and insurance/investment management businesses, all based on sound business ethics and good corporate citizenship.

ING Bank intends to be a strong, predominantly European bank, with leading domestic full-service banking positions in attractive, stable home markets, as well as a leading commercial bank in the Benelux with a strong position in Central and Eastern Europe.

We will also continue to evolve our various ING Direct units into more mature full-service banking models. These initiatives in Europe, coupled with our positions outside Europe, should give the Bank attractive growth potential in the long term. ING will build on its global presence and international network and capitalise on its leadership position in gathering savings, multi-channel distribution, simple propositions and marketing.

Our customers
ING serves a broad customer base, comprising individuals, families, small businesses, large corporations, institutions and governments.

Our stakeholders
ING conducts business on the basis of clearly defined business principles. In all our activities, we carefully weigh the interests of our various stakeholders such as customers, employees, supervisors, shareholders, civil society organisations and regulators.

Our corporate responsibility
ING wants to build its future on sustainable profit based on sound business ethics and respect for its stakeholders and to be a good corporate citizen. Our Business Principles prescribe the corporate values we pursue and the responsibilities we have towards society and the environment: we act with integrity, we are open and clear, we respect each other and we are socially and environmentally responsible.

ING BANK

ING Bank is active through two business lines: Retail Banking and Commercial Banking.

Retail Banking
Retail Banking provides retail and direct banking services to individuals and small and medium-sized enterprises throughout Europe and Asia, with a base in our Northern European home markets. Our ambition is to transform ING Direct into a full-service bank.

Commercial Banking
Commercial Banking offers services such as lending, payments and cash management in more than 40 countries to corporations, governments and other financial institutions.

TAKING CHARGE OF CHANGE

Financial position strengthened
ING places great importance on strengthening its financial position in order to put itself in the best position to facilitate the real economy. Despite persistent market volatility and uncertain economic recovery in the eurozone and elsewhere, ING gained financial strength in 2012. Capital and liquidity improved, our funding position remained strong, earnings remained resilient, and net exposure to riskier asset classes and activities declined.

Amendments to the Restructuring Plan
In November 2012, ING and the Dutch State reached an agreement with the European Commission on amendments to its 2009 Restructuring Plan.

The amendments extend the time and increase the flexibility for the completion of divestments, and also adjust other commitments in light of the market conditions, economic climate and more stringent regulation.

ING at a glance continued

Repayment to the Dutch State
ING has made good progress in repaying the EUR 10 billion of capital support from the Dutch State. As part of the amended Restructuring Plan, ING has filed a schedule to repay to the Dutch State in four equal tranches of EUR 1.125 billion each. The first payment was made on 26 November 2012. The other tranches are due to be paid by November 2013, March 2014 and May 2015.

So far ING has repaid EUR 10.2 billion, which consists of a principal amount of EUR 7.8 billion and EUR 2.4 billion of premiums and interest.

Regulation and supervision
ING supports the overall majority of international, European and national regulatory reforms taking place in the financial sector. However, ING is concerned about their cumulative impact, the uncertainty when and in what form they will be implemented, and how they will affect our role in financing the real economy.

Overview

In 2012 ING Bank delivered on its strategic priorities in the face of continuing volatile markets and weak economic activity, largely due to the eurozone sovereign debt crisis. The bank strengthened its capital and funding positions and contained expenses. Through its balance sheet optimisation programme, it curbed balance sheet growth while maintaining lending. Strong deposit generation meant the bank could reduce its reliance on short-term funding. It continued to de-risk and 'term out' (extend the term of longer term funding) its balance sheet. The bank strengthened its businesses in markets where it has long-term sustainable positions through solid customer-centric initiatives. The retail banking operations focused on delivering cost-effective, simple and transparent products through multi-channels. Commercial Banking adapted its business operations to meet the challenging economic conditions and increasing regulatory demands. In all, ING made significant progress towards its overall objective of building the preferred bank for its customers.

FINANCIAL DEVELOPMENTS

The operating environment was challenging throughout 2012, with volatile financial markets and an uncertain macroeconomic environment. ING Bank's net result was EUR 3,115 million compared with a net result of EUR 4,005 million in 2011. In 2012, the sale of ING Direct Canada and ING Direct USA as well as the expected loss on the announced sale of ING Direct UK, resulted in a total net gain of EUR 1,365 million, while the operating net result from the divested units amounted to EUR 84 million. In 2012, special items after tax were EUR –628 million, mainly related to a settlement with authorities in the US, various restructuring programmes including further restructuring in Retail Netherlands and Commercial Banking, and costs related to the separation of Bank and Insurance. These negative impacts were partly offset by a provision release following the announcement of the new Dutch employee pension scheme. The 2011 net result included EUR 821 million of gains on divestments, mainly related to the sale of ING Car Lease and Real Estate Investment Management, and EUR 474 million of operating net result from divested units. Special items after tax were EUR –450 million, mainly related to various restructuring programmes, separation costs, as well as a value adjustment of the Illiquid Assets Back-up Facility.

Underlying net result was EUR 2,294 million, down by 27.4% from EUR 3,160 million in 2011. Underlying net result is derived from total net result by excluding the impact from divestments and special items.

Underlying result before tax dropped by 21.9% to EUR 3,416 million from EUR 4,373 million in 2011. This decline mainly reflects higher risk costs due to the weak economic and business fundamentals, negative credit and debt valuation adjustments (CVA/DVA), and the new Dutch bank levy. In 2012, the result furthermore included EUR 601 million of losses from proactive de-risking in the European debt securities portfolio, while the result in 2011 included EUR 181 million of de-risking losses and EUR 588 million of impairments on Greek government bonds.

CVA/DVA adjustments in Commercial Banking and the Corporate Line had a negative impact of EUR 587 million in 2012, mainly reflecting a tightening of ING Bank's credit spread, compared with EUR 275 million of positive CVA/DVA impacts in 2011. Excluding these and other market-related items, underlying result before tax was 14.3% lower, fully attributable to higher risk costs.

Total underlying income declined 0.8% to EUR 14,438 million in 2012, from EUR 14,549 million a year ago. The underlying net interest result decreased by 2.6% to EUR 11,992 million. The main reasons for this decrease were lower interest results on savings, reflecting the low interest rate environment, and the impact of de-risking, and higher liquidity costs as the Bank lengthened its funding profile. The underlying interest margin declined to 1.35%, from 1.42% in 2011. Commission income fell 3.6% to EUR 2,149 million, mainly in Commercial Banking. Total investment and other income rose to EUR 297 million, from EUR 11 million in 2011. The increase is mainly explained by a EUR 323 million gain on the sale of ING's equity stake in Capital One, lower combined losses from impairments and de-risking in the European debt securities portfolio and improved performance at Bank Treasury, partly offset the negative swing in CVA/DVA adjustments.

Underlying operating expense increased slightly, by 0.7% to EUR 8,900 million, compared with EUR 8,839 million in 2011. The increase was mainly due to inflationary and regulatory pressure, including the EUR 175 million Dutch bank levy largely offset by strong cost control and lower impairments on real estate development projects. The underlying cost/income ratio increased to 61.6% from 60.8% in 2011. Excluding market-related impacts and the Dutch bank levy, the cost/income ratio was 56.9% in 2012.

The underlying net addition to the provision for loan losses increased to EUR 2,122 million, from EUR 1,336 million in 2011. Risk costs were 73 basis points of average risk-weighted assets compared with 48 basis points in 2011.

The underlying return on IFRS-EU equity was 6.3% in 2012, down from 9.3% in 2011.

BUSINESS DEVELOPMENTS

World economic growth remained subdued in 2012 with the eurozone sovereign debt crisis weighing heavily on consumer and business sentiment. Interest rates reduced further. However, equity and credit market sentiment rose as the year progressed, largely boosted by European Central Bank efforts to underpin the euro and the quantitative easing by the Federal Reserve in the US. Weak economic activity and business fundamentals, particularly in the Netherlands, resulted in rising risk costs (loan loss provisions) during the year.

Despite the economic uncertainty, ING Bank achieved much in terms of meeting its strategic priorities. These include sharpening its business focus, de-risking, reducing costs, making capital, funding and liquidity more robust and providing superior products and services to customers.

Overview continued

ING Bank worked towards meeting its Ambition 2015 targets. These are performance goals aimed at achieving a return on (IFRS-EU) equity of 10–13%, while maintaining a core Tier 1 ratio of at least 10%, both under Basel III, while bringing the cost/income ratio down to 50–53%.

ING Bank continued to generate capital by making a net profit of EUR 3.1 billion. Capital generation is needed to repay the Dutch State and to improve capital ratios while enabling investment in infrastructure to improve services to our clients.

Strong capital generation resulted in ING strengthening its core Tier 1 ratio to 11.9% as at 31 December 2012 under Basel II. Under the more stringent Basel III capital requirements, the core Tier 1 ratio was 10.4% (on a proforma basis).

ING's strong retail franchise continued to draw solid retail deposit volumes with EUR 28.1 billion of retail net funds entrusted in 2012. ING's large retail deposit base is an important source of funding and is increasingly important, enabling the company to rely less on short-term wholesale funding.

ING Bank made significant progress on its strategy of integrating its banking businesses, in particular their balance sheets, a central part of its One Bank strategy, as launched in January 2012. Total balance sheet integration for the year was EUR 11 billion. Much of this was achieved by the transfer of Commercial Banking loans and securitised mortgages from the Dutch legal entity to funding-rich countries like Belgium, Germany, Spain and Italy. These transfers support ING's strategy of using local funding to finance local assets. They also help diversify risk and income streams as well as build-up own-originated assets (loans) in these countries. It also enables ING to continue to grow lending while simultaneously curtailing balance sheet growth.

Given the weak economic climate in Europe, ING took pro-active measures to reduce exposure to European debt, particularly related to the GIIPS countries (Greece, Italy, Ireland, Portugal and Spain). In total, ING Bank sold 6 billion of debt securities, taking EUR 0.6 billion of de-risking losses, and reducing risk-weighted assets by EUR 7 billion.

During the year, ING worked towards its strategic objectives of sharpening the focus of the bank and further strengthening its capital position. It sold ING Direct Canada to Scotiabank and announced the sale of ING Direct UK to Barclays (which was closed on 6 March 2013) as well as divested its shareholding in US-based bank Capital One.

ING Bank continued to manage costs carefully. An important objective is to reduce expenses to adapt to the leaner environment, to absorb additional taxes and to maintain our competitive position. Streamlining the organisation and enhancing efficiency are therefore key.

Cost reduction initiatives at Retail Banking Netherlands, announced in 2011, progressed ahead of plan in 2012. These measures are focused on further process improvements by reducing complexity and streamlining workflow. In February 2013, an expansion of the Retail Banking Netherlands transformation programme was announced. The expanded programme will help drive future performance and will ensure the organisation is best structured to meet customer´s changing financial needs, which are increasingly moving towards mobile banking. Unfortunately this will lead to further job cuts. ING is ensuring staff whose positions are made redundant are treated with utmost care. The total programme is expected to result in EUR 430 million of annual pre-tax cost savings by 2015.

ING Bank Belgium is also accelerating strategic projects aimed at further aligning its products and services with the new mobile banking environment. Customers in Belgium have been embracing new technologies faster than anticipated, leading to greater use of digital services and prompting further process automation. The shift to the digital banking channel is expected to reduce employment by approximately 1,000 FTEs by the end of 2015, through natural attrition, leading to EUR 150 million in annual cost savings by 2015.

Commercial Banking conducted a strategic review of its business portfolio against the backdrop of increasing regulatory requirements and challenging operating conditions. This will involve rationalising operations, simplifying the client coverage model and exiting certain markets and products. It is expected to result in annual pre-tax cost savings of EUR 260 million by 2015.

CUSTOMER CENTRICITY

Customers rightfully demand products and services that best meet their evolving financial needs, and seek access to banking services when, where and how it suits them. ING is committed to ensuring these preferences are fully met. ING aims to support its customers in their financial needs by providing advice when needed, flexibility where possible and a range of clear and simple products.

In 2012, ING launched several initiatives and apps designed to make banking easier, more transparent and at low cost.

ING Netherlands, for example, introduced a mobile banking application for small to medium-sized enterprises, in addition to its mobile app for private customers. In Belgium, the bank also launched an Android version of MyING.be, the mobile banking app for smartphone and tablet users. 85% of smartphone users in Belgium can now manage their ING accounts from these devices. ING Direct Italy started a process to open and activate a checking account in only 12 minutes in bank shops.

Social media and mobile banking are playing an increasingly important role in the financial services industry and ING is working to be at the forefront of this trend. In 2012, ING in the Netherlands was awarded the title 'Best Social Media organisation'.

Overview continued

ING Direct France was the first bank in France to launch a mobile application that allows customers to open saving accounts from their smartphones.

ING has defined a concrete approach to help all employees across different business lines translate ING's commitment to customer centricity into their day-to-day work. Progress is measured against goals and specific Key Performance Indicators (KPIs). In 2012, several of ING's business units implemented special customer centric initiatives. In Commercial Banking, ING introduced a new methodology of customer engagement called the Integrated Customer Approach (ICA). The ICA requires an in-depth analysis and understanding of the customer's strategy, operations and balance sheet. In Retail Banking, ING is implementing a change programme throughout its operations called 'Customer Interest First' (CIF). The objective is to make every aspect of ING's organisation customer-centric, from the type of people recruited, to the products sold, to the way complaints are solved. ING in the Netherlands developed 10 core principles to improve customer satisfaction – over the next two years all operational customer processes will be measured against these principles.

ING's customer-centric focus has proved a success with 10 countries achieving first or second place in Net Promoter Scores (NPS) compared to competitors. ING also received many awards for customer centricity and innovation.

OPERATIONAL EXCELLENCE

ING Bank is committed to continually improving its products, processes and systems to increase efficiency. This makes ING a more flexible and simple organisation, which frees up resources to focus on further improving the customer experience.

In 2012, there were many operational excellence initiatives in the Netherlands home market. Dutch business banking customers were migrated to a new, more efficient IT environment and four million retail customers in the Netherlands were transferred to a new, more user-friendly and accessible online banking system.

The integration of the commercial banking businesses and ING Direct continued in 2012 in Italy, Spain and France. It began in 2011 with the creation of One Bank in Germany. The One Bank concept optimises the banking businesses and customer service by making more efficient use of capital and liquidity.

ING Bank began to centralise its Treasury operations into a One Bank Treasury operation, which helps the company to better co-ordinate its programme of funding and liquidity and investment portfolio management.

TOP EMPLOYER

Remaining a top employer is a key priority at ING. Having engaged and motivated employees is essential to achieving success, because they build lasting relationships with our customers.

At ING, effective human resources management drives engagement. Managers are encouraged to attract and select people from diverse backgrounds, gender and skills. There is flexibility in the way employees organise their work so long as individual and collective deliverables are met.

In every banking business unit, there are many initiatives taken to boost ING's credentials as a Top Employer. Local Top Employer teams are organised in each business line and they are responsible for executing at the local level the bank-wide Top Employer action plan. Across the banking businesses, best practices in employee development are shared.

In terms of employee engagement, in 2012, the Bank expanded its traditional employee engagement survey to assess 'sustainable employee engagement'. This new measurement provides ING with a better picture of how employees can deliver high performance for customers in challenging times. The overall 'sustainable engagement' score was a strong 73%, which is higher than the average of the financial services norm.

For effective leadership management, the Bank has a strategy in every country of identifying, developing, appraising and retaining talent for senior and executive positions. It ensures that the right management teams are in place and creates succession planning for all key roles within ING Bank. Performance management and rewards continued to be an important area of focus in 2012.

SUSTAINABILITY

In line with our Business Principles, social, ethical and environmental criteria are embedded in our financing and investment policies and our business ambitions. ING believes that to be a successful company, the company's business decisions must be in line with the expectations and interests of those to whom we owe our license to operate – our stakeholders.

In the past year, we further strengthened our commitment to minimising any potential unethical, illegal or harmful consequence of our business activities, investments or transactions by applying the strictest of policies and principles. We reviewed our ESR (Environmental and Social Risk) sector policies and integrated our environmental and social risk screening, as defined by our ESR framework into all of our customer assessment and customer due diligence systems.

In May 2012, as the new chair of the Equator Principles (EP) Association Steering Committee for 2012/13, ING led a review of a new version of the Principles, EP III.

It was also a busy year for the financing of transactions in the field of renewable energy. In 2012, the total value of deals in renewable energy by the team accounted for approximately 64% of the total value of all energy deals done by ING during the year. These included wind farms and solar plants in Norway, Slovakia and the UK.

Overview continued

ING established a dedicated Sustainable Lending Team to implement recommendations by its employees to make ING's lending activities more sustainability-oriented. The team looks for new commercial opportunities in the field of sustainable lending and seeks to increase the number of relationships with customers that already have a strong sustainability track record and a progressive sustainability strategy.

CONCLUSIONS AND AMBITIONS

In 2012, ING made significant progress towards building the preferred bank for its customers. In a challenging environment, ING's earnings remained resilient and our strong funding position enabled us to continue to support customers. The lacklustre global economy, ongoing debt crisis in Europe and the cost of stricter regulation will require a continued disciplined, proactive approach to managing our business. ING will continue to focus on further strengthening its capital and funding and concentrating on solvency and liquidity.

ING will continue to combine its retail and commercial banking activities in certain countries, pursue innovative distribution in retail banking and leverage its strengths as a leading commercial bank in the Benelux.

The focus in Retail Banking is on the simplification of our model using the 'direct when possible, advice when needed' approach.

We want to selectively evolve our ING Direct businesses into mature banks.

Commercial Banking will concentrate on its key franchises and will maintain a leadership position in its key markets and product areas. ING sees its Commercial Banking business continuing to play a leading role in the Benelux and Central and Eastern Europe in the areas of Specialised Finance and Financial Markets.

ING is confident that this strategy will ensure that ING Bank remains profitable and stays competitive in the new banking environment.

Financial developments business lines

RETAIL BANKING

Retail Banking's underlying result before tax declined to EUR 1,698 million from EUR 2,282 million in 2011, mainly due to higher risk costs and lower interest results, especially on savings. The 2012 result included EUR 584 million of de-risking losses on the selective sale of European debt securities, while 2011 included EUR 181 million of de-risking losses and EUR 363 million of impairments on Greek government bonds. Net production in client balances was strong, with a net inflow of EUR 28.1 billion in funds entrusted and EUR 11.6 billion net growth in lending, of which EUR 9.2 billion was in residential mortgages and EUR 2.5 billion in other lending.

Total underlying income decreased by 2.9% to EUR 9,019 million. The interest result was 3.2% lower on EUR 8,030 million, as the impact of higher volumes was more than offset by lower margins on savings in most countries reflecting the low interest rate environment and the impact of de-risking. Only Retail Belgium reported an increase in interest result. Commission income was 2.4% down, mainly due to lower fees from the securities business. Investment and other income improved slightly, but was still negative, due to the losses from the selective de-risking of mainly southern European debt securities. ING Bank completed the planned de-risking of its investment portfolio in the fourth quarter of 2012.

Underlying operating expenses were stable at EUR 6,154 million as the cost-reduction programmes largely offset the impact of salary increases, inflation and business growth. The underlying cost/income ratio increased to 68.2%, from 66.2% in 2011.

The addition to the provision for loan losses increased by 35.7% to EUR 1,167 million, or 80 basis points of average risk-weighted assets compared with 61 basis points in 2011. The increase was mainly caused by higher risk costs in the Benelux, especially in the mid-corporate and SME segments and in the Dutch mortgage portfolio. The increase in Retail Rest of World was largely related to a specific provision for an impaired CMBS position.

The underlying return on equity, based on a 10% core Tier 1 ratio, declined to 7.6% from 12.0% in 2011 due to the decline in results combined with higher average risk-weighted assets. In 2012, total risk-weighted assets rose by 2.7% to EUR 146 billion at year-end, due to risk migration and volume growth, partly offset by the sale of European debt securities.

RETAIL NETHERLANDS

Retail Netherlands' underlying result before tax dropped by 30.4% to EUR 878 million in 2012 compared to EUR 1,261 million in 2011, mainly due to lower income and higher additions to the provision for loan losses.

The underlying income decreased by 6.0% to EUR 3,897 million in 2012, particularly due to a 6.5% decline in interest result. The interest margin on savings and current accounts declined as a reduction in client savings rates could not fully offset a lower return from the investment portfolio due to lower interest rates.

Funds entrusted showed a strong net inflow of EUR 9.0 billion, supported by successful marketing campaigns. The net production in residential mortgages was EUR 1.8 billion, while interest margins improved slightly. Other lending, mainly business lending, declined by EUR 3.0 billion as demand for credit remained low.

Operating expenses decreased by 3.1% to EUR 2,353 million in 2012, mainly reflecting the implementation of the cost-reduction program announced in November 2011. Risk costs increased to EUR 665 million, or 133 basis points of average risk-weighted assets, mainly due to higher net additions in the mid-corporate and SME segments, and higher risk costs on mortgages reflecting lower house prices.

RETAIL BELGIUM

The underlying result before tax of Retail Belgium increased by 33.8% compared with 2011 to EUR 609 million due to a strong increase in income supported by volume growth.

Income rose 8.0% to EUR 2,194 million, from EUR 2,031 million in 2011, mainly due to higher interest results, as business growth was combined with higher margins. Last year's income was furthermore negatively affected by EUR 17 million of impairments on Greek government bonds. Net mortgage production was EUR 1.8 billion in 2012, while other lending grew by EUR 2.5 billion. The net production in funds entrusted was EUR 3.3 billion, mainly attributable to the successful introduction of a new retail savings product in the first half of 2012.

Operating expenses declined slightly to EUR 1,418 million compared with 2011. The lower contribution to the deposit guarantee scheme and lower personnel expenses were largely offset by inflation-driven cost increases and a new bank levy. Risk costs increased by 15.9% on 2011 to EUR 168 million, or 83 basis points of average risk-weighted assets, mainly due to higher net additions in the mid-corporate segment.

RETAIL GERMANY

Retail Germany´s underlying result before tax rose 11.6% to EUR 441 million in 2012, compared with EUR 395 million in 2011, due to lower impairments and de-risking losses.

Underlying income increased by 5.2% to EUR 1,193 million in 2012, as 2011 included EUR 136 million of impairments on Greek government bonds and EUR 48 million of losses on the selective sale of European bonds whereas EUR 21 million of de-risking losses in 2012. Excluding impairments and de-risking losses, underlying income decreased to EUR 1,214 million in 2012, from EUR 1,319 million in 2011.

The interest result dropped 8.5% to EUR 1,141 million in 2012, from EUR 1,247 million in 2011, despite higher volumes, reflecting a lower interest margin on savings as the return on the investment portfolio declined following de-risking and higher excess cash positions.

Financial developments business lines continued

Commission income declined by EUR 30 million from 2011, mainly due to lower fees from securities business. In 2012 the total net production in funds entrusted was EUR 9.1 billion, while the net production in mortgages amounted to EUR 3.4 billion.

Operating expenses increased 3.2% compared to 2011, reflecting higher personnel expenses due to increased staff numbers and higher IT costs to support business growth. The additions to the provision for loan losses decreased in 2012 to EUR 83 million, or 38 basis points of average risk-weighted assets, from EUR 91 million in 2011 (or 46 basis points of average risk-weighted assets).

RETAIL REST OF WORLD

Retail Rest of World reported an underlying loss before tax of EUR 230 million in 2012 compared with an underlying profit before tax of EUR 172 million in 2011. This decrease was mainly due to EUR 563 million of losses from the selective de-risking in the investment portfolio in 2012, while 2011 included EUR 133 million of de-risking losses and EUR 210 million of impairments on Greek government bonds.

Underlying income decreased by 12.2% due to the above-mentioned impairments and losses. Excluding these impacts, underlying income was almost flat, decreasing 0,9% to EUR 2,298 million in 2012, from EUR 2,318 million in 2011. The interest result declined by EUR 41 million, or 2.2%, due to pressure on margins. The interest result decreased mainly in Italy, France and the United Kingdom, in part offset by increases in Turkey, Spain and India. The total net production in mortgages was EUR 2.2 billion, while the net growth in other lending was EUR 2.4 billion. Funds entrusted reported a net inflow of EUR 6.6 billion.

Operating expenses increased by 4.8% in 2012 compared with 2011, mainly as a result of business growth and inflation in the emerging markets India, Turkey, and Poland. Risk costs rose to EUR 251 million, or 47 basis points of average risk-weighted assets, compared with EUR 167 million, or 32 basis points of average risk-weighted assets, in 2011. The increase in risk costs was mainly caused by EUR 75 million of specific provisions taken for an impaired CMBS position in the UK.

COMMERCIAL BANKING

Commercial Banking´s underlying result before tax decreased by 22.1% to EUR 1,572 million in 2012 compared with EUR 2,019 million in 2011. Credit and debt valuation adjustments (CVA/DVA), fully recorded in Financial Markets, were made up of EUR 457 million of negative adjustments in 2012 versus EUR 130 million of positive adjustments in 2011. Furthermore, 2012 included EUR 17 million of de-risking losses in the debt securities portfolio, while 2011 included EUR 225 million of impairments on Greek government bonds. Excluding these impacts, underlying result before tax of Commercial Banking in 2012 was 3.2% lower than in 2011, entirely caused by higher risk costs.

Industry Lending posted an underlying result before tax of EUR 832 million in 2012, down from EUR 1,374 million in 2011, primarily due to higher risk costs and lower commission income. Risk costs in Industry Lending almost tripled to EUR 674 million, compared with EUR 234 million last year, due to material increases in both Real Estate Finance and Structured Finance. General Lending & Transaction Services showed a solid underlying result before tax of EUR 606 million in 2012, up from EUR 559 million in 2011. This increase was mainly attributable to higher interest results, due to increased margins, partly offset by lower volumes, and higher commission income. Financial Markets´ underlying result dropped to nil from EUR 363 million last year, reflecting the aforementioned negative impact of CVA/DVA. The decrease was partly offset by higher income in the developed markets rates and credits business. Underlying result of Bank Treasury, Real Estate & Other improved to EUR 135 million in 2012, from a loss of EUR 276 million in 2011, mainly due to the impact prior year of the Greek impairments and lower losses from the Real Estate run-off business in 2012.

In 2012 Commercial Banking´s total underlying income decreased by 1.2% to EUR 4,963 million, primarily driven by Financial Markets, partly offset by increases in Bank Treasury, Real Estate & Other. Income from the core lending businesses held up well as lower volumes were offset by higher margins. Net production in lending was a negative amount of EUR 11.3 billion, reflecting maturities and low demand for credit, while funds entrusted reported a net outflow of EUR 5.4 billion. Underlying operating expenses decreased by 3.6% to EUR 2,436 million, mainly due to lower impairments on real estate development projects as well as lower performance-related staff costs. The underlying cost/income ratio was 49.1%, a slight improvement on 50.3% in 2011.

Risk costs doubled to EUR 955 million, or 72 basis points of average risk-weighted assets, compared to EUR 477 million, or 35 basis points, in 2011. The increase is mainly due to higher risk costs in Industry Lending as well as for the lease run-off business.

The underlying return on equity, based on a 10% core Tier 1 ratio, dropped to 8.6% from 11.2% in 2011 due to the decline in results, partly offset by lower slightly lower average risk-weighted assets. At year-end 2012, however, risk-weighted assets were 14.8% lower than a year ago, mainly due to lower volumes, de-risking and the restructuring of the emerging markets activities in Financial Markets.

Corporate governance

CORPORATE GOVERNANCE STATEMENT

This chapter is our Corporate Governance Statement, required pursuant to the Decree with respect to the contents of the annual report of banks *(Besluit tot vaststelling van nadere voorschriften omtrent de inhoud van het jaarverslag van banken)* [(1)].

[(1)] Dutch Bulletin of Acts (Staatsblad) 2010, 215.

FINANCIAL REPORTING PROCESS

As ING Bank N.V. is a consolidated subsidiary of ING Groep N.V. ('ING Group') its policies and procedures for establishing and maintaining adequate internal control over financial reporting are the same as those applied by ING Group for its consolidated financial statements with respect to ING Bank N.V. and the entities included in the latter's own consolidated financial statements.

Our internal control over financial reporting is a process designed under the supervision of our principal executive and principal financial officers to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

Our internal control over financial reporting includes those policies and procedures that:

- pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorisations of our management and directors; and
- provide reasonable assurance regarding prevention or timely detection of unauthorised acquisition, use or disposition of our assets that could have a material effect on our financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

As ING Group is subject to the US Sarbanes-Oxley Act, its Executive Board assessed the effectiveness of its internal control over financial reporting as of 31 December 2012, which was audited by ING Group's external auditor. For more information, please refer to the 2012 Annual Report of ING Group which is available on its website (www.ing.com).

BOARD COMPOSITION

ING Group aims to have an adequate and balanced composition of the Management Board and Supervisory Board of ING Bank N.V. ('Boards'). Thereto, annually, the Supervisory Board assesses the composition of the Boards.

In the context of such assessment, ING Group aims to have a gender balance by having at least 30% men and at least 30% women amongst the members of the Management Board and the Supervisory Board.

However, because of the fact that ING Group needs to balance several relevant selection criteria when composing the Boards, the composition of the Boards did not meet the above-mentioned gender balance in 2012. ING Group will continue to strive for an adequate and balanced composition of the Boards in future appointments, by taking into account all relevant selection criteria including but not limited to gender balance, executive experience, experience in corporate governance of large stock-listed companies and experience in the political and social environment.

EXTERNAL AUDITOR

At the annual General Meeting of ING Groep N.V. held on 14 May 2012, Ernst & Young was appointed to audit the financial statements of ING Group, including but not limited to ING Bank N.V., for the financial years 2012 and 2013, to report on the outcome of these audits to the Executive Board and the Supervisory Board and to provide an audit opinion on the financial statements of ING Group. Furthermore, Ernst & Young also audited and reported on the effectiveness of internal control over financial reporting on 31 December 2012. The external auditor attended the meetings of the Audit Committee, functioning for ING Bank N.V. as well, and the 2012 annual General Meeting of ING Groep N.V.

New legislation on the accountancy profession (*Wet op het accountantsberoep*) came into force as of 1 January 2013 and prohibits certain services to be conducted by an external audit firm and introduces compulsory audit firm rotation, not later than 1 January 2016. In the 2013 annual General Meeting of ING Groep N.V. it will be proposed to extend the appointment of Ernst & Young as auditor of the financial statements of ING Group by two more years, i.e. for the financial years 2014 and 2015. We will start a tender procedure with the objective to change our external audit firm as of the financial year 2016.

After a maximum period of five years of performing the financial audit of ING Bank N.V., the lead audit partners of the external audit firm and the audit partners responsible for reviewing the audits, have to be replaced by other partners of the external audit firm. The Audit Committee provides recommendations to the Supervisory Board regarding these replacements based, among other things, on an annual evaluation of the provided services. In line with this requirement, the lead audit partner of Ernst & Young was succeeded after the year-end audit 2011. The rotation of other partners involved with the audit of the financial statements of ING is subject to applicable independence legislation.

Corporate governance continued

DUTCH BANKING CODE

Pursuant to the Decree with respect to the contents of the annual report of banks *(Besluit tot vaststelling van nadere voorschriften omtrent de inhoud van het jaarverslag van banken)* [1], ING Bank is to report on its application of the Dutch Banking Code *(Code Banken)*. The Banking Code can be downloaded from the website of the Dutch Banking Association (www.nvb.nl). ING Bank's report on its application of the Banking Code can be found in the publication *Application of the Dutch Banking Code by ING Bank N.V.,* which is available on the website of ING Group (www.ing.com).

[1] Dutch Bulletin of Acts (Staatsblad) 2010, 215.

AMSTERDAM, 18 MARCH 2013

THE MANAGEMENT BOARD BANKING

Conformity statement

The Management Board is required to prepare the Annual Accounts and the Annual Report of ING Bank N.V. for each financial year in accordance with applicable Dutch law and International Financial Reporting Standards (IFRS) as adopted by the European Union.

Conformity statement pursuant to section 5:25c paragraph 2(c) of the Dutch Financial Supervision Act (Wet op het financieel toezicht).
The Management Board is responsible for maintaining proper accounting records, for safeguarding assets and for taking reasonable steps to prevent and detect fraud and other irregularities. It is responsible for selecting suitable accounting policies and applying them on a consistent basis, making judgments and estimates that are prudent and reasonable. It is also responsible for establishing and maintaining internal procedures which ensure that all major financial information is known to the Management Board, so that the timeliness, completeness and correctness of the external financial reporting are assured.

As required by section 5:25c paragraph 2(c) of the Dutch Financial Supervision Act, each of the signatories hereby confirms that to the best of his or her knowledge:
- the ING Bank N.V. 2012 Annual Accounts give a true and fair view of the assets, liabilities, financial position and profit or loss of ING Bank N.V. and the entities included in the consolidation taken as a whole;
- the ING Bank N.V. 2012 Annual Report gives a true and fair view of the position at the balance sheet date, the development and performance of the business during the financial year 2012 of ING Bank N.V. and the entities included in the consolidation taken as a whole, together with a description of the principal risks ING Bank N.V. is confronted with.

AMSTERDAM, 18 MARCH 2013
THE MANAGEMENT BOARD BANKING

J.H.M. HOMMEN
CEO and chairman

J.V. TIMMERMANS
Vice-chairman

P.G. FLYNN
CFO

W.F. NAGEL
CRO

W.L. CONNELLY
CEO Commercial Banking

C.P.A.J. LEENAARS
CEO Retail Banking Direct and International

H. VAN DER NOORDAA
CEO Retail Banking Benelux

Report of the Supervisory Board

TO SHAREHOLDERS

The Supervisory Board hereby presents you the 2012 Annual Report of ING Bank N.V. The Annual Report includes the report of the Management Board, the Annual Accounts and Other information.

ANNUAL ACCOUNTS AND DIVIDEND

The Annual Accounts have been prepared by the Management Board and have been discussed by the Supervisory Board. They are presented to you for adoption. In November 2012 an interim dividend was paid to ING Groep N.V. amounting to EUR 2,125 million.

MEETINGS

The Supervisory Board met 13 times in 2012 of which 8 meetings were regular meetings. On average, 94% of the Supervisory Board members were present at the scheduled meetings. As some of the extra meetings were scheduled on short notice the presence at these meeting was on average 77%. Apart from closely monitoring the financial results in 2012, the Supervisory Board also monitored the progress in executing the 2009 Restructuring Plan as approved by the European Commission (EC) as well as the repayment of the outstanding core Tier 1 securities to the Dutch State. The Supervisory Board was regularly updated on the discussions with the EC on an amended Restructuring Plan following the European Court ruling in March 2012. The sovereign debt crisis in the eurozone and its impact on the banking businesses also remained important topics on the agenda.

In 2012 the Audit Committee met five times with no absentees, to discuss the annual and quarterly results, and the reports from the external auditor.

The Audit Committee regularly discussed financial reporting, internal controls over financial reporting, capital management, compliance and regulatory matters. The risk costs and cost development in general were also topics of frequent debate during the year. Furthermore, solvency volatility were frequently discussed. The decrease of the exposures in Spain was closely monitored. Upon request of the Audit Committee an update on IT risk for Banking was presented in August. An evaluation of the performance of the external auditor Ernst & Young was discussed in the February and March 2012 Audit Committee meetings. The Audit Committee discussed and confirmed the topics mentioned in the management letter by Ernst & Young in the November meeting. Directly following the Audit Committee meetings, the members of the Audit Committee met with the internal and external auditors to confirm that all relevant topics were discussed in the Audit Committee meeting.

The Risk Committee met four times in 2012, with once an absentee. In each Risk Committee meeting the financial risk and the non-financial risk reports for banking were discussed. The risk appetite statements for 2012 were discussed and approved in February. The 2013 risk appetite statement for Bank was discussed and approved in August.

The exposure on Spain specifically and the possible risks for ING as a result of the sovereign debt crisis in the eurozone were closely monitored by the Risk Committee. As part of the 2012 permanent education programme, the Risk Committee was informed in-depth on risk models used by ING, in August. In that meeting the downgrade for ING Bank by Moody's and the Libor affaire were also a topic of debate. An adjusted country risk framework was presented in November. Each meeting ended with a general discussion on possible future risks.

The Nomination Committee met three times in 2012, with one absentee once and two absentees once, to discuss succession matters for the Management Board as well as the future composition of the Supervisory Board

A specific committee was set up to prepare for a CEO succession, if and when appropriate. An executive search firm was involved in this process. The committee reported its views to the Nomination Committee and the Supervisory Board in November 2012, as well as in January and February of 2013. The Supervisory Board agreed to propose to the 2013 General Meeting the appointment of Ralph Hamers, presently CEO of ING Belgium to the Executive Board as from the 2013 AGM on 13 May. Ralph Hamers will succeed Jan Hommen as CEO from 1 October 2013. The Supervisory Board has requested Jan Hommen to stay on as CEO after his reappointment until 1 October 2013 in order to ensure a smooth CEO transition.

The Nomination Committee assigned an executive search firm to identify European Supervisory Board candidates with financial expertise. Another ambition the Committee would like to see fulfilled is that female members of the Supervisory Board will account for at least 30% of total Supervisory Board members. Various candidates were interviewed by members of the Nomination Committee. This Committee subsequently advised the Supervisory Board to nominate certain candidates as members of the Supervisory Board, subject to approval by DNB, the Dutch central bank.

In 2012, the Remuneration Committee met eight times, with three times one absentee and once two absentees. In January the Remuneration Committee advised positively on the implementation of the remuneration framework for ING Bank, based on the EU CRD III and the DNB regulation on controlled remuneration policy. The proposed 2012 performance objectives for the Management Board were reviewed and positively advised. The Remuneration Committee also advised positively on the 2011 variable remuneration pools.

Report of the Supervisory Board continued

The functioning of the Management Board was discussed regularly. In February 2012, the 2011 performance of the individual Management Board members was discussed on the basis of the Bank performance criteria and the individual targets. The Committee also reviewed the individual compensation proposals for the Board members in February while the compensation proposals for Identified Staff were reviewed in March. In June the proposed hurdles for the 2012 capital test were discussed and a governance framework for Identified Staff compensation proposals was agreed upon. Throughout the year the Remuneration Committee approved Identified Staff related remuneration matters, based upon the governance framework.

An extensive discussion about an alternative remuneration structure took place, a proposal for changes to performance management and variable remuneration for ING Bank was presented as well as a specific proposal for the compensation structure for Dutch general managers of ING Bank. The Remuneration Committee advised positively on both proposals.

CHANGES IN THE COMPOSITION OF THE MANAGEMENT BOARD BANKING

The Supervisory Board will propose to the 2013 General Meeting to appoint Ralph Hamers, presently CEO of ING Belgium as a member of the Executive Board from the 2013 AGM on 13 May. Following his appointment to the Executive Board, Ralph Hamers will also become a member of the Management Board Banking. As of 1 October 2013 he will succeed Jan Hommen as CEO, who will be recommended for reappointment for the period as from the 2013 AGM until 1 October 2013.

The Supervisory Board will propose to reappoint Patrick Flynn as a member of the Management Board Banking for a consecutive period of four years, ending after the annual General Meeting in 2017.

CHANGES IN THE COMPOSITION OF THE SUPERVISORY BOARD

Prior to the annual General Meeting 2012 Aman Mehta withdrew his nomination for reappointment as member of the Supervisory Board, after negative advice on this point from shareholder advisory groups over the number of board positions Aman Mehta held.

Jan Holsboer, Yvonne van Rooy and Robert Reibestein were appointed to the Supervisory Board on 14 May 2012 by the annual General Meeting. As Robert Reibestein left McKinsey & Company on 31 December 2011, he started his function as a Supervisory Board member per 1 January 2013.

Following the 2012 annual General Meeting in May, Jan Holsboer joined the Audit Committee. Yvonne van Rooy joined the Audit Committee per 1 October 2012. Robert Reibestein succeeded Piet Klaver as chairman of the Risk Committee per 1 January 2013.

Please see page 3 for the composition of the Supervisory Board

Jeroen van der Veer is nominated for reappointment. Tineke Bahlmann is recommended for reappointment by the Dutch State. Lodewijk de Waal has decided not to apply for reappointment. The Dutch State has indicated to not use its right to recommend a second candidate for appointment as a member of the Supervisory Board at this moment.

Sjoerd van Keulen has decided to resign from the Supervisory Board for personal reasons and the desire to rebalance his priorities, with effect from the 2013 AGM. Furthermore, Piet Klaver has decided to resign from the Supervisory Board from the 2013 AGM because other commitments are increasingly demanding his time and attention.

The Nomination Committee and the Supervisory Board will continue to strive for an adequate and balanced composition of its Supervisory Board when selecting and nominating new members for appointment.

Currently, only one Supervisory Board member, Luc Vandewalle qualifies as ‘non-independent’ as defined in best-practice provision III.2.2 of the Dutch Corporate Governance Code. Mr. Vandewalle is considered to be not independent because of his previous position at ING Bank Belgium.

APPRECIATION FOR THE MANAGEMENT BOARD AND ING EMPLOYEES

The Supervisory Board would like to thank the members of the Management Board for their continued hard work in 2012. During 2012 decisive steps were once more taken in executing the Restructuring Plan as approved by the EC. The Supervisory Board would also like to thank all employees of ING who have continued to serve the interests of customers, shareholders and other stakeholders of ING and have shown continued commitment in the past year.

AMSTERDAM, 18 MARCH 2013
THE SUPERVISORY BOARD

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Consolidated balance sheet of ING Bank

as at 31 December

amounts in millions of euros	2012	2011
ASSETS		
Cash and balances with central banks 1	**15,447**	28,112
Amounts due from banks 2	**39,053**	45,323
Financial assets at fair value through profit and loss 3		
– trading assets	**114,320**	123,176
– non-trading derivatives	**9,075**	10,076
– designated as at fair value through profit and loss	**2,768**	2,838
Investments 4		
– available-for-sale	**74,279**	74,935
– held-to-maturity	**6,545**	8,868
Loans and advances to customers 5	**541,546**	577,569
Investments in associates 6	**841**	827
Real estate investments 7	**207**	435
Property and equipment 8	**2,336**	2,417
Intangible assets 9	**1,778**	1,743
Assets held for sale 10	**6,781**	62,483
Other assets 11	**21,092**	22,363
Total assets	**836,068**	961,165
EQUITY		
Shareholder’s equity (parent) 12	**36,669**	34,367
Minority interests	**843**	693
Total equity	**37,512**	35,060
LIABILITIES		
Subordinated loans 13	**16,407**	18,408
Debt securities in issue 14	**134,689**	130,926
Amounts due to banks 15	**38,704**	72,233
Customer deposits and other funds on deposit 16	**460,363**	479,364
Financial liabilities at fair value through profit and loss 17		
– trading liabilities	**83,652**	107,682
– non-trading derivatives	**15,919**	18,161
– designated as at fair value through profit and loss	**13,399**	13,021
Liabilities held for sale 10	**14,244**	64,265
Other liabilities 18	**21,179**	22,045
Total liabilities	**798,556**	926,105
Total equity and liabilities	**836,068**	961,165

References relate to the notes starting on page 41. These form an integral part of the consolidated annual accounts.

Consolidated profit and loss account of ING Bank

for the years ended 31 December

amounts in millions of euros	2012	2012	2011	2011	2010	2010
Interest income	**60,271**		65,204		68,952	
Interest expense	**–48,023**		–51,620		–55,365	
Interest result 32		**12,248**		13,584		13,587
Investment income 33		**595**		–544		447
Result on disposals of group companies 34		**1,605**		813		313
Gross commission income	**3,109**		3,471		3,556	
Commission expense	**–976**		–976		–923	
Commission income 35		**2,133**		2,495		2,633
Valuation results on non-trading derivatives 36		**–950**		156		–724
Net trading income 37		**1,101**		311		1,195
Share of profit from associates 6		**22**		32		104
Other income 38		**–456**		348		346
Total income		**16,298**		17,195		17,901
Addition to loan loss provisions 5		**2,125**		1,670		1,751
Intangible amortisation and other impairments 39		**211**		321		504
Staff expenses 40		**4,921**		5,506		5,570
Other operating expenses 41		**4,711**		4,399		4,093
Total expenses		**11,968**		11,896		11,918
Result before tax		**4,330**		5,299		5,983
Taxation 42		**1,124**		1,216		1,408
Net result (before minority interests)		**3,206**		4,083		4,575
Attributable to:						
Shareholder of the parent		**3,115**		4,005		4,495
Minority interests		**91**		78		80
		3,206		4,083		4,575

	2012	2011	2010
Dividend per ordinary share (in euros)	**4.57**	6.45	0.43
Total amount of dividend paid (in millions of euros)	**2,125**	3,000	200

References relate to the notes starting on page 41. These form an integral part of the consolidated annual accounts.

Consolidated statement of comprehensive income of ING Bank

for the years ended 31 December

amounts in millions of euros	2012	2011	2010
Net result	**3,206**	4,083	4,575
Unrealised revaluations after taxation[1]	**1,963**	–945	–760
Realised gains/losses transferred to profit and loss [1]	**–473**	406	–293
Changes in cash flow hedge reserve	**79**	–182	–167
Exchange rate differences	**–340**	–477	1,089
Other revaluations	**51**	–13	25
Total amount recognised directly in equity (other comprehensive income)	**1,280**	–1,211	–106
Total comprehensive income	**4,486**	2,872	4,469
Comprehensive income attributable to:			
Shareholder of the parent	**4,321**	2,796	4,377
Minority interests	**165**	76	92
	4,486	2,872	4,469

[1] Reference is made to Note 12 ‘Shareholder’s’ equity (parent)’ for a breakdown of the individual components.

Unrealised revaluations after taxation comprises EUR 22 million (2011: EUR –4 million; 2010: EUR –10 million) related to the share of other comprehensive income of associates.

Exchange rate differences comprises EUR 11 million (2011: EUR –12 million; 2010: EUR 100 million) related to the share of other comprehensive income of associates.

Reference is made to Note 42 ‘Taxation’ for the disclosure on the income tax effects on each component of the other comprehensive income, except for the component Net result which is disclosed in the Consolidated profit and loss account.

Consolidated statement of cash flows of ING Bank

for the years ended 31 December

amounts in millions of euros		2012	2011	2010
Result before tax		**4,330**	5,299	5,983
Adjusted for	– depreciation	**606**	1,338	1,533
	– addition to loan loss provisions	**2,125**	1,670	1,751
	– other	**1,854**	1,227	971
Taxation paid		**–1,091**	–1,067	–488
Changes in	– amounts due from banks, not available on demand	**5,272**	7,188	–4,333
	– trading assets	**7,448**	1,662	–14,641
	– non-trading derivatives	**–2,191**	1,407	–2,062
	– other financial assets at fair value through profit and loss	**–104**	432	1,038
	– loans and advances to customers	**1,130**	–26,392	–19,665
	– other assets	**–1,323**	–2,095	1,769
	– amounts due to banks, not payable on demand	**–26,459**	–6,731	–9,831
	– customer deposits and other funds on deposit	**21,334**	30,569	21,052
	– trading liabilities	**–24,031**	–369	9,804
	– other financial liabilities at fair value through profit and loss	**214**	75	952
	– other liabilities	**–637**	–310	–4,919
Net cash flow from operating activities		**–11,523**	13,903	–11,086
Investments and advances	– group companies			
	– associates	**–20**	–35	–104
	– available-for-sale investments	**–71,323**	–155,004	–89,614
	– held-to-maturity investments			–141
	– real estate investments	**–4**	–9	–57
	– property and equipment	**–363**	–422	–450
	– assets subject to operating leases		–1,188	–1,284
	– loans	**–1,117**		
	– other investments	**–284**	–263	–241
Disposals and redemptions	– group companies	**–7,868**	1,384	1,663
	– associates	**29**	263	88
	– available-for-sale investments	**73,441**	155,826	88,333
	– held-to-maturity investments	**2,308**	2,370	2,620
	– real estate investments	**219**	83	289
	– property and equipment	**53**	52	40
	– assets subject to operating leases		43	53
	– loans	**7,268**	927	105
	– other investments	**2**		3
Net cash flow from investing activities **45**		**2,341**	4,027	1,303
Proceeds from issuance of subordinated loans		**1,318**	2,363	944
Repayments of subordinated loans		**–2,919**	–5,381	–1,787
Proceeds from borrowed funds and debt securities		**298,557**	382,664	318,206
Repayments of borrowed funds and debt securities		**–296,419**	–380,424	–308,939
Dividends paid		**–2,125**	–3,000	–200
Net cash flow from financing activities		**–1,588**	–3,778	8,224
Net cash flow **46**		**–10,770**	14,152	–1,559
Cash and cash equivalents at beginning of year		**31,197**	17,188	18,170
Effect of exchange rate changes on cash and cash equivalents		**185**	–143	577
Cash and cash equivalents at end of year **47**		**20,612**	31,197	17,188

As at 31 December 2012 Cash and cash equivalents includes Cash and balances with central banks of EUR 15,447 million (2011: EUR 28,112 million; 2010: EUR 9,519 million). Reference is made to Note 47 ‘Cash and cash equivalents’.

References relate to the notes starting on page 41. These form an integral part of the consolidated annual accounts.

Consolidated statement of changes in equity of ING Bank

amounts in millions of euros	Share capital	Share premium	Reserves	Total shareholder's equity (parent)	Minority interests	Total equity
Balance as at 1 January 2010	525	16,542	13,155	30,222	995	31,217
Unrealised revaluations after taxation			–760	–760		–760
Realised gains/losses transferred to profit and loss			–293	–293		–293
Changes in cash flow hedge reserve			–167	–167		–167
Exchange rate differences			1,089	1,089		1,089
Other revaluations			13	13	12	25
Total amount recognised directly in equity (other comprehensive income)			–118	–118	12	–106
Net result			4,495	4,495	80	4,575
Total comprehensive income			4,377	4,377	92	4,469
Employee stock options and share plans			53	53		53
Changes in the composition of the group [(1)]					–470	–470
Dividends			–200	–200		–200
Balance as at 31 December 2010	525	16,542	17,385	34,452	617	35,069
Unrealised revaluations after taxation			–945	–945		–945
Realised gains/losses transferred to profit and loss			406	406		406
Changes in cash flow hedge reserve			–182	–182		–182
Exchange rate differences			–477	–477		–477
Other revaluations			–11	–11	–2	–13
Total amount recognised directly in equity (other comprehensive income)			–1,209	–1,209	–2	–1,211
Net result			4,005	4,005	78	4,083
Total comprehensive income			2,796	2,796	76	2,872
Employee stock options and share plans			119	119		119
Dividends			–3,000	–3,000		–3,000
Balance as at 31 December 2011	525	16,542	17,300	34,367	693	35,060
Unrealised revaluations after taxation			**1,963**	**1,963**		**1,963**
Realised gains/losses transferred to profit and loss			**–473**	**–473**		**–473**
Changes in cash flow hedge reserve			**60**	**60**	**19**	**79**
Exchange rate differences			**–356**	**–356**	**16**	**–340**
Other revaluations			**12**	**12**	**39**	**51**
Total amount recognised directly in equity (other comprehensive income)			**1,206**	**1,206**	**74**	**1,280**
Net result			**3,115**	**3,115**	**91**	**3,206**
Total comprehensive income			**4,321**	**4,321**	**165**	**4,486**
Employee stock options and share plans			**106**	**106**	**1**	**107**
Changes in de composition of the group					**–10**	**–10**
Dividends			**–2,125**	**–2,125**	**–6**	**–2,131**
Balance as at 31 December 2012	**525**	**16,542**	**19,602**	**36,669**	**843**	**37,512**

[(1)] Changes in the composition of the group in 2010 mainly relates to the sale of ING Summit Industrial Fund LP. Reference is made to Note 27 'Companies acquired and companies disposed'.

Reserves includes Revaluation reserve of EUR 2,216 million (2011: EUR 550 million; 2010: EUR 1,457 million), Currency translation reserve of EUR –263 million (2011: EUR 209 million; 2010: EUR 500 million) and Other reserves of EUR 17,649 million (2011: EUR 16,541 million; 2010: EUR 15,428 million). Changes in individual components are presented in Note 12 'Shareholder's equity (parent)'.

Accounting policies for the consolidated annual accounts of ING Bank

AUTHORISATION OF ANNUAL ACCOUNTS
The consolidated annual accounts of ING Bank N.V. for the year ended 31 December 2012 were authorised for issue in accordance with a resolution of the Management Board on 18 March 2013. The Management Board may decide to amend the annual accounts as long as these are not adopted by the General Meeting of Shareholders. The General Meeting of Shareholders may decide not to adopt the annual accounts, but may not amend these. ING Bank N.V. is incorporated and domiciled in Amsterdam, the Netherlands.
The principal activities of ING Bank are described in 'ING at a glance' in section 1.

BASIS OF PRESENTATION
ING Bank applies International Financial Reporting Standards as adopted by the European Union 'IFRS-EU'. In the annual accounts the term 'IFRS-EU' is used to refer to International Financial Reporting Standards as adopted by the EU, including the decisions ING Bank made with regard to the options available under IFRS-EU.

IFRS-EU provides a number of options in accounting policies. The key areas in which IFRS-EU allows accounting policy choices, and the related ING accounting policy, are summarised as follows:
- As explained in the section 'Principles of valuation and determination of results' and in Note 22 'Derivatives and hedge accounting' ING Bank applies fair value hedge accounting to portfolio hedges of interest rate risk (macro hedging) under the EU 'carve out' of IFRS-EU;
- ING's accounting policy for Real estate investments is fair value, with changes in fair value reflected immediately in the profit and loss account;
- ING's accounting policy for Property for own use is fair value, with changes in fair value reflected in the revaluation reserve in equity ('Other comprehensive income'). A net negative revaluation on individual properties is reflected immediately in the profit and loss account;
- For defined benefit pension plans, ING's accounting policy is to defer actuarial gains and losses through the so-called corridor; and
- ING's accounting policy for joint ventures is proportionate consolidation.

ING's Bank accounting policies under IFRS-EU and its decision on the options available are included in the section 'Principles of valuation and determination of results' below. Except for the options included above, the principles in section 'Principles of valuation and determination of results' are IFRS-EU and do not include other significant accounting policy choices made by ING. The accounting policies that are most significant to ING are included in section 'Critical accounting policies'.

CHANGES IN 2012
Amendments to IFRS 7 'Disclosures – Transfers of Financial Assets' and Amendments to IAS 12 'Deferred tax – Recovery of Underlying Assets' became effective for ING Bank in 2012. Neither of these has a significant effect on ING Bank.

In 2012, changes were made to the segment reporting as disclosed in Note 43 'Segments'. The presentation of Note 47 'Cash and cash equivalents' was changed to separately present the cash amount included in businesses held for sale. This change resulted in an increase of Cash and cash equivalents at the beginning of the year of EUR 4,980 million due to inclusion of balances classified as Assets held for sale.

The comparison of balance sheet items between 31 December 2012 and 31 December 2011 is impacted by the disposal of companies as disclosed in Note 27 'Companies acquired and companies disposed' and by the held for sale classification as disclosed in Note 10 'Assets and liabilities held for sale'. Changes in assets and liabilities as a result of classification as held for sale are included in the notes in the line 'Changes in the composition of the group'. In 2012, this relates mainly to ING Direct UK. In 2011, this related mainly to ING Direct USA.

The presentation of, and certain terms used in, the consolidated balance sheet, the consolidated profit and loss account, consolidated statement of cash flows, consolidated statement of changes in equity and certain notes has been changed to provide additional and more relevant information or (for changes in comparative information) to better align with the current period presentation. The impact of these changes is explained in the respective notes when significant.

UPCOMING CHANGES IN IFRS-EU IN 2013
The following new and/or amended IFRS-EU standards will be implemented by ING Bank as of 1 January 2013:
- Amendments to IAS 19 'Employee Benefits';
- Amendments to IAS 1 'Presentation of Financial Statements';
- Amendments to IFRS 7 'Financial instruments: Disclosures'; and
- IFRS 13 'Fair Value Measurement'.

Amendments to IAS 19 'Employee Benefits'
The most significant change of the revised IAS 19 'Employee Benefits' relates to the accounting for defined benefit pension obligations and the corresponding plan assets. The amendments require immediate recognition in Other comprehensive income (i.e. in equity) of changes in the defined benefit obligation and in the fair value of plan assets due to actuarial gains and losses.

The deferral of actuarial gains and losses through the ‘corridor approach’, which was applied under the previous version of IAS 19 until the end of 2012, is no longer allowed. As a related consequence, deferred actuarial gains and losses are no longer released to the profit and loss account upon curtailment. Furthermore, the amendments require the expected return on plan assets to be determined using a high-quality corporate bond rate, equal to the discount rate of the defined benefit obligation; currently management’s best estimate is applied. The amendments also introduce a number of other changes and extended disclosure requirements. The implementation of the amendments to IAS 19 results in the recognition of accumulated actuarial gains and losses in equity as at 1 January 2013. As a result, Shareholders’ equity will decrease with EUR 1.7 billion (after tax) at 1 January 2013, more information is provided in Note 18 ‘Other liabilities’. The recognition of actuarial gains and losses in equity will create volatility in equity going forward. In the 2013 consolidated annual accounts, the comparative figures for previous years will be restated to reflect the impact of the amendments to IAS 19.

The impact of changes in IAS 19 as at 1 January 2013 is as follows:

Upcoming changes in IFRS-EU in 2013

amounts in millions of euros	IAS 19 ‘Employee Benefits’
Assets held for sale	-
Assets – other	–1,635
Impact on Total assets	–1,635
Liabilities held for sale	-
Liabilities – other	70
Impact on Total liabilities	70
Shareholder’s equity	–1,705
Impact on Total equity and liabilities	–1,635

Amendments to IAS 1 ‘Presentation of Financial Statements’
The amendments to IAS 1 ‘Presentation of Financial Statements’ introduce changes to the presentation in the Statement of Other Comprehensive income, including a split of Other comprehensive income into items that may be recognised in the profit and loss account in future periods and items that will never be recognised in the profit and loss account. There will be no impact on Shareholders’ equity, Net result and/or Other comprehensive income.

Amendments to IFRS 7 ‘Financial instruments: Disclosures’
The amendments to IFRS 7 ‘Financial instruments: Disclosures’ introduce additional disclosures on offsetting (netting) of financial instruments in the balance sheet and on the potential effect of netting arrangements. There will be no impact on Shareholders’ equity, Net result and/or Other comprehensive income.

IFRS 13 ‘Fair Value Measurement’
IFRS 13 ‘Fair value measurement’ brings together in one standard all guidance on how to determine fair value. It does not change the scope of assets/liabilities that are measured at fair value. ING Bank’s interpretation of fair value measurement is not significantly different from the guidance in IFRS 13. Therefore, the implementation of IFRS 13 ‘Fair Value Measurement’ at 1 January 2013 will not have a significant impact on Shareholders’ equity, Net result and/or Other comprehensive income. In addition, IFRS 13 introduces an extended scope for the disclosure of the fair value hierarchy by level of fair value. ING Bank will implement the new requirements as of 2013.

UPCOMING CHANGES IN IFRS-EU AFTER 2013
The following new standards will become effective for ING Bank as at 1 January 2014:
- IFRS 10 ‘Consolidated Financial Statements’;
- IFRS 11 ‘Joint Arrangements’ and amendments to IAS 28 ‘Investments in Associates and Joint Ventures’; and
- IFRS 12 ‘Disclosure of Interests in Other Entities’;

IFRS 10 ‘Consolidated Financial Statements’
IFRS 10 ‘Consolidated Financial Statements’ introduces amendments to the criteria for consolidation. Similar to the requirements that were applicable until the end of 2012, all entities controlled by ING Bank are included in the consolidated annual accounts. However, IFRS 10 redefines control as being exposed to variable returns and having the ability to affect those returns through power over the investee. The implementation of IFRS 10 is expected not to have significant impact on Shareholders’ equity, Net result and/or Other comprehensive income.

Accounting policies for the consolidated annual accounts of ING Bank continued

IFRS 11 'Joint Arrangements' and amendments to IAS 28 'Investments in Associates and Joint Ventures'
IFRS 11 'Joint Arrangements' and the related amendments to IAS 28 'Investments in Associates and Joint Ventures' eliminate the proportionate consolidation method for joint ventures that was applied by ING. Under the new requirements, all joint ventures will be reported using the equity method of accounting (similar to the accounting that is already applied for Investments in associates). The implementation of IFRS 11 is expected not to have a significant impact on Shareholders' equity, Net result and/or Other comprehensive income.

IFRS 12 'Disclosure of Interests in Other Entities'
IFRS 12 'Disclosure of Interests in Other Entities' introduces extended disclosure requirements for subsidiaries, associates, joint ventures and structured entities. The implementation of IFRS 12 will not have an impact on Shareholders' equity, Net result and/or Other comprehensive income.

The following new or revised standards were issued by the International Accounting Standards Board (IASB) and will become effective for ING Bank in 2014 if and when endorsed by the EU:
- Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27); and
- Amendments to IAS 32 'Presentation - Offsetting Financial Assets and Financial Liabilities'.

The adoption of these new or revised standards is expected not to have a significant impact on Shareholders' equity, Net result and/or Other comprehensive income.

In 2009, IFRS 9 'Financial Instruments' was issued, which was initially effective as of 2013. However, in December 2011 the International Accounting Standards Board decided to amend this standard and to postpone the mandatory application of IFRS 9 until at least 2015. This standard is not yet endorsed by the EU and, therefore, is not yet part of IFRS-EU. Implementation of IFRS 9, if and when endorsed by the EU, may have a significant impact on Shareholders' equity, Net result and/or Other comprehensive income.

CRITICAL ACCOUNTING POLICIES
ING Bank has identified the accounting policies that are most critical to its business operations and to the understanding of its results. These critical accounting policies are those which involve the most complex or subjective decisions or assessments, and relate to the loan loss provision, the determination of the fair values of real estate and financial assets and liabilities, impairments and employee benefits. In each case, the determination of these items is fundamental to the financial condition and results of operations, and requires management to make complex judgements based on information and financial data that may change in future periods. As a result, determinations regarding these items necessarily involve the use of assumptions and subjective judgements as to future events and are subject to change, as the use of different assumptions or data could produce materially different results. For a further discussion of the application of these accounting policies, reference is made to the applicable notes to the consolidated financial statements and the information below under 'Principles of valuation and determination of results'.

LOAN LOSS PROVISIONS
Loan loss provisions are recognised based on an incurred loss model. Considerable judgement is exercised in determining the extent of the loan loss provision (impairment) and is based on the management's evaluation of 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.

The identification of impairment and the determination of the recoverable amount are an inherently uncertain processes involving various assumptions and factors including the financial condition of the counterparty, expected future cash flows, observable market prices and expected net selling prices.

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.

FAIR VALUES OF REAL ESTATE

Real estate investments are recognised at fair value. The fair value of real estate investments is based on regular appraisals by independent qualified valuers. The fair values are established using valuation methods such as: comparable market transactions, capitalisation of income methods or discounted cash flow calculations. The underlying assumption used in the valuation is that the properties are let or sold to third parties based on the actual letting status. The discounted cash flow analyses and capitalisation of income method are based on calculations of the future rental income in accordance with the terms in existing leases and estimations of the rental values for new leases when leases expire and incentives like rental free periods. The cash flows are discounted using market based interest rates that reflect appropriately the risk characteristics of real estate.

Market conditions in recent years have led to a reduced level of real estate transactions. Transaction values were significantly impacted by low volumes of actual transactions. As a result comparable market transactions have been used less in valuing ING's real estate investments by independent qualified valuers. More emphasis has been placed on discounted cash flow analysis and capitalisation of income method.

The valuation of real estate involves various assumptions and techniques. The use of different assumptions and techniques could produce significantly different valuations. To illustrate the uncertainty of our real estate investments valuation, a sensitivity analysis on the changes in fair value of real estate is provided in the 'Risk management' section.

FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

Fair values of financial assets and liabilities are determined using quoted market prices, where available. Such quoted market prices are primarily obtained from exchange prices for listed instruments, where an exchange price is not available market prices may be obtained from independent market vendors, brokers or market makers. In general, positions are valued 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.

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.

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 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. All valuation techniques used are subject to internal review and approval. Most data used in these valuation techniques are validated on a daily basis.

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 profit and loss account. Price testing is performed to minimise the potential risks for economic losses due to incorrect or misused models.

Reference is made to Note 31 'Fair value of financial assets and liabilities' and the 'Risk management' section for the basis of the determination of the fair values of the financial instruments and related sensitivities.

IMPAIRMENTS

Impairments evaluation is a complex process that inherently involves significant judgements and uncertainties that may have a significant impact on ING Bank's consolidated financial statements. Impairments are especially relevant in two areas: Available-for-sale debt and equity securities and Goodwill/Intangible assets.

All debt and equity securities (other than those carried at fair value through profit and loss) are subject to impairment testing every reporting period. The carrying value is reviewed in order to determine whether an impairment loss has been incurred. Evaluation for impairment includes both quantitative and qualitative considerations. For debt securities, such considerations include actual and estimated incurred credit losses indicated by payment default, market data on (estimated) incurred losses and other current evidence that the issuer may be unlikely to pay amounts when due. Equity securities are impaired when management believes that, based on (the combination of) a significant or prolonged decline, of the fair value below the acquisition price, there is sufficient reason to believe that the acquisition cost may not be recovered. 'Significant' and 'prolonged' are interpreted on a case-by-case basis for specific equity securities. Generally 25% and 6 months are used as triggers. Upon impairment, the full difference between the (acquisition) cost and fair value is removed from equity and recognised in net result. Impairments on debt securities may be reversed if there is a decrease in the amount of the impairment which can be objectively related to an observable event. Impairments on equity securities cannot be reversed.

Accounting policies for the consolidated annual accounts of ING Bank continued

Impairments on other debt instruments (Loans and held-to-maturity investments) are part of the loan loss provision as described above.

Impairment reviews with respect to goodwill and intangible assets are performed at least annually and more frequently if events indicate that impairments may have occurred. Goodwill is tested for impairment by comparing the carrying value (including goodwill) of the reporting unit to the best estimate of the recoverable amount of that reporting unit. The carrying value is determined as the IFRS-EU net asset value including goodwill. The recoverable amount is estimated as the higher of fair value less cost to sell and value in use. Several methodologies are applied to arrive at the best estimate of the recoverable amount. A reporting unit is the lowest level at which goodwill is monitored. Intangible assets are tested for impairment by comparing the carrying value with the best estimate of the recoverable amount.

The identification of impairment is an inherently uncertain process involving various assumptions and factors, including financial condition of the counterparty, expected future cash flows, statistical loss data, discount rates, observable market prices, etc. Estimates and assumptions are based on management's judgement and other information available prior to the issuance of the financial statements. Significantly different results can occur as circumstances change and additional information becomes known.

EMPLOYEE BENEFITS

Group companies operate various defined benefit retirement plans covering a significant number of ING Bank's employees.

The liability recognised in the balance sheet in respect of the defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of the plan assets, together with adjustments for unrecognised actuarial gains and losses and unrecognised past service costs.

The determination of the defined benefit plan liability is based on internal and external actuarial models and calculations. The defined benefit obligation is calculated using the projected unit credit method. 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 return on plan assets. The assumptions are based on available market data and the historical performance of plan assets and 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 not recognised in the profit and loss account unless the accumulated changes exceed 10% of the greater of the defined benefit obligation and the fair value of the plan assets. If such is the case the excess is then amortised over the employees' expected average remaining working lives. Reference is made to Note 18 'Other liabilities' for the weighted averages of basic actuarial assumptions in connection with pension and other post-employment benefits.

PRINCIPLES OF VALUATION AND DETERMINATION OF RESULTS

CONSOLIDATION

ING Bank ('the Bank') comprises ING Bank N.V. and all subsidiaries. The consolidated financial statements of ING Bank comprise the accounts of ING Bank N.V. and all entities in which it either owns, directly or indirectly, more than half of the voting power or over which it has control of their operating and financial policies, through situations including, but not limited to:

- Ability to appoint or remove the majority of the board of directors;
- Power to govern such policies under statute or agreement; and
- Power over more than half of the voting rights through an agreement with other investors.

A list of principal subsidiaries is included in Note 26 'Principal subsidiaries'.

The existence and effect of potential voting rights that are currently exercisable or convertible are considered in assessing whether ING Bank controls another entity. For interests in investment vehicles, the existence of control is determined taking into account both ING Bank's financial interests for own risk and its role as investment manager.

The results of the operations and the net assets of subsidiaries are included in the profit and loss account and the balance sheet from the date control is obtained until the date control is lost. On disposal, the difference between the sales proceeds, net of directly attributable transaction costs, and the net assets is included in net result.

A subsidiary which ING Bank has agreed to sell but is still legally owned by ING Bank may still be controlled by ING Bank at the balance sheet date and, therefore, still be included in the consolidation. Such a subsidiary may be presented as a held for sale disposal group if certain conditions are met.

Accounting policies for the consolidated annual accounts of ING Bank continued

All intercompany transactions, balances and unrealised surpluses and deficits on transactions between Bank companies are eliminated. Where necessary, the accounting policies used by subsidiaries are changed to ensure consistency with ING Bank's policies. In general, the reporting dates of subsidiaries are the same as the reporting date of ING Bank N.V. ING Bank N.V. and its Dutch group companies are subject to legal restrictions regarding the amount of dividends they can pay to their shareholders. The Dutch Civil Code contains the restriction that dividends can only be paid up to an amount equal to the excess of the company's own funds over the sum of the paid-up capital and reserves required by law. Additionally, certain Bank companies are subject to restrictions on the amount of funds they may transfer in the form of dividends, or otherwise, to the parent company.

Furthermore, in addition to the restrictions in respect of minimum capital requirements that are imposed by industry regulators in the countries in which the subsidiaries operate, other limitations exist in certain countries.

ING Bank's interests in jointly controlled entities are accounted for using proportionate consolidation. ING Bank proportionately consolidates its share of the joint ventures' individual income and expenses, assets and liabilities, and cash flows on a line-by-line basis with similar items in ING Bank's financial statements. ING Bank recognises the portion of gains or losses on the sale of assets to the joint venture that is attributable to the other venturers. ING Bank does not recognise its share of profits or losses from the joint venture that results from the purchase of assets by ING Bank from the joint venture until it resells the assets to a third party. However, if a loss on the transaction provides evidence of a reduction in the net realisable value of current assets or an impairment loss, the loss is recognised immediately.

Disposal groups held for sale
Disposal groups held for sale are measured at the lower of their carrying amount or fair value less cost to sell. Disposal groups (and non-current assets) are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This is only the case when the sale is highly probable and the disposal group (or group of assets) is available for immediate sale in its present condition; management must be committed to the sale, which is expected to occur within one year from the date of classification as held for sale.

USE OF ESTIMATES AND ASSUMPTIONS
The preparation of the consolidated financial statements necessitates the use of estimates and assumptions. These 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, and takes into account internal and external studies, industry statistics, environmental factors and trends, and regulatory requirements.

SEGMENT REPORTING
A segment is a distinguishable component of ING Bank, engaged in providing products or services, subject to risks and returns that are different from those of other segments. A geographical area is a distinguishable component of ING Bank engaged in providing products or services within a particular economic environment that are 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 financial statements of each of ING Bank's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in euros, which is the Bank's functional and presentation currency.

Transactions and balances
Foreign currency transactions are translated into the functional currency using the exchange rate prevailing at the date of the transactions. Exchange rate differences resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit and loss account, except when deferred in equity as part of qualifying cash flow hedges or qualifying net investment hedges.

Exchange rate 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 retranslated at the date the 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.

Accounting policies for the consolidated annual accounts of ING Bank continued

Exchange rate differences in the profit and loss account are generally included in Net trading income. Reference is made to Note 37 'Net trading income', which discloses the amounts included in the profit and loss account. 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 profit and loss account in Result on disposals of group companies. Reference is made to Note 12 'Shareholder's equity (parent)', which discloses the amounts included in the profit and loss account.

Group companies
The results and financial positions of all group 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 balance sheet are translated at the closing rate at the date of that balance sheet;
- Income and expenses included in each profit and loss account are translated 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 rate 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 shareholder's equity. When a foreign operation is sold, the corresponding exchange rate differences are recognised in the profit and loss account as part of the gain or loss on sale.

Goodwill and fair value adjustments arising from 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.

FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

The fair values of financial instruments are based on quoted market prices at the balance sheet date where available. The quoted market price used for financial assets held by ING Bank is the current bid price; the quoted market price used for financial liabilities is the current ask price.

The fair values of financial instruments that are not traded in an active market are determined using valuation techniques. ING Bank uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date.

Reference is made to Note 31 'Fair values of financial assets and liabilities' for the basis of the determination of the fair values of financial instruments.

RECOGNITION AND DERECOGNITION OF FINANCIAL INSTRUMENTS

Recognition of financial assets
All purchases and sales of financial assets classified as fair value through profit and loss, held-to-maturity and available-for-sale and trading that require delivery within the time frame established by regulation or market convention ('regular way' purchases and sales) are recognised at trade date, which is the date on which ING Bank commits to purchase or sell the asset. Loans and receivables are recognised at settlement date, which is the date on which the bank receives or delivers the asset.

Derecognition of financial assets
Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where ING Bank has transferred substantially all risks and rewards of ownership. If ING Bank neither transfers nor retains substantially all the risks and rewards of ownership of a financial asset, it derecognises the financial asset if it no longer has control over the asset.

Financial liabilities
Debt securities in issue are recognised and derecognised at trade date.

Realised gains and losses on investments
Realised gains and losses on investments are determined as the difference between the sale proceeds and (amortised) cost. For equity securities the cost is determined using a weighted average per portfolio. For debt securities, the cost is determined by specific identification.

CLASSIFICATION OF FINANCIAL INSTRUMENTS

Financial assets at fair value through profit and loss

Financial assets at fair value through profit and 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 as at fair value through profit and loss by management.

A financial asset is classified as at fair value through profit and loss if acquired principally for the purpose of selling in the short term or if designated by management as such. Management will make this designation 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. See also Non-trading derivatives that do not qualify for hedge accounting.

Interest income from debt securities and loans and receivables classified as at fair value through profit and loss is recognised in Interest income in the profit and loss account, using the effective interest method. Dividend income from equity instruments classified as at fair value through profit and loss is generally recognised in Investment income in the profit and loss account, when dividend has been declared. For derivatives, reference is made to the 'Derivatives and hedge accounting'-section. For all other financial assets classified as at fair value through profit and loss changes in fair value are recognised in Net trading income.

Investments

Investments (including loans quoted in active markets) are classified either as held-to-maturity or available-for-sale and are initially recognised at fair value plus transaction costs. 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 actively traded 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.

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 profit and loss account. Dividend income from equity instruments classified as available-for-sale is generally recognised in Investment income in the profit and loss account when the dividend has been declared. Unrealised gains and losses arising from changes in the fair value are recognised in equity. When the securities are disposed of, the related accumulated fair value adjustments are included in the profit and loss account as Investment income. For impairments of available-for-sale financial assets reference is made to the section 'Impairment of other financial assets'. 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 which ING Bank 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 profit and loss account 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, Amounts due from banks, Loans and advances to customers and Other assets and are reflected in these balance sheet lines. Interest income from loans and receivables is recognised in Interest income in the profit and loss account using the effective interest method.

Accounting policies for the consolidated annual accounts of ING Bank continued

Credit risk management classification
Credit risk management disclosures are provided in the section 'Risk management'. The relationship between credit risk classifications in that section and the consolidated balance sheet classifications above is explained below:

- Lending risk arises when ING Bank grants a loan to a customer, or issues guarantees on behalf of a customer and mainly relates to the balance sheet 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 Bank's investment portfolio and among others relates to the balance sheet classifications Investments (available-for-sale and held-to-maturity) and Loans and advances to customers;
- Money market risk arises when ING Bank places short term deposits with a counterparty in order to manage excess liquidity and mainly relates to the balance sheet classification Amounts due from banks;
- Pre-settlement risk arises when a counterparty defaults on a transaction before settlement and ING Bank has to replace the contract by a trade with another counterparty at the then prevailing (possibly unfavourable) market price. The pre-settlement risk classification mainly relates to the balance sheet classification Financial assets at fair value through profit and loss (trading assets and non-trading derivatives) and to security financing; 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 Bank 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 balance sheet as Financial assets at fair value through profit and 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 on the balance sheet 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 Note 24 'Contingent liabilities and commitments' of these off-balance sheet items. Collateral received is not taken into account when determining the maximum credit risk exposure.

The manner in which ING Bank manages credit risk and determines credit risk exposures for that purpose is explained in the 'Risk management' section.

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 values are negative.

Some credit protection contracts that take the legal form of a derivative, such as certain credit default swaps, are accounted for as financial guarantees.

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 and 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 profit and loss account. An assessment is carried out when ING Bank 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. ING Bank designates certain derivatives as hedges of the fair value of recognised assets or liabilities or firm commitments (fair value hedges), hedges of highly probable future cash flows attributable to a recognised asset or liability or a forecast transaction (cash flow hedges), or hedges of a net investment of a foreign operation. Hedge accounting is used for derivatives designated in this way provided certain criteria are met.

At the inception of the transaction ING Bank documents the relationship between hedging instruments and hedged items, its risk management objective, together with the methods selected to assess hedge effectiveness. ING Bank 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.

Accounting policies for the consolidated annual accounts of ING Bank continued

ING Bank applies fair value hedge accounting to portfolio hedges of interest rate risk (macro hedging) under the EU 'carve out' of IFRS-EU. 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 IFRS-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 Bank 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 profit and loss account, 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 profit and loss account, 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 profit and loss account 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 profit and loss account 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 profit and loss account. Amounts accumulated in equity are recycled to the profit and loss account 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 profit and loss account. 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 profit and loss account.

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; the gain or loss relating to the ineffective portion is recognised immediately in the profit and loss account. Gains and losses accumulated in equity are included in the profit and loss account when the foreign operation is disposed.

Non-trading derivatives that do not qualify for hedge accounting
Derivative instruments that are used by ING Bank as part of its risk management strategies but which do not qualify for hedge accounting under ING Bank's accounting policies are presented as non-trading derivatives. Non-trading derivatives are stated at fair value with changes in the fair value taken to the profit and loss account.

OFFSETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES
Financial assets and financial liabilities are offset, and the net amount reported in the balance sheet when ING Bank has a current legally enforceable right to set off the recognised amounts and intends to either settle on a net basis or to realise 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. Furthermore, offsetting is also applied to certain current accounts for which the product features and internal procedures allow net presentation under IFRS.

REPURCHASE TRANSACTIONS AND REVERSE REPURCHASE TRANSACTIONS
Securities sold subject to repurchase agreements ('repos') are retained in the consolidated balance sheet. The counterparty liability is included in Amounts due to banks, Customer deposits and other funds on deposit or Trading as appropriate.

Securities purchased under agreements to resell ('reverse repos') are recognised as Loans and advances to customers or Amounts due from banks, as appropriate. The difference between the sale and repurchase price is treated as interest and amortised over the life of the agreement using the effective interest method.

Accounting policies for the consolidated annual accounts of ING Bank continued

IMPAIRMENTS OF LOANS AND ADVANCES TO CUSTOMERS (LOAN LOSS PROVISIONS)
ING Bank assesses periodically and at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial 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 Bank 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 ING Bank'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 general, forbearance represents an impairment trigger under IFRS. 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 Loan loss provisioning 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.

ING Bank does not consider events that may be expected to occur in the future as objective evidence and, consequently, they are not used as a basis for concluding that a financial asset or group of assets is impaired.

In determining the impairment, expected future cash flows 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 currently exist. Losses expected as a result of future events, no matter how likely, are not recognised.

ING Bank 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 ING Bank 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 profit and loss account 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.

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 confirmation period' to default probabilities. The loss confirmation 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 Bank's credit risk systems. Accordingly, the application of the loss confirmation period ensures that impairments that are incurred but not yet identified are adequately reflected in ING Bank's loan loss provision. Although the loss confirmation periods are inherently uncertain, ING Bank 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 Bank's account managers.

Accounting policies for the consolidated annual accounts of ING Bank continued

Generally, the frequency increases in relation to the size of the borrower. Loss confirmation 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.

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 profit and loss account.

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 profit and loss account.

In most Retail portfolios, ING Bank has a write-off policy that requires 100% provision for all retail exposure after 2 years (3 years for mortgages) following the last default date.

IMPAIRMENT OF OTHER FINANCIAL ASSETS
At each balance sheet date, ING Bank assesses whether there is objective evidence that a financial asset or a group of financial assets is impaired. (In the specific case of equity investments classified as available-for-sale, (the combination of) a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired). 'Significant' and 'prolonged' are interpreted on a case-by-case basis for specific equity securities; generally 25% and six months are used as triggers. If any objective evidence exists for available-for-sale debt and equity investments, the cumulative 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 net result – is removed from equity and recognised in the profit and loss account. Impairment losses on equity instruments can never be reversed. 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 profit and loss account, the impairment loss is reversed through the profit and loss account.

INVESTMENTS IN ASSOCIATES
Associates are all entities over which ING Bank has significant influence but not control. Significant influence generally results from a shareholding of between 20% and 50% of the voting rights, but also is the ability to participate in the financial and operating policies 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.

Investments in associates are initially recognised at cost and subsequently accounted for using the equity method of accounting.

ING Bank's investment in associates (net of any accumulated impairment loss) includes goodwill identified on acquisition. ING Bank's share of its associates' post-acquisition profits and losses is recognised in the profit and loss account, 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 ING Bank's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, ING Bank does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between ING Bank and its associates are eliminated to the extent of ING Bank's interest in the associates. Unrealised losses are also eliminated unless they provide evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by ING Bank. The reporting dates of all material associates are consistent with the reporting date of ING Bank.

For interests in investment vehicles the existence of significant influence is determined taking into account both ING Bank's financial interests for own risk and its role as investment manager.

REAL ESTATE INVESTMENTS
Real estate investments are recognised at fair value at the balance sheet date. Changes in the carrying amount resulting from revaluations are recognised in the profit and loss account. On disposal the difference between the sale proceeds and carrying value is recognised in the profit and loss account.

Accounting policies for the consolidated annual accounts of ING Bank continued

The fair value of real estate investments is based on regular appraisals by independent qualified valuers. For each reporting period every property is valued either by an independent valuer or internally. Indexation is used when a property is valued internally. The index is based on the results of the independent valuations carried out in that period. Market transactions and disposals made by ING Bank are monitored as part of the validation procedures to test the indexation methodology. Valuations performed earlier in the year are updated if necessary to reflect the situation at the year-end. All properties are valued independently at least every five years and more frequently if necessary.

The fair values represent the estimated amount for which the property could be exchanged on the date of valuation between a willing buyer and willing seller in an at-arm's-length transaction after proper marketing wherein the parties each acted knowledgeably, prudently and without compulsion. Fair values are based on appraisals using valuation methods such as: comparable market transactions, capitalisation of income methods or discounted cash flow calculations. The underlying assumption used in the valuation is that the properties are let or sold to third parties based on the actual letting status. The discounted cash flow analyses and capitalisation of income method are based on calculations of the future rental income in accordance with the terms in existing leases and estimations of the rental values for new leases when leases expire and incentives like rent free periods. The cash flows are discounted using market based interest rates that reflect appropriately the risk characteristics of real estate.

ING Bank owns a real estate portfolio, diversified by region, by investment segment (Office, Retail and Residential) and by investment type (Core, Value Add and Opportunistic). The valuation of different investments is performed using different discount rates ('yields'), dependent on specific characteristics of each property, including occupancy, quality of rent payments and specific local market circumstances. For ING's main direct properties in its main locations, the yields applied in the 2012 year-end valuation generally are in the range of 6% to 9%.

The valuation of real estate investments takes (expected) vacancies into account. Occupancy rates differ significantly from investment to investment.

For real estate investments held through (minority shares in) real estate investment funds, the valuations are performed under the responsibility of the funds' asset manager.

Subsequent expenditures are recognised as part of the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to ING Bank and the cost can be measured reliably. All other repairs and maintenance costs are recognised in the profit and loss account.

PROPERTY AND EQUIPMENT

Property in own use
Land and buildings held for own use are stated at fair value at the balance sheet date. Increases in the carrying amount arising on revaluation of land and buildings held for own use are credited to the revaluation reserve in shareholder's 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 profit and loss account. Increases that reverse a revaluation decrease on the same asset previously recognised in net result are recognised in the profit and loss account. Depreciation is recognised based on the fair value and the estimated useful life (in general 20-50 years). Depreciation is calculated on a straight-line basis. On disposal the related revaluation reserve is transferred to retained earnings.

The fair value of land and buildings is based on regular appraisals by independent qualified valuers or internally, similar to appraisals of Real estate investments. Subsequent expenditure is included in the asset's carrying amount when it is probable that future economic benefits associated with the item will flow to ING Bank and the cost of the item can be measured reliably.

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 in the ordinary course of business, less applicable variable selling expenses. Property obtained from foreclosures is included in Other assets – Property development and obtained from foreclosures.

Property development
Property developed and under development for which ING Bank has the intention to sell the property after its completion is included in Other assets – Property development and obtained from foreclosures.

Property development and under development for which ING Bank has the intention to sell the property under development after its completion and where there is not yet a specifically negotiated contract is measured at direct construction cost incurred up to the balance sheet date, including borrowing costs incurred during construction and ING Bank's own directly attributable development and supervision expenses less any impairment losses. Profit is recognised using the completed contract method (on sale date of the property). Impairment is recognised if the estimated selling price in the ordinary course of business, less applicable variable selling expenses is lower than carrying value.

Property under development for which ING Bank has the intention to sell the property under development after its completion and where there is a specifically negotiated contract is valued using the percentage of completion method (pro rata profit recognition). The stage of completion is measured by reference to costs incurred to date as a percentage of total estimated costs for each contract.

Property under development is stated at fair value (with changes in fair value recognised in profit and loss) if ING Bank has the intention to recognise the property under development after completion as real estate investments.

Equipment
Equipment is stated at cost less accumulated depreciation and any impairment losses. The cost of the assets is depreciated on a straight-line basis over their estimated useful lives, which are generally as follows: for data processing equipment two to five years and four to ten years for fixtures and fittings. Expenditure incurred on maintenance and repairs is recognised in the profit and loss account as incurred. Expenditure incurred on major improvements is capitalised and depreciated.

Assets under operating leases
Assets leased out under operating leases in which ING Bank 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. Reference is made to the section 'Leases'.

Disposals
The difference between the proceeds on disposal and net carrying value is recognised in the profit and loss account in 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 at 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 Bank as the lessee
The leases entered into by ING Bank are primarily operating leases. The total payments made under operating leases are recognised in 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 penalty payment required to be made to the lessor is recognised as an expense in the period in which termination takes place.

ING Bank 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 Amounts due from 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.

ACQUISITIONS, GOODWILL AND OTHER INTANGIBLE ASSETS
Acquisitions and goodwill
ING Bank's acquisitions are accounted for using the acquisition method of accounting. The consideration for each acquisition is measured at the aggregate of the fair values (at the date of exchange) of 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 ING 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. The results of the operations of the acquired companies are included in the profit and loss account from the date control is obtained.

Where applicable, the consideration for the acquisition includes any asset or liability resulting from a contingent consideration arrangement, measured at its acquisition-date fair value. Subsequent changes in the fair value of contingent consideration classified as an asset or liability are accounted for in accordance with relevant IFRSs, taking into account the initial accounting period below. Changes in the fair value of the contingent consideration classified as equity are not recognised.

Accounting policies for the consolidated annual accounts of ING Bank continued

Where a business combination is achieved in stages, ING Bank'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 Bank obtains control) and the resulting gain or loss, if any, is recognised in the profit and loss account. 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 profit and loss account, where such treatment would be appropriate if that interest were disposed of. Acquisition-related costs are recognised in the profit and loss account as incurred and presented in the profit and loss account 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.

Goodwill is only capitalised on acquisitions after the implementation date of IFRS-EU (1 January 2004). Accounting for acquisitions before that date has not been restated; goodwill and internally generated intangibles on these acquisitions were recognised directly in shareholder's equity. Goodwill is allocated to reporting units for the purpose of impairment testing. These reporting units represent the lowest level at which goodwill is monitored for internal management purposes. This test is performed annually or more frequently if there are indicators of impairment. Under the impairment tests, the carrying value of the reporting units (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 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 ING Bank 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 profit and loss account.

Computer software
Computer software that has been purchased or generated internally 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 will generally not exceed three years. Amortisation 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.

TAXATION
Income tax on result for the year comprises current and deferred tax. Income tax is recognised in the profit and loss account but it is recognised directly in equity if the tax relates to items that are recognised directly in equity.

Deferred income tax
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 where it is probable that future taxable profit will be available against which the temporary differences can be utilised. Deferred income tax is provided on temporary differences arising from investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by ING Bank and it is probable that the difference will not reverse in the foreseeable future. The tax effects of income tax losses available for carry forward are recognised as an asset where it is probable that future taxable profits will be available against which these losses can be utilised.

Deferred tax related to fair value remeasurement of available-for-sale investments and cash flow hedges, which are recognised directly in equity, is also recognised directly in equity and is subsequently recognised in the profit and loss account together with the deferred gain or loss.

Accounting policies for the consolidated annual accounts of ING Bank continued

FINANCIAL LIABILITIES

Financial liabilities at amortised cost

Financial liabilities at amortised cost include the following sub-categories: Preference shares, other borrowed funds, debt securities in issue, subordinated loans, amounts due to banks and customer deposits and other funds on deposit.

Preference shares, which carry a mandatory coupon or are redeemable on a specific date or at the option of the shareholder, are classified as financial liabilities. The dividends on these preference shares are recognised in the profit and loss account as Interest expense using the effective interest method.

Borrowings are recognised initially at their issue proceeds (fair value of consideration received) net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between proceeds, net of transaction costs, and the redemption value is recognised in the profit and loss account over the period of the borrowings using the effective interest method.

If ING Bank purchases its own debt, it is removed from the balance sheet, and the difference between the carrying amount of the liability and the consideration paid is included in the profit and loss account.

Financial liabilities at fair value through profit and loss

Financial liabilities at fair value through profit and loss comprise the following sub-categories: trading liabilities, non-trading derivatives and other financial liabilities designated as at fair value through profit and loss by management. Trading liabilities include equity securities, debt securities, funds on deposit and derivatives. Designation by management will take place only if it eliminates a measurement inconsistency or if the related assets and liabilities are managed on a fair value basis. ING Bank has designated an insignificant part of the issued debt, relating to market-making activities, at fair value through profit and loss. This issued debt consists mainly of own bonds. The designation as fair value through profit and loss eliminates the inconsistency in the timing of the recognition of gains and losses. All other financial liabilities are measured at amortised cost.

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 are 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.

OTHER LIABILITIES

Employee benefits – pension obligations

ING Bank companies operate various pension schemes. The schemes are generally funded through payments to insurance companies or trustee-administered funds, determined by periodic actuarial calculations. ING Bank 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 dependent on one or more factors such as age, years of service and compensation.

The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets, together with adjustments for unrecognised actuarial gains and losses and unrecognised past service costs. The defined benefit obligation is calculated annually by internal and external actuaries using the projected unit credit method.

The expected value of assets is calculated using the expected rate of return on plan assets. Differences between the expected return and the actual return on these plan assets and actuarial changes in the defined benefit obligation are not recognised in the profit and loss account, unless the accumulated differences and changes exceed 10% of the greater of the defined benefit obligation and the fair value of the plan assets. The excess is recognised in the profit and loss account over employees' remaining working lives. In accordance with IFRS-EU transition provisions, the corridor was reset to nil at the date of transition to IFRS-EU.

The value of any plan asset recognised is restricted to the sum of any past service costs not yet recognised and the present value of any economic benefit available in the form of refunds from the plan or reductions in the future contributions to the plan.

For defined contribution plans, ING Bank pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. ING Bank has no further payment obligations once the contributions have been paid. The contributions are recognised as staff expenses 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.

Accounting policies for the consolidated annual accounts of ING Bank continued

Other post-employment obligations
Some ING Bank companies provide post-employment healthcare 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.

Other 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, however the timing or the amount is uncertain. Provisions are discounted when the effect of the time value of money is material using a pre-tax discount rate. The determination of provisions is an inherently uncertain process involving estimates regarding amounts and timing of cash flows.

Reorganisation provisions include employee termination benefits when ING Bank 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.

INCOME RECOGNITION

Interest
Interest income and expense are recognised in the profit and loss account 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 expense 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 Bank 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. Once a financial asset or a group of similar financial assets has been written down as a result of impairment, 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 profit and loss account. Changes in the ‘clean fair value’ are included in Net trading income and Valuation results on non-trading derivatives.

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 Bank 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. Commission and fees 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 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.

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 Bank is the lessor are divided into an interest component (recognised as interest income) and a repayment component.

EXPENSE RECOGNITION
Expenses are recognised in the profit and loss account 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.

Accounting policies for the consolidated annual accounts of ING Bank continued

Share-based payments
Share-based payment expenses are recognised as a staff expense over the vesting period. A corresponding increase in equity is recognised for equity-settled share-based payment transactions. The fair value of equity-settled share-based payment transactions is measured at the grant date. Rights granted will remain valid until the expiry date, even if the share based payment scheme is discontinued. The rights are subject to certain conditions, including a pre-determined continuous period of service.

GOVERNMENT GRANTS
Government grants are recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, the grant is recognised over the period necessary to match the grant on a systematic basis to the expense that it is intended to compensate. In such case, the grant is deducted from the related expense in the profit and loss account.

FIDUCIARY ACTIVITIES
ING 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 Bank.

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 profit and loss account, and changes in balance sheet items, 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 non-restricted balances with central banks, treasury bills and other eligible bills, amounts due from other banks and amounts due to 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 provisions which is deducted from the item Loans and advances to customers in the balance sheet 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 balance sheet is due to exchange rate differences and is accounted separately for as part of the reconciliation of the net cash flow and the balance sheet change in Cash and cash equivalents.

Notes to the consolidated annual accounts of ING Bank

amounts in millions of euros, unless stated otherwise

ASSETS

1 CASH AND BALANCES WITH CENTRAL BANKS

Cash and balances with central banks		
	2012	2011
Amounts held at central banks	**13,846**	26,481
Cash and bank balances	**1,601**	1,631
	15,447	28,112

Amounts held at central banks reflect the demand balances. In the last quarter of 2012, excess cash was used to redeem short-term professional funding.

2 AMOUNTS DUE FROM BANKS

Amounts due from banks	Netherlands		International		Total	
	2012	2011	**2012**	2011	**2012**	2011
Loans and advances to banks	**14,527**	13,752	**22,775**	29,556	**37,302**	43,308
Cash advances, overdrafts and other balances	**1,227**	1,322	**552**	700	**1,779**	2,022
	15,754	15,074	**23,327**	30,256	**39,081**	45,330
Loan loss provision			**–28**	–7	**–28**	–7
	15,754	15,074	**23,299**	30,249	**39,053**	45,323

Loans and advances to banks includes balances (mainly short-term deposits) with central banks amounting to EUR 1,057 million (2011: EUR 2,704 million).

As at 31 December 2012, Amounts due from banks includes receivables with regard to securities, which have been acquired in reverse repurchase transactions amounting to EUR 1,109 million (2011: EUR 2,925 million), and receivables related to finance lease contracts amounting to EUR 133 million (2011: EUR 76 million).

Reference is made to Note 21 ‘Transfer of financial assets’ for information on securities lending as well as sale and repurchase transactions.

As at 31 December 2012, the non-subordinated receivables amounts to EUR 39,050 million (2011: EUR 45,304 million) and the subordinated receivables amounts to EUR 3 million (2011: EUR 19 million).

No individual amount due from banks has terms and conditions that materially impact the amount, timing or certainty of the consolidated cash flows of ING Bank. For details on significant concentrations see ‘Risk management’ section.

3 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS

Financial assets at fair value through profit and loss		
	2012	2011
Trading assets	**114,320**	123,176
Non-trading derivatives	**9,075**	10,076
Designated as at fair value through profit and loss	**2,768**	2,838
	126,163	136,090

Reference is made to Note 21 ‘Transfer of financial assets’ for information on securities lending as well as sale and repurchase transactions.

As at 31 December 2012, Trading assets includes receivables of EUR 35,575 million (2011: EUR 40,904 million) with regard to reverse repurchase transactions.

Trading assets by type		
	2012	2011
Equity securities	**4,741**	3,264
Debt securities	**17,462**	18,207
Derivatives	**55,166**	59,139
Loans and receivables	**36,951**	42,566
	114,320	123,176

Notes to the consolidated annual accounts of ING Bank continued

Trading assets and trading liabilities include mainly assets and liabilities that are classified under IFRS as 'Trading' but are closely related to servicing the needs of the clients of ING. ING Bank offers institutional and corporate clients and governments products that are traded on the financial markets. A significant part of the derivatives in the trading portfolio are related to servicing corporate clients in their risk management to hedge for example currency or interest rate exposures. In addition, ING Bank provides its customers access to equity and debt markets for issuing their own equity or debt securities ('Securities underwriting'). Although these are presented as 'Trading' under IFRS, these are related to services to ING's customers. Loans and receivables in the trading portfolio mainly relate to (reverse) repurchase agreements, which are comparable to collateralised borrowing (lending). These products are used by ING Bank as part of its own regular treasury activities, but also relate to the role that ING Bank plays as intermediary between different professional customers. Trading assets and liabilities held for ING's own risk are very limited. From a risk prospective, the gross amount of trading assets must be considered together with the gross amount of trading liabilities, which are presented separately on the balance sheet. However, IFRS does not allow netting of these positions in the balance sheet. Reference is made to Note 17 'Financial liabilities at fair value through profit and loss' for information on trading liabilities.

Non-trading derivatives by type

	2012	2011
Derivatives used in		
– fair value hedges	**2,556**	2,885
– cash flow hedges	**4,914**	4,069
– hedges of net investments in foreign operations	**47**	136
Other non-trading derivatives	**1,558**	2,986
	9,075	10,076

Other non-trading derivatives mainly includes interest rate swaps for which no hedge accounting is applied.

Designated as at fair value through profit and loss by type

	2012	2011
Equity securities	**13**	30
Debt securities	**1,586**	1,808
Loans and receivables	**1,169**	1,000
	2,768	2,838

Included in the Financial assets designated as at fair value through profit and loss is a portfolio of loans and receivables which is economically hedged by credit derivatives. The hedges do not meet the criteria for hedge accounting and the loans are recorded at fair value to avoid an accounting mismatch. The maximum credit exposure of the loans and receivables included in Financial assets designated as at fair value through profit and loss approximates its carrying value. The cumulative change in fair value of the loans attributable to changes in credit risk is not significant.

The notional value of the related credit derivatives is EUR 61 million (2011: EUR 64 million). The change in fair value of the credit derivatives attributable to changes in credit risk since the loans were first designated amounts to EUR –6 million (2011: EUR –1 million) and the change for the current year is EUR –3 million (2011: nil).

The changes in fair value of the (designated) loans attributable to changes in credit risk have been calculated by determining the changes in credit spread implicit in the fair value of bonds issued by entities with similar credit characteristics.

4 INVESTMENTS

Investments by type

	2012	2011
Available-for-sale		
– equity securities	**2,634**	2,466
– debt securities	**71,645**	72,469
	74,279	74,935
Held-to-maturity		
– debt securities	**6,545**	8,868
	6,545	8,868
	80,824	83,803

Notes to the consolidated annual accounts of ING Bank continued

The fair value of the securities classified as held-to-maturity amounts to EUR 6,626 million as at 31 December 2012 (2011: EUR 8,835 million).

Exposure to debt securities
ING Bank's exposure to debt securities is included in the following balance sheet lines:

Debt securities	2012	2011
Available-for-sale investments	**71,645**	72,469
Held-to-maturity investments	**6,545**	8,868
Loans and advances to customers	**20,622**	22,435
Amounts due from banks	**3,386**	7,321
Available-for-sale investments and Assets at amortised cost	**102,198**	111,093
Trading assets	**17,462**	18,207
Designated as at fair value through profit and loss	**1,586**	1,808
Financial assets at fair value through profit and loss	**19,048**	20,015
	121,246	131,108

ING Bank's total exposure to debt securities included in available-for-sale investments and assets at amortised cost of EUR 102,198 million (2011: EUR 111,093 million) is specified as follows by type of exposure:

Debt securities by type and balance sheet lines Available-for-sale investments and Assets at amortised cost (total)	Available-for-sale investments		Held-to-maturity investments		Loans and advances to customers		Amounts due from banks		Total	
	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011
Government bonds	**48,007**	47,255	**330**	881	**7,641**	1,081			**55,978**	49,217
Covered bonds	**7,363**	6,537	**5,558**	7,209	**5,408**	7,469	**3,249**	6,591	**21,578**	27,806
Corporate bonds	**900**	1,088			**438**	425			**1,338**	1,513
Financial institution bonds	**14,094**	15,192	**301**	421	**91**	134	**137**	736	**14,623**	16,483
Bond portfolio (excluding ABS)	**70,364**	70,072	**6,189**	8,511	**13,578**	9,109	**3,386**	7,327	**93,517**	95,019
US agency RMBS	**426**	402							**426**	402
US prime RMBS	**12**	18							**12**	18
US Alt-A RMBS	**156**	156							**156**	156
US subprime RMBS	**23**	22							**23**	22
Non-US RMBS	**286**	1,128			**4,970**	9,549		–6	**5,256**	10,671
CDO/CLO	**162**	55				416			**162**	471
Other ABS	**107**	441	**356**	357	**1,789**	2,190			**2,252**	2,988
CMBS	**109**	175			**285**	1,171			**394**	1,346
ABS portfolio	**1,281**	2,397	**356**	357	**7,044**	13,326		–6	**8,681**	16,074
	71,645	72,469	**6,545**	8,868	**20,622**	22,435	**3,386**	7,321	**102,198**	111,093

In connection with the divestment of ING Direct USA, ING completed in 2012 the restructuring of the agreement with the Dutch State concerning the Illiquid Assets Back-Up Facility (IABF). As a result of the restructuring, EUR 7.3 billion (USD 9.5 billion) of the loan due from the Dutch State was converted into Dutch Government Debt Securities. These debt securities are classified as Loans and advances to customers. The balance as at 31 December 2012 amounts to EUR 6.4 billion (USD 8.5 billion). Reference is made to Note 27 'Companies acquired and companies disposed' and Note 30 'Related parties'.

Asset backed security portfolio
The table below shows certain ABS (US Subprime RMBS, Alt-A RMBS, CMBS and CDO/CLOs). It includes exposures in all relevant balance sheet lines, including not only loans and advances and available-for-sale investments as disclosed above, but also financial assets designated as at fair value through profit and loss.

Notes to the consolidated annual accounts of ING Bank continued

Exposures, revaluations and losses on certain ABS bonds

	31 December 2012		Change in 2012			31 December 2011	
	Balance Sheet Value (1)	**Pre-tax revaluation reserve**	**Changes through equity (pre-tax)**	**Changes through profit and loss (pre-tax)**	**Other changes**	Balance Sheet Value (1)	Pre-tax revaluation reserve
US Subprime RMBS	**23**	**–3**	**–3**		**4**	22	
US Alt-A RMBS	**173**	**9**	**43**	**–7**	**–69**	206	–34
CDO/CLOs	**384**	**28**	**64**		**–382**	702	–36
CMBS	**394**		**57**		**–1,012**	1,349	–57
Total	**974**	**34**	**161**	**–7**	**–1,459**	2,279	–127

(1) For assets classified as loans and receivables: amortised cost; otherwise: fair value.

Other changes mainly relate to the de-risking program of ING and includes sales and redemptions of certain ABS bonds.

Reference is made to Note 31 ‘Fair value of financial assets and liabilities’ for disclosure by fair value hierarchy and Note 33 ‘Investment income’ for impairments on available-for-sale debt securities.

2012–Greece, Italy, Ireland, Portugal, Spain and Cyprus

In the first half of 2010 concerns arose regarding the creditworthiness of certain southern European countries, which later spread to a few other European countries. As a result of these concerns the value of sovereign debt decreased and exposures in those countries are being monitored closely. With regard to the sovereign debt crisis, ING Bank’s main focus is on Greece, Italy, Ireland, Portugal, Spain and Cyprus as these countries have either applied for support from the European Financial Stability Facility (‘EFSF’) or receive support from the European Central Bank (‘ECB’) via government bond purchases in the secondary market. For these countries, ING Bank’s main focus is on exposure to Government bonds and Unsecured Financial institutions’ bonds.

At 31 December 2012, ING Bank’s balance sheet value of ‘Government bonds and ‘Unsecured Financial institutions’ bonds to Greece, Italy, Ireland, Portugal, Spain and Cyprus and the related pre-tax revaluation reserve in equity was as follows:

Greece, Italy, Ireland, Portugal, Spain and Cyprus– Government bonds and Unsecured Financial institutions’ bonds (1)

2012	**Balance Sheet value**	**Pre-tax revaluation reserve**	**Pre-tax impairments**	**Amortised cost value**	**Fair value for investments held-to-maturity**
Greece					
Government bonds available-for-sale					
Italy					
Government bonds available-for-sale	**960**	**–95**		**1,055**	
Government bonds at amortised costs (loans)	**104**	**–1**		**104**	
Financial institutions available-for-sale	**447**	**–6**		**453**	
Financial institutions at amortised costs (held-to-maturity)	**30**			**30**	**31**
Ireland					
Financial institutions available-for-sale	**15**			**15**	
Financial institutions at amortised costs (held-to-maturity)	**34**			**34**	**34**
Portugal					
Government bonds available-for-sale	**620**	**–14**		**634**	
Financial institutions available-for-sale	**37**	**–1**		**38**	
Spain					
Government bonds available-for-sale	**279**	**–104**		**383**	
Government bonds at amortised costs (held-to-maturity)	**50**			**50**	**52**
Financial institutions available-for-sale	**3**	**2**		**1**	
Cyprus					
Government bonds available-for-sale	**13**	**–5**		**18**	
Total	**2,592**	**–224**		**2,815**	**117**

(1) Exposures are included based on the country of residence.

Changes in the ‘Balance sheet value’ are a result of sales and maturity of bonds and the PSI as explained below which is offset by an increase in the Pre-tax revaluation reserve.

Notes to the consolidated annual accounts of ING Bank continued

The revaluation reserve on debt securities includes EUR 1,688 million (pre-tax) related to Government bonds. This amount comprises EUR –219 million negative revaluation reserve for Government bonds from Greece, Italy, Ireland, Portugal, Spain and Cyprus, which is more than offset by EUR 1,907 million positive revaluation reserves for Government bonds from other countries.

In the first quarter of 2012, the agreement under the Private Sector Involvement ('PSI') to exchange Greek Government bonds into new instruments was executed. Under this exchange, ING Bank received new listed Greek Government bonds (for a notional amount of 31.5% of the notional of the exchanged bonds, maturities between 2023 and 2042), listed European Financial Stability Facility ('EFSF') notes (for a notional amount of 15% of the notional of the exchanged bonds, maturities of one to two years) and listed short-term EFSF notes (maturity of 6 months, in discharge of all unpaid interest accrued on the exchanged bonds). These new securities were recognised as available-for-sale instruments. Furthermore, ING Bank received listed GDP-linked securities issued by Greece (notional equal to notional of the new Greek Government bonds, maturity 2042). The exchange was executed on 12 March 2012. The exchanged bonds were derecognised and the new instruments were recognised at fair value on the exchange date. The exchange resulted in a gain of EUR 22 million in the first quarter of 2012, being the difference between amortised cost (net of cumulative impairments) of the exchanged bonds and fair value of the new instruments at the date of exchange. This result is included in 'Investment income'. In July 2012 ING Bank sold all its Greek government bonds to ING Insurance. This resulted in a loss on the sale of bonds of EUR 74 million and is included in 'Other income – Other'.

2011–Greece, Italy, Ireland, Portugal, Spain and Cyprus
At 31 December 2011, ING Bank's balance sheet value of 'Government bonds' and Unsecured Financial institutions' bonds to Greece, Italy, Ireland, Portugal, Spain and Cyprus and the related pre-tax revaluation reserve in equity was as follows:

Greece, Italy, Ireland, Portugal, Spain and Cyprus– Government bonds and Unsecured Financial institutions' bonds [1]

2011	Balance Sheet value	Pre-tax revaluation reserve	Pre-tax impairments[2]	Amortised cost value	Fair value for investments held-to-maturity
Greece					
Government bonds available-for-sale	151		–588	739	
Italy					
Government bonds available-for-sale	826	–224		1,050	
Government bonds at amortised costs (loans)	97			97	
Financial institutions available-for-sale	549	–41		590	
Financial institutions at amortised costs (held-to-maturity)	30			30	28
Financial institutions at amortised costs (loans)	131			131	
Ireland					
Financial institutions available-for-sale	44	–1		45	
Financial institutions at amortised costs (held-to-maturity)	34			34	35
Financial institutions at amortised costs (loans)	122			122	
Portugal					
Government bonds available-for-sale	438	–211		649	
Financial institutions available-for-sale	78	–15		93	
Spain					
Government bonds available-for-sale	324	–85		409	
Government bonds at amortised costs (held-to-maturity)	170			170	170
Financial institutions available-for-sale	95	–5		100	
Financial institutions at amortised costs (loans)	85	–1		86	
Cyprus					
Government bonds available-for-sale	12	–7		19	
Total	3,186	–590	–588	4,364	233

[1] Exposures are included based on the country of residence.
[2] Pre-tax impairments relate to bonds held at 31 December 2011. In addition, no impairments were recognised in 2011 on Greek government bonds that were no longer held at 31 December 2011. The total amount of impairments recognised on Greek Government bonds in 2011 is therefore EUR 588 million as explained below.

The impact on ING Bank's revaluation reserve in relation to sovereign and unsecured financial institutions debt was limited per 31 December 2011: the negative impact on countries most affected by the sovereign debt crisis is offset by opposite positive movements in bonds of financially stronger European countries and by the positive impact from lower interest rates in general. Furthermore, in the course of 2011, ING Bank reduced its sovereign debt exposure to these countries.

Notes to the consolidated annual accounts of ING Bank continued

On 21 July 2011 a Private Sector Involvement to support Greece was announced. This initiative involves a voluntary exchange of existing Greek government bonds together with a Buyback Facility. Based on this initiative, ING Bank impaired its Greek government bonds maturing up to 2020 in the second quarter of 2011 (EUR 187 million). The decrease in market value in the third quarter of 2011 of these impaired bonds was recognised as re-impairment (EUR 91 million). Due to the outcome of the EC meeting on 26 October 2011, the Greek government bonds maturing from 2020 were impaired in the third quarter of 2011 (EUR 177 million). ING Bank impaired all its Greek Government bonds to market value at 31 December 2011. This resulted in a re-impairment in the fourth quarter of 2011 of EUR 133 million, bringing the total impairments on Greek government bonds to EUR 588 million. The total Greek government bond portfolio was written down by approximately 80%.

Reference is made to Note 31 'Fair value of financial assets and liabilities' for disclosure by fair value hierarchy and Note 33 'Investment income' for impairments on available-for-sale debt securities.

Further information on ING Bank's risk exposure with regard to Greece, Italy, Ireland, Portugal, Spain and Cyprus is provided in the 'Risk management' section.

Changes in available-for-sale and held-to-maturity investments

	Available-for-sale equity securities		Available-for-sale debt securities		Held-to-maturity		Total	
	2012	2011	**2012**	2011	**2012**	2011	**2012**	2011
Opening balance	**2,466**	2,741	**72,469**	96,459	**8,868**	11,693	**83,803**	110,893
Additions	**2,089**	134	**70,546**	154,870			**72,635**	155,004
Amortisation			**–67**	169	**–15**	–14	**–82**	155
Transfers and reclassifications		384						384
Changes in the composition of the group and other changes	**8**	–35	**–4,115**	–22,587		–444	**–4,107**	–23,066
Changes in unrealised revaluations	**607**	–464	**3,414**	1,336			**4,021**	872
Impairments	**–22**	–65	**–16**	–734			**–38**	–799
Reversal of impairments				74				74
Disposals and redemptions	**–2,513**	–258	**–70,928**	–157,172	**–2,308**	–2,369	**–75,749**	–159,799
Exchange rate differences	**–1**	29	**342**	54		2	**341**	85
Closing balance	**2,634**	2,466	**71,645**	72,469	**6,545**	8,868	**80,824**	83,803

In 2012, Changes in the composition of the group and other changes relates mainly to the disposal of ING Direct Canada. Reference is made to Note 27 'Companies acquired and companies disposed'.

In 2011, Changes in the composition of the group and other changes relates mainly to the classification of ING Direct USA as a disposal group held for sale. Reference is made to Note 10 'Assets and liabilities held for sale'.

Reference is made to Note 33 'Investment income' for details on impairments.

Transfers and reclassifications of available-for-sale and held-to-maturity investments

	Available-for-sale equity securities		Available-for-sale debt securities		Held-to-maturity		Total	
	2012	2011	**2012**	2011	**2012**	2011	**2012**	2011
To/from Investments in associates		384						384
		384						384

In 2011, To/from investment in associates in relation to available-for-sale equity securities relates mainly to the real estate funds for which significant influence ceased to exist due to the sale of ING Real Estate Investment Management.

Reclassifications to Loans and advances to customers and Amounts due from banks (2009 and 2008)

Reclassifications out of available-for-sale investments to loans and receivables are allowed under IFRS-EU as of the third quarter of 2008. In the first quarter of 2009 and in the fourth quarter of 2008 ING Bank reclassified certain financial assets from Investments available-for-sale to Loans and advances to customers and Amounts due from banks. ING Bank identified assets eligible for reclassification, for which at the reclassification date it had the intention to hold for the foreseeable future. The table below provides information on the two reclassifications made in the first quarter of 2009 and in the fourth quarter of 2008. Information is provided for both reclassifications (see columns) as at the date of reclassification and as at the end of the subsequent reporting periods (see rows). This information is disclosed under IFRS-EU as long as the reclassified assets continue to be recognised in the balance sheet. Certain information on prior financial years was amended to reflect more detailed information that became available compared to previous years.

Notes to the consolidated annual accounts of ING Bank continued

The decrease in the carrying value of the reclassified Loans and advances in 2012 compared to 2011 is mainly due to disposals as included in Note 38 'Other Income'.

Reclassifications to Loans and advances to customers and Amounts due from banks		
	Q1 2009	Q4 2008
As per reclassification date		
Fair value	22,828	1,594
Range of effective interest rates (weighted average)	2.1% - 11.7%	4.1% - 21.0%
Expected recoverable cash flows	24,052	1,646
Unrealised fair value losses in shareholder's equity (before tax)	–1,224	–69
Recognised fair value gains (losses) in shareholder's equity (before tax) between the beginning of the year in which the reclassification took place and the reclassification date	nil	–79
Recognised fair value gains (losses) in shareholder's equity (before tax) in the year prior to reclassification	–192	–20
Recognised impairment (before tax) between the beginning of the year in which the reclassification took place and the reclassification date	nil	nil
Recognised impairment (before tax) in the year prior to reclassification	nil	nil
Impact on the financial years after reclassification:		
2012		
Carrying value as at 31 December	**8,707**	**443**
Fair value as at 31 December	**8,379**	**512**
Unrealised fair value losses recognised in shareholder's equity (before tax) as at 31 December	**–221**	**–2**
Effect on shareholder's equity (before tax) as at 31 December if reclassification had not been made	**–328**	**69**
Effect on result (before tax) if reclassification had not been made		
Effect on result (before tax) for the year (interest income and sales results)	**–164**	**22**
Recognised impairments (before tax)	**nil**	**nil**
Recognised provision for credit losses (before tax)	**nil**	**nil**
2011		
Carrying value as at 31 December	14,419	633
Fair value as at 31 December	13,250	648
Unrealised fair value losses recognised in shareholder's equity (before tax) as at 31 December	–446	–8
Effect on shareholder's equity (before tax) as at 31 December if reclassification had not been made	–1,169	15
Effect on result (before tax) if reclassification had not been made	nil	nil
Effect on result (before tax) for the year (mainly interest income)	390	28
Recognised impairments (before tax)	nil	nil
Recognised provision for credit losses (before tax)	nil	nil
2010		
Carrying value as at 31 December	16,906	857
Fair value as at 31 December	16,099	889
Unrealised fair value losses recognised in shareholder's equity (before tax) as at 31 December	–633	–65
Effect on shareholder's equity (before tax) as at 31 December if reclassification had not been made	–807	32
Effect on result (before tax) if reclassification had not been made	nil	nil
Effect on result (before tax) for the year (mainly interest income)	467	34
Recognised impairments (before tax)	nil	nil
Recognised provision for credit losses (before tax)	nil	nil

Notes to the consolidated annual accounts of ING Bank continued

Reclassifications to Loans and advances to customers and Amounts due from banks		
2009		
Carrying value as at 31 December	20,551	1,189
Fair value as at 31 December	20,175	1,184
Unrealised fair value losses in shareholder's equity (before tax) as at 31 December	–902	–67
Effect on shareholder's equity (before tax) as at 31 December if reclassification had not been made	–376	–5
Effect on result (before tax) if reclassification had not been made	nil	nil
Effect on result (before tax) after the reclassification until 31 December (mainly interest income)	629	n/a
Effect on result (before tax) for the year (mainly interest income)	n/a	47
Recognised impairments (before tax)	nil	nil
Recognised provision for credit losses (before tax)	nil	nil
2008		
Carrying value as at 31 December		1,592
Fair value as at 31 December		1,565
Unrealised fair value losses recognised in shareholder's equity (before tax) as at 31 December	–192	–79
Effect on shareholder's equity (before tax) as at 31 December if reclassification had not been made	n/a	–28
Effect on result (before tax) if reclassification had not been made	n/a	nil
Effect on result (before tax) after the reclassification until 31 December (mainly interest income)	n/a	9
Recognised impairments (before tax)	nil	nil
Recognised provision for credit losses (before tax)	n/a	nil

Available-for-sale equity securities – listed and unlisted	2012	2011
Listed	**1,944**	1,722
Unlisted	**690**	744
	2,634	2,466

Reference is made to Note 21 'Transfer of financial assets' for information on securities lending as well as sale and repurchase transactions.

Borrowed debt securities are not recognised in the balance sheet and amount to nil (2011: nil).

5 LOANS AND ADVANCES TO CUSTOMERS

Loans and advances to customers analysed by type	Netherlands		International		Total	
	2012	2011	**2012**	2011	**2012**	2011
Loans to, or guaranteed by, public authorities	**35,857**	29,281	**14,917**	25,867	**50,774**	55,148
Loans secured by mortgages	**160,098**	168,382	**152,369**	160,404	**312,467**	328,786
Loans guaranteed by credit institutions	**114**	379	**6,049**	8,260	**6,163**	8,639
Personal lending	**5,048**	5,012	**19,550**	19,389	**24,598**	24,401
Asset backed securities			**7,044**	13,328	**7,044**	13,328
Corporate loans	**41,333**	48,504	**104,644**	103,706	**145,977**	152,210
	242,450	251,558	**304,573**	330,954	**547,023**	582,512
Loan loss provisions	**–2,445**	–2,002	**–3,032**	–2,941	**–5,477**	–4,943
	240,005	249,556	**301,541**	328,013	**541,546**	577,569

The decrease in Loans and advances to customers, reflect the disposal of ING Direct Canada and the announced disposal of ING Direct UK (classified as held for sale).

Notes to the consolidated annual accounts of ING Bank continued

Loans and advances to customers analysed by subordination		
	2012	2011
Non-subordinated	**541,336**	571,970
Subordinated	**210**	5,599
	541,546	577,569

Decrease in subordinated Loans and advances is due to the sale of ING Direct Canada.

Reference is made to Note 21 'Transfer of financial assets' for information on securities lending as well as sale and repurchase transactions.

As at 31 December 2012, Loans and advances to customers includes receivables with regard to securities which have been acquired in reverse repurchase transactions related to the banking operations amounting to EUR 320 million (2011: EUR 1,228 million).

No individual loan or advance has terms and conditions that materially affect the amount timing or certainty of the consolidated cash flows of ING Bank. For details on significant concentrations see 'Risk management' section.

Loans and advances to customers and Amounts due from banks include finance lease receivables, are detailed as follows:

Finance lease receivables		
	2012	2011
Maturities of gross investment in finance lease receivables		
– within 1 year	**4,969**	5,386
– more than 1 year but less than 5 years	**8,926**	9,407
– more than 5 years	**5,497**	5,875
	19,392	20,668
Unearned future finance income on finance leases	**–2,996**	–3,228
Net investment in finance leases	**16,396**	17,440
Maturities of net investment in finance lease receivables		
– within 1 year	**4,310**	4,697
– more than 1 year but less than 5 years	**7,673**	8,035
– more than 5 years	**4,413**	4,708
	16,396	17,440
Included in		
– Amounts due from banks	**133**	76
– Loans and advances to customers	**16,263**	17,364
	16,396	17,440

The allowance for uncollectable finance lease receivables includes in the loan loss provisions amounted to EUR 322 million as at 31 December 2012 (2011: EUR 223 million).

No individual finance lease receivable has terms and conditions that would materially affect the amount, timing or certainty of consolidated cash flows of ING Bank.

Notes to the consolidated annual accounts of ING Bank continued

Loan loss provisions analysed by type	Netherlands		International		Total	
	2012	2011	2012	2011	2012	2011
Loans to, or guaranteed by, public authorities		1	2	2	2	3
Loans secured by mortgages	878	503	710	712	1,588	1,215
Loans guaranteed by credit institutions		4	30	5	30	9
Personal lending	144	119	650	597	794	716
Asset backed securities			76	2	76	2
Corporate loans	1,423	1,375	1,592	1,630	3,015	3,005
	2,445	2,002	3,060	2,948	5,505	4,950
Included in						
– Amounts due from banks			28	7	28	7
– Loans and advances to customers	2,445	2,002	3,032	2,941	5,477	4,943
	2,445	2,002	3,060	2,948	5,505	4,950

Changes in the loan loss provisions	2012	2011
Opening balance	4,950	5,195
Changes in the composition of the group	–13	–568
Write-offs	–1,682	–1,304
Recoveries	142	112
Increase in loan loss provisions	2,125	1,670
Exchange rate differences	20	–83
Other changes	–37	–72
Closing balance	5,505	4,950

In 2011, Changes in the composition of the group relates for EUR 565 million to the classification of ING Direct USA as a disposal group held for sale. Reference is made to Note 10 'Assets and liabilities held for sale'.

6 INVESTMENTS IN ASSOCIATES

Investments in associates 2012	Interest held (%)	Fair value of listed invest-ment	Balance sheet value	Total assets	Total liabilities	Total income	Total expenses
TMB Public Company Limited	25	506	499	16,474	15,118	433	339
ING Real Estate Asia Retail Fund Ltd	26		107	475	50	62	1
ING European Infrastructure Fund	29		33	649	521	202	195
ING Real Estate Asia Value Fund LP	23		31	271	134	10	
ING Nationale-Nederlanden PTE	20		28	148	7	87	33
Other investments in associates			143				
			841				

Other investments in associates represents a large number of associates with an individual balance sheet value of less than EUR 25 million.

Accumulated impairments of EUR 39 million (2011: EUR 38 million) have been recognised.

The values presented in the table above could differ from the values presented in the individual annual accounts of the associates, due to the fact that the individual values have been brought in line with ING Bank's accounting principles.

In general the reporting dates of all significant associates are consistent with the reporting date of ING Bank. However, the reporting dates of certain associates can differ from the reporting date of ING Bank, but no more than three months.

Where the listed fair value is lower than the balance sheet value, an impairment review and an evaluation of the going concern basis has been performed.

Notes to the consolidated annual accounts of ING Bank continued

Investments in associates

2011	Interest held (%)	Fair value of listed investment	Balance sheet value	Total assets	Total liabilities	Total income	Total expenses
TMB Public Company Limited	25	424	485	16,100	14,847	377	301
ING Real Estate Asia Retail Fund Ltd	26		87	868	512	81	37
ING European Infrastructure Fund	29		32	636	546	11	45
ING Real Estate Asia Value Fund LP	26		29	256	140	12	8
Other investments in associates			194				
			827				

Changes in investments in associates

	2012	2011
Opening balance	**827**	1,494
Additions	**20**	35
Transfers to and from Investments		–384
Revaluations	**22**	–4
Share of results	**23**	52
Dividends received	**–30**	–71
Disposals	**–29**	–263
Impairments	**–1**	–20
Exchange rate differences	**14**	–46
Other changes	**–5**	34
Closing balance	**841**	827

In 2011, Transfers to and from Investments relates mainly to the real estate funds for which significant influence ceased to exist due to the sale of ING Real Estate Investment Management, as disclosed in Note 27 'Companies acquired and Companies disposed'.

In 2012, Share of results of EUR 23 million (2011: EUR 52 million) less Impairments of EUR 1 million (2011: EUR 20 million) are presented in the profit and loss account in Share of results from associates for EUR 22 million (2011: EUR 32 million).

7 REAL ESTATE INVESTMENTS

Changes in real estate investments

	2012	2011
Opening balance	**435**	562
Additions	**4**	9
Transfers to and from Property in own use		–31
Fair value gains/(losses)	**–12**	–22
Disposals	**–219**	–83
Exchange rate differences	**–1**	
Closing balance	**207**	435

The total amount of rental income recognised in profit and loss for the year ended 31 December 2012 is EUR 91 million (2011: EUR 111 million). The total amount of contingent rent recognised in the profit and loss account for the year ended 31 December 2012 is nil (2011: nil).

The total amount of direct operating expenses (including repairs and maintenance) in relation to Real Estate investments that generated rental income for the year ended 31 December 2012 is EUR 63 million (2011: EUR 84 million). The total amount of direct operating expenses (including repairs and maintenance) incurred on real estate investments that did not generate rental income for the year ended 31 December 2012 is EUR 12 million (2011: EUR 2 million).

Notes to the consolidated annual accounts of ING Bank continued

Real estate investments by year of most recent appraisal by independent qualified valuers		
in percentages	**2012**	2011
Most recent appraisal in the current year	**94**	75
Most recent appraisal one year ago	**6**	25
	100	100

ING Bank's exposure to real estate is included in the following balance sheet lines:

Real estate exposure		
	2012	2011
Real estate investments	**207**	435
Investments in associates	**227**	238
Other assets – property development and obtained from foreclosures	**1,148**	1,512
Property and equipment – property in own use	**1,203**	1,244
Investments – available-for-sale	**237**	262
	3,022	3,691

Furthermore, the exposure is impacted by third party interests, leverage in funds and off-balance commitments, resulting in an overall exposure of EUR 3.3 billion (2011: EUR 4.2 billion). Reference is made to the section 'Risk management'.

8 PROPERTY AND EQUIPMENT

Property and equipment by type		
	2012	2011
Property in own use	**1,203**	1,244
Equipment	**1,128**	1,167
Assets under operating leases	**5**	6
	2,336	2,417

Changes in property in own use		
	2012	2011
Opening balance	**1,244**	1,329
Additions	**30**	38
Changes in the composition of the group		–12
Transfers to and from Other assets	**–2**	–32
Transfers to and from Real Estate investments		31
Depreciation	**–22**	–24
Revaluations	**2**	–14
Impairments	**–24**	–29
Reversal of impairments	**7**	11
Disposals	**–38**	–25
Exchange rate differences	**6**	–29
Closing balance	**1,203**	1,244
Gross carrying amount as at 31 December	**2,021**	2,040
Accumulated depreciation as at 31 December	**–650**	–641
Accumulated impairments as at 31 December	**–168**	–155
Net carrying value	**1,203**	1,244
Revaluation surplus		
Opening balance	**454**	485
Revaluation in year	**–11**	–31
Closing balance	**443**	454

The cost or the purchase price amounted to EUR 1,578 million (2011: EUR 1,586 million). Cost or the purchase price less accumulated depreciation and impairments would have been EUR 760 million (2011: EUR 790 million) had property in own use been valued at cost instead of at fair value.

Notes to the consolidated annual accounts of ING Bank continued

Property in own use by year of most recent appraisal by independent qualified valuers

in percentages	2012	2011
Most recent appraisal in the current year	**59**	57
Most recent appraisal one year ago	**13**	12
Most recent appraisal two years ago	**13**	12
Most recent appraisal three years ago	**9**	10
Most recent appraisal four years ago	**6**	9
	100	100

Changes in equipment

	Data processing equipment		Fixtures and fittings and other equipment		Total	
	2012	2011	**2012**	2011	**2012**	2011
Opening balance	**298**	309	**869**	922	**1,167**	1,231
Additions	**148**	154	**184**	230	**332**	384
Changes in the composition of the group	**–10**	–2	**–5**	–14	**–15**	–16
Disposals	**–6**	–16	**–9**	–11	**–15**	–27
Depreciation	**–145**	–146	**–195**	–201	**–340**	–347
Impairments	**–1**				**–1**	
Exchange rate differences	**4**	–6	**6**	–13	**10**	–19
Other changes	**–1**	5	**–9**	–44	**–10**	–39
Closing balance	**287**	298	**841**	869	**1,128**	1,167
Gross carrying amount as at 31 December	**1,425**	1,408	**2,314**	2,226	**3,739**	3,634
Accumulated depreciation as at 31 December	**–1,137**	–1,109	**–1,473**	–1,357	**–2,610**	–2,466
Accumulated impairments as at 31 December	**–1**	–1			**–1**	–1
Net carrying value as at 31 December	**287**	298	**841**	869	**1,128**	1,167

Changes in assets under operating leases

	Cars		Other leased-out assets		Total	
	2012	2011	**2012**	2011	**2012**	2011
Opening balance	**6**	3,053		2	**6**	3,055
Additions		1,188				1,188
Changes in the composition of the group		–3,250				–3,250
Disposals		–43				–43
Depreciation	**–1**	–594		–2	**–1**	–596
Exchange rate differences		–12				–12
Transfer and other changes		–336				–336
Closing balance	**5**	6			**5**	6
Gross carrying amount as at 31 December	**9**	16			**9**	16
Accumulated depreciation as at 31 December	**–4**	–10			**–4**	–10
Net carrying value as at 31 December	**5**	6			**5**	6

In 2011, Changes in the composition of the group comprises the sale of ING Car Lease. Reference is made to Note 27 'Companies acquired and companies disposed'.

Depreciation of assets under operating leases is included in the profit and loss account in Other income as a deduction from operating lease income.

Transfer and other changes relates mainly to the transfer of cars under operating lease to Other assets due to the expiration of the lease contract.

No individual operating lease has terms and conditions that materially affect the amount, timing or certainty of the consolidated cash flows of ING Bank.

Notes to the consolidated annual accounts of ING Bank continued

ING Bank leases assets to third parties under operating leases as lessor. The future minimum lease payments to be received under non-cancellable operating leases are as follows:

Future minimum lease payments by maturity	2012	2011
Within 1 year	1	1
More than 1 year but less than 5 years	2	4
More than 5 years	2	1
	5	6

9 INTANGIBLE ASSETS

Changes in intangible assets	Goodwill		Software		Other		Total	
	2012	2011	2012	2011	2012	2011	2012	2011
Opening balance	1,179	1,502	476	589	88	174	1,743	2,265
Capitalised expenses			143	129			143	129
Additions			141	134			141	134
Disposals			–2				–2	
Amortisation			–214	–332	–29	–39	–243	–371
Impairments		–32	–2	–15	–2		–4	–47
Changes in the composition of the group and other changes	–16	–151	–20	–22	5	–31	–31	–204
Exchange rate differences	25	–140	4	–7	2	–16	31	–163
Closing balance	1,188	1,179	526	476	64	88	1,778	1,743
Gross carrying amount as at 31 December	1,188	1,211	1,362	1,779	193	187	2,743	3,177
Accumulated amortisation as at 31 December			–830	–1,280	–127	–99	–957	–1,379
Accumulated impairments as at 31 December		–32	–6	–23	–2		–8	–55
Net carrying value as at 31 December	1,188	1,179	526	476	64	88	1,778	1,743

Amortisation of software and other intangible assets is included in the profit and loss account in Other operating expenses and Intangible amortisation and other impairments.

Goodwill

Changes in Goodwill

In addition to exchange rate differences, changes in goodwill relate to impairments and changes in composition of the group.

2011 – Impairment

In 2011, a goodwill impairment of EUR 32 million was recognised that related to the reporting unit Commercial Banking (ING Real Estate). During 2011, the ING Real Estate business changed significantly. The Real Estate Development business was reduced by selling/closing development projects and ING sold REIM (the ING Real Estate Investment Management business). As a consequence, there were indications in the fourth quarter of 2011 that the recoverable amount of the reporting unit ING Real Estate had fallen below book value. A full goodwill impairment review was performed for the reporting unit ING Real Estate in the fourth quarter of 2011. In 2011, the reporting unit Real Estate equals the segment Commercial Banking (ING Real Estate). However, as disclosed in Note 43 'Segments', following the divestment of ING Real Estate Investment Management the remaining business was included in the segment Commercial Banking and the segment ING Real Estate ceased to exist. The 2010 impairment test for ING Real Estate showed that the recoverable amount based on fair value using market multiples for Price/Book was at least equal to book value. The outcome of the impairment test performed in the fourth quarter of 2011 indicated that the fair value had become less than book value by an amount that exceeded the goodwill of ING Real Estate, indicating that the full amount of goodwill relating to ING Real Estate was impaired. As a result, the goodwill of EUR 32 million (pre-tax) was impaired. The related charge was included in the profit and loss account in the line 'Intangibles amortisation and other impairments'. Goodwill is recognised in the Corporate Line and, therefore, this charge was included in the segment reporting in Corporate Line Bank.

2012 – Changes in composition of the group and other changes

In 2012, 'Changes in composition of the group and other changes' represents the reclassification of goodwill to 'Assets held for sale'. This includes all goodwill that relates to businesses that were classified as held for sale. For 2012, this relates to ING Direct UK (EUR 16 million).

Notes to the consolidated annual accounts of ING Bank continued

As ING Direct UK is now classified as held for sale, the related goodwill is no longer evaluated at the level of the reporting unit to which it was allocated in the regular goodwill impairment test. Instead, it is reviewed as part of the valuation of the disposal unit that is presented as held for sale. Reference is made to Note 10 'Assets and liabilities held for sale'.

2011 – Changes in composition of the group and other changes
In 2011, 'Changes in composition of the group and other changes' related mainly to the disposal of ING Car Lease and EUR 97 million related to the classification of ING Direct USA as a disposal group held for sale.

Allocation of Goodwill to reporting units
After the above changes, the remaining goodwill is allocated to reporting units as follows:

Goodwill allocation to reporting units

	2012	2011
Retail Banking Netherlands	**1**	1
Retail Banking Belgium	**50**	50
Retail Banking Germany	**349**	349
Retail Banking Central Europe	**764**	739
Retail Banking International – Other		15
Commercial Banking	**24**	25
	1,188	1,179

The allocation of goodwill to reporting units was changed in 2012 as a consequence of the changes in segments as disclosed in Note 43 'Segments'. Comparatives for 2011 have been adjusted. This change did not impact the results of the impairment test.

Goodwill impairment testing
Goodwill is tested for impairment at the lowest level at which it is monitored for internal management purposes. This level is defined as the so called 'reporting units' as set out above. Goodwill is tested for impairment by comparing the carrying value of the reporting unit to the best estimate of the recoverable amount of that reporting unit. The carrying value is determined as the IFRS-EU net asset value including goodwill. The recoverable amount is estimated as the higher of fair value less cost to sell and value in use. Several methodologies are applied to arrive at the best estimate of the recoverable amount.

As a first step of the impairment test, the best estimate of the recoverable amount of reporting units to which goodwill is allocated is determined separately for each relevant reporting unit based on Price to Earnings, Price to Book, and Price to Assets under management ratios. The main assumptions in this valuation are the multiples for Price to Earnings, Price to Book and Price to Assets under management; these are developed internally but are either derived from or corroborated against market information that is related to observable transactions in the market for comparable businesses. Earnings and carrying values are equal to or derived from the relevant measure under IFRS-EU.

If the outcome of this first step indicates that the difference between recoverable amount and carrying value may not be sufficient to support the amount of goodwill allocated to the reporting unit, an additional analysis is performed in order to determine a recoverable amount in a manner that better addresses the specific characteristics of the relevant reporting unit.

Such additional analyses were performed for the goodwill that was concluded to be impaired as set out above. For other reporting units, the goodwill allocated to these reporting units was fully supported in the first step. For Retail Banking Central Europe, a second analysis was necessary in 2011. Although in 2012 the goodwill allocated to Retail Banking Central Europe was fully supported in the first step, the second test was performed in 2012 and confirmed the continued recognition of the related goodwill. In this second test for Retail Banking Central Europe, the recoverable amount is determined as the sum of the recoverable amounts of the most important components. For certain components, a market price is available based on listed equity securities. In such case, the listed market price is used to determine the recoverable amount. For certain other components, the recoverable amount is determined by a cash flow model taking into account recent market related developments. The most important assumptions in the model are the estimated expected profit based on internal financial budgets/forecasts (4 years medium term plan plus additional 6 years longer term forecast), the terminal growth rate thereafter (approximately 3.5%), the required capital level (ultimately migrating to approximately 12%) and the discount rate (between approximately 10% and 13%). It was concluded that the goodwill allocated to Retail Banking Central Europe is not impaired.

10 ASSETS AND LIABILITIES HELD FOR SALE

Assets and liabilities held for sale includes disposal groups whose carrying amount will be recovered principally through a sale transaction rather than through continuing operations. This relates to businesses for which a sale is agreed upon but for which the transaction has not yet closed or a sale is highly probable at the balance sheet date but for which no sale has yet been agreed. As at 31 December 2012 this relates ING Direct UK.
As at 31 December 2011 this related to ING Direct USA. The sale of ING Direct USA to Capital One was closed in February 2012. Reference is made to Note 27 'Companies acquired and companies disposed'.

Assets held for sale	2012	2011
Cash and balances with central banks	**14**	4,980
Amounts due from banks	**123**	314
Financial assets at fair value through profit and loss		3
Available-for-sale investments		22,605
Held to maturity investments		444
Loans and advances to customers	**6,621**	31,805
Property and equipment	**23**	75
Intangible assets		166
Other assets		2,091
	6,781	62,483

Liabilities held for sale	2012	2011
Customer deposits and other funds on deposit	**14,207**	64,103
Financial liabilities at fair value through profit and loss	**8**	
Other liabilities	**29**	162
	14,244	64,265

Included in Shareholders' equity is cumulative other comprehensive income of EUR 372 million (2011: EUR 244 million) related to Assets and liabilities held for sale.

Other potential divestments
In addition to the businesses presented as held for sale above, ING is considering potential divestments, including those that are listed under the European Commission Restructuring Plan in Note 30 'Related parties'. However, none of these businesses qualify as held for sale as at 31 December 2012 as the potential divestments are not yet available for immediate sale in their present condition and/or a sale is not yet highly probable to occur. This includes the transfer of WestlandUtrecht Bank, which was announced on 19 November 2012 and in which the commercial operations of WestlandUtrecht Bank will be combined with the retail banking activities of Nationale-Nederlanden. Of WestlandUtrecht Bank's EUR 36.4 billion Dutch mortgage portfolio, EUR 2.6 billion will be transferred to Nationale-Nederlanden Bank. ING Bank will retain the remaining EUR 33.8 billion mortgage portfolio. To service existing WestlandUtrecht Bank labelled mortgages, insurance policies and real estate finance agreements, part of WestlandUtrecht Bank will become a separate entity within ING Retail Banking Netherlands. Part of the employees of WestlandUtrecht Bank will transfer to Nationale-Nederlanden Bank. This transaction is expected to be completed in 2013. As at 31 December 2012, the assets and liabilities that may be transferred had not yet been identified and, therefore, no transfer to assets/liabilities held for sale has yet occurred.

Goodwill
Intangible assets under Assets held for sale includes goodwill that relates to businesses that are classified as held for sale. In 2012, EUR 16 million goodwill was reclassified to Assets held for sale which related to ING Direct UK.

For businesses classified as held for sale, the related goodwill is no longer evaluated at the level of the reporting unit to which it was allocated in the regular goodwill impairment test. Instead, it is reviewed as part of the valuation of the disposal unit that is presented as held for sale. In 2012, goodwill of EUR 16 million in ING Direct UK was written off, as the related business is expected to be sold below IFRS book value. The related charge is included in the profit and loss account in Result on disposals of group companies.

Notes to the consolidated annual accounts of ING Bank continued

11 OTHER ASSETS

Other assets by type	2012	2011
Deferred tax assets	**1,547**	2,437
Property development and obtained from foreclosures	**1,148**	1,512
Income tax receivable	**514**	459
Accrued interest and rents	**9,665**	11,183
Other accrued assets	**502**	530
Pension assets	**3,146**	2,511
Other	**4,570**	3,731
	21,092	22,363

Other includes EUR 2,630 million (2011: EUR 1,840 million) related to transactions still to be settled at balance sheet date.

Disclosures in respect of deferred tax assets and pension assets are provided in Note 18 ‘Other liabilities’.

Accrued interest and rents includes EUR 3,543 million (2011: EUR 4,172 million) accrued interest on assets measured at amortised cost under the IAS 39 classification Loans and receivables.

The total amount of borrowing costs relating to Property development and obtained from foreclosures, capitalised in 2012 is EUR 2 million (2011: EUR 7 million).

Property development and obtained from foreclosures	2012	2011
Property under development	**163**	400
Property developed	**927**	1,055
Property obtained from foreclosures	**58**	57
	1,148	1,512
Gross carrying amount as at 31 December	**2,225**	2,648
Accumulated impairments as at 31 December	**–1,077**	–1,136
Net carrying value	**1,148**	1,512

Notes to the consolidated annual accounts of ING Bank continued

EQUITY
12 SHAREHOLDER'S EQUITY (PARENT)

Shareholder's equity (parent)	2012	2011	2010
Share capital	**525**	525	525
Share premium	**16,542**	16,542	16,542
Revaluation reserve	**2,216**	550	1,457
Currency translation reserve	**–263**	209	500
Other reserves	**17,649**	16,541	15,428
Shareholder's equity (parent)	**36,669**	34,367	34,452

The following equity components cannot be freely distributed: The Revaluation reserve, Share of associates reserve (included in Other reserves), Currency translation reserve and the part of the Other reserves that relates to non-distributable reserves of the former Stichting Regio Bank and the former Stichting Vakbondsspaarbank SPN and legal reserves.

As at 31 December 2012, Other reserves includes an amount of EUR 911 million (2011: EUR 836 million; 2010: EUR 741 million) related to the former Stichting Regio Bank and former Stichting Vakbondsspaarbank SPN.

Share capital	Preference shares (par value EUR 1.13)				Ordinary shares (par value EUR 1.13)			
	Number x1		Amount in euros		Number x1,000		Amounts in millions of euros	
	2012	2011	2012	2011	2012	2011	2012	2011
Authorised share capital	**50**	50	**57**	57	**1,600,000**	1,600,000	**1,808**	1,808
Unissued share capital	**43**	43	**49**	49	**1,134,965**	1,134,965	**1,283**	1,283
Issued share capital	**7**	7	**8**	8	**465,035**	465,035	**525**	525

No changes occurred in the issued share capital and share premium in 2012, 2011 and 2010.

Preference shares are presented in the balance sheet under liabilities. Reference is made to Note 18 'Other liabilities'.

Ordinary shares
All shares are in registered form. No share certificates have been issued. Shares may be transferred by means of a deed of transfer, subject to the approval of the Management Board of ING Bank. The par value of ordinary shares is EUR 1.13.

The authorised ordinary share capital of ING Bank N.V. consists of 1,600 million shares of which as at 31 December 2012 465 million shares have been issued and fully paid.

Dividend restrictions
ING Bank N.V. and its Dutch group companies are subject to legal restrictions regarding the amount of dividends they can pay to their shareholders. The Dutch Civil Code contains the restriction that dividends can only be paid up to an amount equal to the excess of the company's own funds over the sum of the paid-up capital, and reserves required by law. Additionally, certain Bank companies are subject to restrictions on the amount of funds they may transfer in the form of dividends or otherwise to the parent company.

Furthermore, in addition to the restrictions in respect of minimum capital requirements that are imposed by industry regulators in the countries in which the subsidiaries operate, other limitations exist in certain countries.

Changes in revaluation reserve				
2012	**Property revaluation reserve**	**Available-for-sale reserve**	**Cash flow hedge reserve**	**Total**
Opening balance	**336**	**1,035**	**–821**	**550**
Unrealised revaluations after taxation	**–9**	**2,088**		**2,079**
Realised gains/losses transferred to profit and loss		**–473**		**–473**
Changes in cash flow hedge reserve			**60**	**60**
Closing balance	**327**	**2,650**	**–761**	**2,216**

Notes to the consolidated annual accounts of ING Bank continued

Changes in revaluation reserve

2011	Property revaluation reserve	Available-for-sale reserve	Cash flow hedge reserve	Total
Opening balance	350	1,746	–639	1,457
Unrealised revaluations after taxation	–14	–1,117		–1,131
Realised gains/losses transferred to profit and loss		406		406
Changes in cash flow hedge reserve			–182	–182
Closing balance	336	1,035	–821	550

Changes in revaluation reserve

2010	Property revaluation reserve	Available-for-sale reserve	Cash flow hedge reserve	Total
Opening balance	387	2,414	–472	2,329
Unrealised revaluations after taxation	–37	–375		–412
Realised gains/losses transferred to profit and loss		–293		–293
Changes in cash flow hedge reserve			–167	–167
Closing balance	350	1,746	–639	1,457

Changes in currency translation reserve

	2012	2011	2010
Opening balance	**209**	500	–241
Unrealised revaluations after taxation	**–116**	186	–348
Exchange rate differences	**–356**	–477	1,089
Closing balance	**–263**	209	500

Unrealised revaluations after taxation relate to changes in the value of hedging instruments that are designated as net investment hedges.

Changes in other reserves

2012	**Retained earnings**	**Share of associates reserve**	**Treasury shares**	**Other reserves**	**Total**
Opening balance	**15,146**	**339**		**1,056**	**16,541**
Result for the year	**3,040**			**75**	**3,115**
Dividend	**–2,125**				**–2,125**
Employee stock options and share plans	**106**				**106**
Other	**–34**	**24**		**22**	**12**
Closing balance	**16,133**	**363**		**1,153**	**17,649**

Changes in other reserves

2011	Retained earnings	Share of associates reserve	Treasury shares	Other reserves	Total
Opening balance	14,661	26		741	15,428
Result for the year	3,918			87	4,005
Dividend	–3,000				–3,000
Employee stock options and share plans	119				119
Other	–552	313		228	–11
Closing balance	15,146	339		1,056	16,541

Notes to the consolidated annual accounts of ING Bank continued

Changes in other reserves

2010	Retained earnings	Share of associates reserve	Treasury shares	Other reserves	Total
Opening balance	10,422			645	11,067
Result for the year	4,399			96	4,495
Dividend	–200				–200
Employee stock options and share plans	53				53
Other	–13	26			13
Closing balance	14,661	26		741	15,428

Notes to the consolidated annual accounts of ING Bank continued

LIABILITIES

13 SUBORDINATED LOANS

Subordinated loans relate to subordinated capital debentures and private loans which may be included in the calculation of the capital ratio.

Subordinated liabilities include EUR 6,774 million (2011: EUR 6,850 million) of loans that qualify as Tier 1 capital. These loans have been placed with ING Bank N.V. by ING Group.

The average interest rate on the subordinated loans is 5.0% (2011: 4.7%). The interest expense during the year 2012 was EUR 742 million (2011: EUR 867 million).

On 12 December 2011 ING announced the launch of three separate exchange offers in Europe and tender offers in the United States of America, on a total of seven series of outstanding subordinated securities of ING entities with a total nominal value of approximately EUR 5.8 billion. All tender and exchange offers announced on 12 December 2011 were successfully completed on 23 December 2011 with an average participation of approximately 60%. As part of this initiative, EUR 1.8 billion intercompany debt from ING Bank N.V. to ING Groep N.V. was repaid. In addition ING Bank issued two new senior bonds with a nominal value of GBP 0.4 billion and EUR 0.4 billion respectively. The overall transaction resulted in a total gain of EUR 93 million (EUR 71 million after tax) for ING Bank N.V., including related hedge results and transaction costs. This gain is recognised in Other income.

14 DEBT SECURITIES IN ISSUE

Debt securities in issue relate to debentures and other issued debt securities with either fixed interest rates or interest rates based on interest rate levels, such as certificates of deposit and accepted bills issued by ING Bank, except for subordinated items. Debt securities carried at fair value through profit and loss are separately included in financial liabilities at fair value through profit and loss. ING Bank does not have debt securities that are issued on terms other than those available in the normal course of business. The maturities of the debt securities are as follows:

Debt securities in issue – maturities

	2012	2011
Fixed rate debt securities		
Within 1 year	**38,373**	51,459
More than 1 year but less than 2 years	**10,681**	5,800
More than 2 years but less than 3 years	**10,543**	10,347
More than 3 years but less than 4 years	**8,207**	5,943
More than 4 years but less than 5 years	**5,444**	7,541
More than 5 years	**27,963**	20,182
Total fixed rate debt securities	**101,211**	101,272
Floating rate debt securities		
Within 1 year	**18,958**	14,873
More than 1 year but less than 2 years	**5,766**	7,590
More than 2 years but less than 3 years	**1,845**	3,569
More than 3 years but less than 4 years	**376**	1,207
More than 4 years but less than 5 years	**1,548**	162
More than 5 years	**4,985**	2,253
Total floating rate debt securities	**33,478**	29,654
Total debt securities	**134,689**	130,926

As at 31 December 2012, ING Bank had unused lines of credit available including the payment of commercial paper borrowings relating to debt securities in issue of EUR 11,992 million (2011: EUR 8,118 million).

The following bonds are all issued under the Credit Guarantee Scheme of the State of the Netherlands. ING pays a fee of 84 basis points over the issued bonds to the Dutch State to participate in the Credit Guarantee Scheme.

- ING Bank issued a 5 year EUR 4 billion fixed rate government guaranteed senior unsecured bond in February 2009. The issue was priced at a fixed rate of 3.375%, 75 basis points over mid-swaps; and
- ING Bank issued a 5 year USD 2 billion fixed rate government guaranteed senior unsecured bond in March 2009. The issue was priced at a fixed coupon of 3.90%, 145 basis points over USD mid-swaps.

Notes to the consolidated annual accounts of ING Bank continued

15 AMOUNTS DUE TO BANKS

Amounts due to banks includes non-subordinated debt due to banks, other than amounts in the form of debt securities.

Amounts due to banks by type

	Netherlands		International		Total	
	2012	2011	**2012**	2011	**2012**	2011
Non-interest bearing	**1,777**	1,350	**423**	808	**2,200**	2,158
Interest bearing	**11,967**	40,648	**24,537**	29,427	**36,504**	70,075
	13,744	41,998	**24,960**	30,235	**38,704**	72,233

In the last quarter of 2012, excess cash in the banking operations was used to redeem short-term professional funding.

Reference is made to Note 21 'Transfer of financial assets' for information on securities lending as well as sale and repurchase transactions.

16 CUSTOMER DEPOSITS AND OTHER FUNDS ON DEPOSIT

Customer deposits and other funds on deposit

	2012	2011
Savings accounts	**277,766**	291,516
Credit balances on customer accounts	**121,643**	114,362
Corporate deposits	**59,693**	61,990
Other	**1,261**	11,496
	460,363	479,364

Customer deposits and other funds on deposit by type

	Netherlands		International		Total	
	2012	2011	**2012**	2011	**2012**	2011
Non-interest bearing	**12,938**	13,294	**8,888**	9,447	**21,826**	22,741
Interest bearing	**147,433**	146,229	**291,104**	310,394	**438,537**	456,623
	160,371	159,523	**299,992**	319,841	**460,363**	479,364

The decrease in Customer deposits and other funds on deposit is includes the disposal of ING Direct Canada and the announced disposal of ING Direct UK (classified as held for sale) as a result of which funds decreased by EUR 41.7 billion.

No funds have been entrusted to ING Bank by customers on terms other than those prevailing in the normal course of business.

Reference is made to Note 21 'Transfer of financial assets' for information on securities lending as well as sale and repurchase transactions.

Savings accounts relate to the balances on savings accounts, savings books, savings deposits and time deposits of personal customers. The interest payable on savings accounts, which is contractually added to the accounts, is also included.

17 FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT AND LOSS

Financial liabilities at fair value through profit and loss

	2012	2011
Trading liabilities	**83,652**	107,682
Non-trading derivatives	**15,919**	18,161
Designated as at fair value through profit and loss	**13,399**	13,021
	112,970	138,864

Notes to the consolidated annual accounts of ING Bank continued

Trading liabilities by type	2012	2011
Equity securities	**3,262**	3,332
Debt securities	**7,594**	9,607
Funds on deposit	**20,661**	38,696
Derivatives	**52,135**	56,047
	83,652	107,682

Reference is made to Note 3 'Financial assets at fair value through profit and loss' for information on trading.

Reference is made to Note 21 'Transfer of financial assets' for information on securities lending as well as sale and repurchase transactions.

Non-trading derivatives by type	2012	2011
Derivatives used in		
– fair value hedges	**8,523**	9,168
– cash flow hedges	**6,066**	6,054
– hedges of net investments in foreign operations	**71**	146
Other non-trading derivatives	**1,259**	2,793
	15,919	18,161

Other non-trading derivatives mainly includes interest rate swaps for which no hedge accounting is applied.

Designated as at fair value through profit and loss by type	2012	2011
Debt securities	**11,826**	11,271
Funds entrusted	**513**	632
Subordinated liabilities	**1,060**	1,118
	13,399	13,021

In 2012, the change in the fair value of financial liabilities designated as at fair value through profit and loss attributable to changes in credit risk is EUR –633 million (2011: EUR 377 million) and EUR –38 million (2011: EUR 595 million) on a cumulative basis. This change has been determined as the amount of change in fair value of the financial liability that is not attributable to changes in market conditions that gave rise to market risk (i.e. mainly interest rate risk based on yield curves).

The amount that ING Bank is contractually required to pay at maturity to the holders of financial liabilities designated as at fair value through profit and loss is EUR 12,987 million (2011: EUR 13,726 million).

18 OTHER LIABILITIES

Other liabilities by type	2012	2011
Deferred tax liabilities	**1,571**	1,735
Income tax payable	**809**	806
Pension benefits	**100**	99
Post-employment benefits	**106**	105
Other staff-related liabilities	**396**	609
Other taxation and social security contributions	**817**	750
Accrued interest	**9,616**	10,550
Costs payable	**1,458**	1,322
Reorganisation provision	**644**	521
Other provisions	**538**	500
Prepayments received under property under development	**21**	83
Amounts to be settled	**2,145**	1,568
Other	**2,958**	3,397
	21,179	22,045

Deferred taxes are recognised on all temporary differences under the liability method using tax rates applicable in the jurisdictions in which ING Bank is liable to taxation.

Notes to the consolidated annual accounts of ING Bank continued

Other staff-related liabilities include vacation leave provisions, variable compensation provisions, jubilee provisions and disability/illness provisions.

Other mainly relates to year-end accruals in the normal course of business none of which are individually material.

Changes in deferred tax

	Net liability 2011	**Change through equity**	**Change through net result**	**Changes in the composi-tion of the group**	**Exchange rate differences**	**Other**	**Net liability 2012**
Investments	–146	**774**	**180**	**–166**	**2**		**644**
Real estate investments	2						**2**
Financial assets and liabilities at fair value through profit and loss	–707		**–366**		**10**		**–1,063**
Depreciation	40		**5**	**–1**	**–1**		**43**
Other provisions	–95		**29**	**5**	**4**		**–57**
Receivables	–43		**–8**	**2**	**1**		**–48**
Loans and advances to customers	870	**–82**	**157**		**2**		**947**
Cash flow hedges	–282	**–9**		**4**	**1**		**–286**
Pension and post-employment benefits	468		**169**		**1**		**638**
Unused tax losses carried forward	–623		**–138**	**1**	**–11**		**–771**
Other	–186	**74**	**26**	**65**	**–4**		**–25**
	–702	**757**	**54**	**–90**	**5**		**24**
Comprising							
– deferred tax liabilities	1,735						**1,571**
– deferred tax assets	–2,437						**–1,547**
	–702						**24**

Changes in deferred tax

	Net liability 2010	Change through equity	Change through net result	Changes in the composition of the group	Exchange rate differences	Other	Net liability 2011
Investments	–318	–79	–12	264	–1		–146
Real Estate investments				2			2
Financial assets and liabilities at fair value through profit and loss	–552		–162		7		–707
Depreciation	6	1	22	9	2		40
Other provisions	–58	1	–45	2	5		–95
Receivables	–22		–9	–10	–2		–43
Loans and advances to customers	462	97	208	96	7		870
Cash flow hedges	–197	–91	6				–282
Pension and post-employment benefits	420	1	48		–1		468
Unused tax losses carried forward	–1,183	–1	286	246	29		–623
Other	–142	–64	52	–28	–4		–186
	–1,584	–135	394	581	42		–702
Comprising							
– deferred tax liabilities	1,385						1,735
– deferred tax assets	–2,969						–2,437
	–1,584						–702

In 2011, the amounts presented in the column ‘Changes in the composition of the group’ relate mainly to the classification of ING Direct USA as a disposal group held for sale. Reference is made to Note 10 ‘Assets and liabilities held for sale’.

Notes to the consolidated annual accounts of ING Bank continued

Deferred tax in connection with unused tax losses carried forward		
	2012	2011
Total unused tax losses carried forward	**4,054**	3,173
Unused tax losses carried forward not recognised as a deferred tax asset	**1,073**	881
Unused tax losses carried forward recognised as a deferred tax asset	**2,981**	2,292
Average tax rate	**25.9%**	27.2%
Deferred tax asset	**771**	623

The following tax losses carried forward and tax credits will expire as follows at 31 December:

Total unused tax losses carried forward analysed by expiry terms				
	No deferred tax asset recognised		Deferred tax asset recognised	
	2012	2011	**2012**	2011
Within 1 year	**19**	19	**3**	10
More than 1 year but less than 5 years	**294**	150	**33**	134
More than 5 years but less than 10 years	**47**	267	**1,114**	896
More than 10 years but less than 20 years	**429**	299	**12**	
Unlimited	**284**	146	**1,819**	1,252
	1,073	881	**2,981**	2,292

Deferred tax assets are recognised for temporary deductible differences, for tax losses carried forward and unused tax credits only to the extent that realisation of the related tax benefit is probable.

The deferred tax asset includes balances for which the utilisation is dependent on future taxable profits whilst the related entities have incurred losses in either the current or the preceding year. The aggregate amount for the most significant entities where this applies in 2012 is EUR 280 million (2011: EUR 281 million). This can be specified by jurisdiction as follows:

Breakdown by jurisdiction		
	2012	2011
Luxembourg	**7**	
Great Britain	**17**	116
Australia	**24**	36
Spain	**32**	
Germany	**1**	5
France	**59**	66
Mexico	**4**	32
Italy	**136**	26
	280	281

In 2012, the deferred tax assets for banking operations, for which the utilisation is dependent of future taxable profits, as disclosed above, decreased for Great Britain due to the intended sale of ING Direct UK and for Mexico as Mexico became a run-off operation, and therefore they are not able to recover the losses. The increase in Italy is due to the losses in 2012.

Recognition is based on the fact that it is probable that the entity will have taxable profits and /or can utilise tax planning opportunities before expiration of the deferred tax assets. Changes in circumstances in future periods may adversely impact the assessment of the recoverability. The uncertainty of the recoverability is taken into account in establishing the deferred tax assets.

Notes to the consolidated annual accounts of ING Bank continued

As at 31 December 2012 and 31 December 2011, ING Bank had no significant temporary differences associated with the parent company's investments in subsidiaries, branches and associates and interest in joint ventures as any economic benefit from those investments will not be taxable at parent company level.

Sections 382 and 383 of the U.S. Internal Revenue Code, as amended, operate as anti-abuse rules, the general purpose of which is to prevent trafficking in tax losses and credits, but which can apply without regard to whether a "loss trafficking" transaction occurs or is intended. These rules are triggered when an "ownership change"—generally defined as when the ownership of a company, or its parent, changes by more than 50% (measured by value) on a cumulative basis in any three year period—occurs. If triggered, the amount of the taxable income for any post-change year which may be offset by a pre-change loss is subject to an annual limitation. As of 31 December 2012, we believe that our U.S. subsidiaries have not had an "ownership change" for purposes of Sections 382 and 383. However, this determination is subject to uncertainties and is based on various assumptions. Future increases of capital or other changes in ownership may adversely affect our cumulative ownership, and could trigger an "ownership change", which could limit the ability of our U.S. subsidiaries to use tax attributes, and could correspondingly decrease the value of these attributes.

Changes in reorganisation provision

	2012	2011
Opening balance	521	333
Changes in the composition of the group		1
Additions	473	396
Interest		5
Releases	–16	–9
Charges	–337	–214
Exchange rate differences	2	2
Other changes	1	7
Closing balance	644	521

Additions to the reorganisation provision are mainly related to the restructurings for Retail banking in the Netherlands and Commercial banking.

A reorganisation provision of EUR 233 million is recognised in the segment Retail Netherlands mainly as a result of entering the second phase of the transformation program. The transformation program aims to streamline IT systems as well as the further development and integration of ING's mobile banking services. These measures are expected to result in a further reduction of the workforce of around 1,400 FTEs (of which 400 external FTEs) over a period of three years.

A reorganisation provision of EUR 191 million is recognised in the segment Commercial Banking following a strategic review of the business portfolio through right-sizing of the equities business, run-off of certain leasing units and further operational improvements in several businesses. These measures are expected to result in a reduction of the workforce of around 1,000 FTE's over a period of three years.

Each of these initiatives will be implemented over a period of several years and the estimate of the reorganisation provisions is inherently uncertain. However, the provisions at balance sheet date represent the best estimate of the expected redundancy costs and are expected to be sufficient to cover these costs.

As at 31 December 2011, the provision for reorganisation, of which EUR 385 million relates to termination benefits, mainly related to Dutch Retail Banking activities and as well as other restructuring activities.

Changes in other provisions

	Litigation		Other		Total	
	2012	2011	2012	2011	2012	2011
Opening balance	255	249	245	136	500	385
Changes in the composition of the group			–109	–2	–109	–2
Additions		12	234	135	234	147
Releases	–13		–6		–19	
Charges	–37	–14	–19	–22	–56	–36
Exchange rate differences	1	–3	–5	10	–4	7
Other changes	–8	11		–12	–8	–1
Closing balance	198	255	340	245	538	500

In general, Reorganisation and Other provisions are of a short-term nature.

The amounts included in Other provisions are based on best estimates with regard to amounts and timing of cash flows required to settle the obligation.

Notes to the consolidated annual accounts of ING Bank continued

Pension and post-employment benefits

Summary of pension benefits

	2012	2011	2010	2009	2008
Defined benefit obligation	**14,541**	10,410	10,424	9,234	9,049
Fair value of plan assets	**15,327**	13,435	11,551	10,208	8,670
	–786	–3,025	–1,127	–974	379
Unrecognised actuarial gains/(losses)	**–2,260**	613	–996	–816	–1,117
Net liability (asset) recognised in the balance sheet	**–3,046**	–2,412	–2,123	–1,790	–738
Presented as					
– Other liabilities	**100**	99	143	240	374
– Other assets	**–3,146**	–2,511	–2,266	–2,030	–1,112
	–3,046	–2,412	–2,123	–1,790	–738

Summary of post-employment benefits

	2012	2011	2010	2009	2008
Defined benefit obligation	**114**	107	98	86	97
	114	107	98	86	97
Unrecognised past service costs	**1**	1	1	2	1
Unrecognised actuarial gains/(losses)	**–9**	–3	–1	1	
	106	105	98	89	98

ING Bank maintains defined benefit retirement plans in some of the countries of operation. These plans provide benefits that are related to the remuneration and service of employees upon retirement. The benefits in some of these plans are subject to various forms of indexation. The indexation is, in some cases, at the discretion of management; in other cases it is dependent upon the sufficiency of plan assets.

Several Dutch subsidiaries of ING Bank participate in the Stichting Pensioenfonds ING, in which also Dutch subsidiaries of ING Verzekeringen N.V. participate. ING Bank N.V. and ING Verzekeringen N.V. are jointly and severally liable for deficits in the Stichting Pensioenfonds ING if the coverage ratio is below certain levels.

Annual contributions are paid to the funds at a rate necessary to adequately finance the accrued liabilities of the plans calculated in accordance with local legal requirements. Plans in all countries comply with applicable local regulations governing investments and funding levels.

ING Bank provides other post-employment employee benefits to certain employees and former employees. These are primarily post-employment healthcare benefits and discounts on ING products provided to employees and former employees.

Certain group companies sponsor defined contribution pension plans. The assets of all ING Bank's defined contribution plans are held in independently administered funds. Contributions are generally determined as a percentage of pay. These plans do not give rise to balance sheet provisions, other than relating to short-term timing differences included in current liabilities.

Actuarial gains and losses related to pensions and post-employment benefits for the year ended 31 December 2012 includes EUR 1,143 million (2011: EUR 1,279 million; 2010: EUR 675 million; 2009: EUR 283 million; 2008: EUR –1,678 million) experience gain adjustments for assets and EUR –71 million (2011: EUR –43 million; 2010: EUR 117 million; 2009: EUR 37 million; 2008: EUR 73 million) experience gain adjustments for liabilities.

Notes to the consolidated annual accounts of ING Bank continued

Changes in defined benefit obligation

	Pension benefits		Post-employment benefits other than pensions	
	2012	2011	**2012**	2011
Opening balance	**10,410**	10,424	**107**	98
Current service cost	**181**	220	**–2**	3
Interest cost	**548**	550	**4**	5
Participants contributions	**2**	2		
Benefits paid	**–386**	–416	**–1**	–1
Actuarial gains and losses	**4,107**	–356	**6**	1
Past service cost	**–2**	–9		
Changes in the composition of the group and other changes		17		
Effect of curtailment or settlement	**–335**	–47		
Exchange rate differences	**16**	25		1
Closing balance	**14,541**	10,410	**114**	107
Relating to				
– funded plans	**14,462**	10,355		
– unfunded plans	**79**	55	**114**	107
	14,541	10,410	**114**	107

Actuarial gains and losses in 2012 include mainly the impact of the change in the discount rate from 5.3% to 3.7% as explained below.

In 2012, ING finalised its agreement on a new pension scheme for employees in the Netherlands, following acceptance by both the unions and their members. The new pension scheme will take effect on 1 January 2014 and will apply to the approximately 19,000 staff members in the Netherlands of ING Bank and WestlandUtrecht Bank as well as to the approximately 8,000 staff members in the Netherlands of Insurance/Investment Management (IM). Under the agreement, two new separate pension funds will be created, one for banking and one for Insurance/IM. The new scheme qualifies as a defined contribution under IFRS and will replace the existing defined benefit scheme in the Netherlands.

The key elements of the new scheme are:
- ING contributes a yearly pre-defined premium to the funds. The employee contribution to the new scheme will gradually increase to one-third of the base pension premium;
- The minimum salary level at which pensions are provided will be lowered to EUR 15,000;
- Pension benefit will be based on average wage over period of employment with a 2% annual accrual rate;
- The pension funds, not ING, will bear responsibility for funding adequacy; ING to pay an additional risk premium;
- Responsibility for inflation indexation will move to the new funds; and
- Standard retirement age will be raised to 67.

As of the start of the new defined contribution plan on 1 January 2014, the current defined benefit plan will stop accruing new pension benefits. Accruals built up under the defined benefit plan up to that date will remain valid. The change to the new pension scheme represents a curtailment under IFRS and has resulted in a release of provisions previously taken by ING to cover estimated future liabilities in the existing defined benefit plan that are now no longer required. This release amounts to a one-off after tax gain of EUR 218 million (EUR 291 before tax). The curtailment is included in the line Staff expenses in 2012. This curtailment relates to the current defined benefit plan in The Netherlands, which represents approximately 75% of the above defined benefit obligation.

In 2011, effect of curtailment or settlement relates mainly to a curtailment in relation to the restructuring in Retail Netherlands.

The estimated unrecognised past service cost and unrecognised actuarial gains and losses for the defined benefit plans will be deducted from Shareholder's equity as at 1 January 2013. Reference is made to 'Amendments to IAS 19 Employee Benefits' in the section 'Upcoming changes in IFRS-EU in 2013' on page 23.

Notes to the consolidated annual accounts of ING Bank continued

Changes in fair value of plan assets

	Pension benefits	
	2012	2011
Opening balance	**13,435**	11,551
Expected return on plan assets	**561**	569
Employer's contribution	**510**	380
Participants contributions	**9**	15
Benefits paid	**–383**	–396
Actuarial gains and losses	**1,164**	1,266
Changes in the composition of the group and other changes		9
Exchange rate differences	**31**	41
Closing balance	**15,327**	13,435

The actual return on the plan assets amounts to EUR 1,725 million (2011: EUR 1,835 million).

No plan assets are expected to be returned to ING Bank during 2013.

Pension investment strategy
The primary financial objective of ING Employee Benefit Plans (the Plans) is to secure participant retirement benefits. As such, the key objective in the Plans' financial management is to promote stability and, where appropriate, growth in funded status (i.e. the ratio of market value of assets to liabilities). The investment strategy for the Plans' portfolio of assets (the Funds') balances the requirement to generate returns with the need to control risk. The asset mix is recognised as the primary mechanism to influence the reward and risk structure of the Funds in an effort to accomplish the Plans' funding objectives. Desirable target allocations amongst identified asset classes are set and within each asset class, careful consideration is given to balancing the portfolios among industry sectors, geographical areas, interest rate sensitivity, dependence on economic growth, currency and other factors affecting investment returns. The assets are managed by professional investment firms. They are bound by precise mandates and are measured against specific benchmarks. Factors considered by the fund managers include, balancing security concentration, investment style, and reliance on particular active investment strategies. The asset mixes of the Funds are reviewed on a regular basis. Generally, the Funds' asset mixes will be rebalanced to the target mixes as individual portfolios approach their minimum or maximum levels.

Categories of plan assets in percentages

	Target allocation	Percentage of plan assets		Weighted average expected long-term rate of return	
	2013	**2012**	2011	**2012**	2011
Equity securities	**19**	**19**	18	**6.0**	6.9
Debt securities	**78**	**78**	76	**2.8**	3.8
Other	**3**	**3**	6	**4.3**	5.2
	100	**100**	100	**4.2**	5.7

Equity securities include ING Groep N.V. ordinary shares of nil (0.00% of total plan assets) at 31 December 2012 (2011: nil, 0.00% of total plan assets). Debt securities include investments in ING Groep N.V. of EUR 30 million (0.20% of total plan assets) as at 31 December 2012 (2011: EUR 28 million, 0.30% of total plan assets). Other includes mainly real estate. Plan assets do not include any real estate or other assets used by the Bank.

Determination of expected return on assets
An important aspect of financial reporting is the assumption used for return on assets (ROA). The ROA is updated at least annually, taking into consideration the Plans' asset allocation, historical returns on the types of assets held in the Funds, and the current economic environment. Based on these factors, it is expected that the Funds' assets will earn an average annual percentage in the long-term. This estimate takes into account a reduction for administrative expenses and non-ING investment manager fees paid from the Funds. For estimation purposes, it is assumed the long-term asset mixes will be consistent with the current mixes. Changes in the asset mixes could impact the amount of recognised pension income or expense, the funded status of the Plan, and the need for future cash contributions.

Notes to the consolidated annual accounts of ING Bank continued

Weighted averages of basic actuarial assumptions in annual % as at 31 December				
	Pension benefits		Post-employment benefits other than pensions	
	2012	2011	**2012**	2011
Discount rates	**3.70**	5.30	**2.30**	4.10
Mortality rates	**0.80**	1.00	**0.80**	1.00
Expected rates of salary increases (excluding promotion increases)	**2.20**	2.00	**2.00**	2.70
Medical cost trend rates			**5.00**	6.10
Indexation	**1.80**	1.80	**2.00**	2.00

The assumptions above are weighted by defined benefit obligations. The rates used for salary developments, interest discount factors and other adjustments reflect country-specific conditions.

The discount rate is the weighted average of the discount rates that are applied in different regions where the Bank has defined benefit pension plans. The discount rate is based on a methodology that uses market yields on high quality corporate bonds of the specific regions with durations matching the pension liabilities as key input. Market yields of high quality corporate bonds reflect the yield on corporate bonds with an AA rating for durations where such yields are available. An extrapolation is applied in order to extrapolate the yield to the longer durations for which no AA-rated corporate bonds are available. As a result of the limited availability of long-duration AA-rated corporate bonds, extrapolation is an important element of the determination of the discount rate. The extrapolation was further refined for the eurozone in 2012. The discount rate decreased from 5.3% in 2011 to 3.7% in 2012. This decrease reflects the decrease in market interest rates, the narrowing of credit spreads and the above refinement of the extrapolation. The decrease in the discount rate resulted in an increase of the defined benefit obligation of approximately EUR 4 billion, which includes EUR –1 billion as a result of the above refinement of the extrapolation; this refinement of the extrapolation is part of the ‘Actuarial gains and losses’ and did not impact Shareholder’s equity and/or Net result. As at 31 December 2012 the methodology remained to be based on AA-rated corporate bond yields. Discussions are ongoing, both in the industry and at the IASB, on whether the definition of 'high quality corporate bonds' for setting the discount rate for defined benefit pension liabilities should be broader than only AA-rated corporate bonds. ING Bank will reconsider the methodology for setting the discount rate if and when appropriate.

An increase of 1% in the assumed medical cost trend rate for each future year would have resulted in an additional accumulated defined benefit obligation of EUR 7 million as at 31 December 2012 (2011: EUR 5 million) and an increase in the charge for the year of EUR 1 million (2011: EUR 1 million). A decrease of 1% in the medical cost trend rate for each future year would have resulted in lower defined benefit obligation of EUR 7 million as at 31 December 2012 (2011: EUR 5 million) and a decrease in the charge for the year of EUR 2 million (2011: EUR 2 million).

At 31 December 2012, the actuarial assumption for future indexation for inflation is 1.8% (at 31 December 2011 1.8%). This percentage is mainly based on the expected inflation and the best estimate assumption for future indexation in the pension plan in the Netherlands. The best estimate assumption for future indexation reflects the uncertain circumstances and the impact thereof on the probability of granting indexation in the short-term future.

Expected cash flows
For 2013 the expected contributions to pension plans are EUR 526 million.

The following benefit payments, which reflect expected future service as appropriate, are expected to be made by the plans:

Benefit payments	
	Pension benefits
2013	**352**
2014	**340**
2015	**337**
2016	**354**
2017	**386**
Years 2018-2022	**2,251**

Notes to the consolidated annual accounts of ING Bank continued

19 ASSETS BY CONTRACTUAL MATURITY

Amounts presented in these tables by contractual maturity are the amounts as presented in the balance sheet.

Assets by contractual maturity

2012	Less than 1 month [1]	1–3 months	3–12 months	1–5 years	Over 5 years	Maturity not applicable	Total
Cash and balances with central banks	15,447						15,447
Amounts due from banks	25,636	3,630	3,894	5,597	296		39,053
Financial assets at fair value through profit and loss							
– trading assets	33,877	7,603	11,222	29,787	31,831		114,320
– non-trading derivatives	231	115	650	3,971	4,108		9,075
– designated as at fair value through profit and loss	288	40	806	722	912		2,768
Investments							
– available-for-sale	2,991	3,256	9,442	30,955	25,001	2,634	74,279
– held-to-maturity	1,267	1,168	1,007	2,774	329		6,545
Loans and advances to customers	63,981	13,752	31,944	125,556	306,313		541,546
Intangible assets			175	350		1,253	1,778
Assets held for sale [2]		6,781					6,781
Other assets	8,439	2,184	4,914	1,860	3,695		21,092
Remaining assets (for which maturities are not applicable) [3]						3,384	3,384
Total assets	152,157	38,529	64,054	201,572	372,485	7,271	836,068

(1) Includes assets on demand.
(2) Assets held for sale consist of the assets of the disposal groups classified as held for sale as disclosed in Note 10 'Assets and liabilities held for sale'. For these assets and liabilities, the underlying contractual maturities are no longer relevant to ING. For businesses for which a binding sale agreement exists, all related assets and liabilities held for sale are classified in accordance with the agreed or expected closing date. For other businesses, for which no sale agreement exists, assets and liabilities held for sale are included in 'maturity not applicable'.
(3) Included in remaining assets for which maturities are not applicable are property and equipment, real estate investments and investments in associates. Due to their nature remaining assets consist mainly of assets expected to be recovered after more than 12 months.

Assets by contractual maturity

2011	Less than 1 month [1]	1–3 months	3–12 months	1–5 years	Over 5 years	Maturity not applicable	Total
Cash and balances with central banks	28,112						28,112
Amounts due from banks	26,168	4,420	5,211	8,146	1,378		45,323
Financial assets at fair value through profit and loss							
– trading assets	40,037	7,797	12,062	25,727	37,553		123,176
– non-trading derivatives	358	217	1,038	4,495	3,968		10,076
– designated as at fair value through profit and loss	58	78	766	1,031	905		2,838
Investments							
– available-for-sale	3,395	2,513	8,445	32,121	25,995	2,466	74,935
– held-to-maturity	285	999	1,029	6,314	241		8,868
Loans and advances to customers	72,243	14,703	34,874	144,691	311,058		577,569
Intangible assets			157	317		1,269	1,743
Assets held for sale [2]		62,483					62,483
Other assets	8,714	2,331	6,010	1,879	3,429		22,363
Remaining assets (for which maturities are not applicable) [3]						3,679	3,679
Total assets	179,370	95,541	69,592	224,721	384,527	7,414	961,165

(1) Includes assets on demand.
(2) Assets held for sale consist of the assets of the disposal groups classified as held for sale as disclosed in Note 10 'Assets and liabilities held for sale'. For these assets and liabilities, the underlying contractual maturities are no longer relevant to ING. For businesses for which a binding sale agreement exists, all related assets and liabilities held for sale are classified in accordance with the agreed or expected closing date. For other businesses, for which no sale agreement exists, assets and liabilities held for sale are included in 'maturity not applicable'.
(3) Included in remaining assets for which maturities are not applicable are property and equipment, real estate investments and investments in associates. Due to their nature remaining assets consist mainly of assets expected to be recovered after more than 12 months.

20 LIABILITIES BY MATURITY

The tables below include all financial liabilities by maturity based on contractual, undiscounted cash flows. Furthermore, the undiscounted future coupon interest on financial liabilities payable will be included in a separate line and in the relevant maturity bucket. Derivative liabilities are included on a net basis if cash flows are settled out. For other derivative liabilities the contractual gross cash flow payable is included.

Non-financial liabilities are included based on a breakdown of the balance sheet amounts by expected maturity. Reference is made to the Liquidity risk paragraph in the 'Risk management' section for a description on how liquidity risk is managed.

Liabilities by maturity

2012	Less than 1 month [1]	1-3 months	3-12 months	1-5 years	Over 5 years	Adjust-ment [2]	Total
Subordinated loans	650		28	4,581	10,615	533	16,407
Debt securities in issue	12,520	22,543	22,267	44,411	29,387	3,561	134,689
Amounts due to banks	24,016	3,875	3,305	2,757	4,751		38,704
Customer deposits and other funds on deposit	386,170	27,364	38,098	6,239	2,034	458	460,363
Financial liabilities at fair value through profit and loss							
– other trading liabilities	20,040	2,668	1,404	1,992	4,168	1,245	31,517
– trading derivatives	2,934	3,516	10,365	27,178	21,614	–13,472	52,135
– non-trading derivatives	520	749	3,403	11,204	8,106	–8,063	15,919
– designated as at fair value through profit and loss	494	242	938	6,303	5,356	66	13,399
Financial liabilities	447,344	60,957	79,808	104,665	86,031	–15,672	763,133
Liabilities held for sale [3]		14,244					14,244
Other liabilities	8,871	2,770	5,580	2,574	1,384		21,179
Non-financial liabilities	8,871	17,014	5,580	2,574	1,384		35,423
Total liabilities	456,215	77,971	85,388	107,239	87,415	–15,672	798,556
Coupon interest due on financial liabilities	1,737	936	4,185	8,890	41,831		57,579

[1] Includes liabilities on demand.
[2] This column reconciles the contractual undiscounted cash flows on financial liabilities to the balance sheet values. The adjustments mainly relate to the impact of discounting, and for derivatives, to the fact the contractual cash flows are presented on a gross basis (unless the cash flows are actually settled net).
[3] Liabilities held for sale consist of the liabilities of the disposal groups classified as held for sale as disclosed in Note 10 'Assets and liabilities held for sale'. For these assets and liabilities, the underlying contractual maturities are no longer relevant to ING. For businesses for which a binding sale agreement exists, all related assets and liabilities held for sale are classified in accordance with the agreed or expected closing date. For other businesses, for which no sale agreement exists, assets and liabilities held for sale are included in 'maturity not applicable'.

Notes to the consolidated annual accounts of ING Bank continued

Liabilities by contractual maturity

2011	Less than 1 month [1]	1–3 months	3–12 months	1–5 years	Over 5 years	Adjust-ment [2]	Total
Subordinated loans	1,634		23	3,988	12,252	511	18,408
Debt securities in issue	28,883	24,725	12,723	42,162	20,469	1,964	130,926
Amounts due to banks	49,608	11,691	3,825	1,808	5,317	–16	72,233
Customer deposits and other funds on deposit	397,750	25,895	40,658	12,205	2,080	776	479,364
Financial liabilities at fair value through profit and loss							
– other trading liabilities	38,507	3,109	907	2,774	5,705	633	51,635
– trading derivatives	3,026	4,373	11,493	26,834	23,103	–12,782	56,047
– non-trading derivatives	769	620	3,868	11,518	7,421	–6,035	18,161
– designated as at fair value through profit and loss	301	398	2,062	6,006	4,526	–272	13,021
Financial liabilities	520,478	70,811	75,559	107,295	80,873	–15,221	839,795
Liabilities held for sale [3]		64,265					64,265
Other liabilities	8,474	2,482	6,587	3,071	1,431		22,045
Non-financial liabilities	8,474	66,747	6,587	3,071	1,431		86,310
Total liabilities	528,952	137,558	82,146	110,366	82,304	–15,221	926,105
Coupon interest due on financial liabilities	6,799	1,053	4,550	10,364	41,339		64,105

(1) Includes liabilities on demand.
(2) This column reconciles the contractual undiscounted cash flows on financial liabilities to the balance sheet values. The adjustments mainly relate to the impact of discounting, and for derivatives, to the fact the contractual cash flows are presented on a gross basis (unless the cash flows are actually settled net).
(3) Liabilities held for sale consist of the liabilities of the disposal groups classified as held for sale as disclosed in Note 10 'Assets and liabilities held for sale'. For these assets and liabilities, the underlying contractual maturities are no longer relevant to ING. For businesses for which a binding sale agreement exists, all related assets and liabilities held for sale are classified in accordance with the agreed or expected closing date. For other businesses, for which no sale agreement exists, assets and liabilities held for sale are included in 'maturity not applicable'.

21 TRANSFER OF FINANCIAL ASSETS

The majority of ING's financial assets, that have been transferred, but do not qualify for derecognition are debt instruments used in securities lending or sale and repurchase transactions. There are no significant assets and liabilities recognised as a result of continuing involvement in transferred assets. Reference is made to Note 25 'Special purpose entities and securitisation'.

Transfer of financial assets

	Securities lending		Sale and repurchase	
2012	**Equity**	**Debt**	**Equity**	**Debt**
Transferred assets at carrying amount				
Amounts due from banks				**1,321**
Financial assets at fair value through profit and loss [1]	**167**	**39**	**8,808**	**29,904**
Investments		**35**		**14,118**
Loans and advances to customers				**5,527**
Associated liabilities at carrying amount				
Amounts due to banks	**n/a**	**n/a**		**5,723**
Customer deposits and other funds on deposit	**n/a**	**n/a**		**797**
Financial liabilities at fair value through profit and loss	**n/a**	**n/a**	**1,861**	**18,193**

(1) Including assets obtained in Reverse repurchase transactions.

Notes to the consolidated annual accounts of ING Bank continued

Transfer of financial assets

	Securities lending		Sale and repurchase	
2011	Equity	Debt	Equity	Debt
Transferred assets at carrying amount				
Amounts due from banks				5,192
Financial assets at fair value through profit and loss [(1)]	591	47	12,258	30,398
Investments		143		21,183
Loans and advances to customers				3,006
Associated liabilities at carrying amount				
Amounts due to banks	n/a	n/a		11,145
Customer deposits and other funds on deposit	n/a	n/a		5,730
Financial liabilities at fair value through profit and loss	n/a	n/a	4,768	33,243

[(1)] Including assets obtained in Reverse repurchase transactions.

The tables above do not include assets relating to the Illiquid Assets Back-up Facility that ING has agreed with the Dutch State. Reference is made to Note 30 'Related parties' for detailed disclosure on the facility.

22 DERIVATIVES AND HEDGE ACCOUNTING

Use of derivatives and hedge accounting

As described in the 'Risk management' section, ING Bank uses derivatives (principally interest rate swaps and cross currency interest rate swaps) for economic hedging purposes in the management of its asset and liability portfolios and structural positions. The objective of economic hedging is to enter into positions with an opposite risk profile to an identified exposure to reduce that exposure. The impact of ING Bank's hedging activities is to optimise the overall cost to ING Bank of accessing debt capital markets and to mitigate the market risk which would otherwise arise from structural imbalances in the duration and other profiles of its assets and liabilities. In addition, hedging activities are undertaken to hedge against the interest rate risk in the mortgage offer period in relation to retail mortgages and to lock in the interest margin in relation to interest bearing assets and the related funding.

The accounting treatment of hedge transactions varies according to the nature of the instrument hedged and whether the hedge qualifies under the IFRS-EU hedge accounting rules. Derivatives that qualify for hedge accounting under IFRS-EU are classified and accounted in accordance with the nature of the instrument hedged and the type of IFRS-EU hedge model that is applicable. The three models applicable under IFRS-EU are: fair value hedge accounting, cash flow hedge accounting and net investment hedge accounting. These are described under the relevant headings below. The company's detailed accounting policies for these three hedge models are set out in the section 'Principles of valuation and determination of results'.

To qualify for hedge accounting under IFRS-EU, strict criteria must be met. Certain hedges that are economically effective from a risk management perspective do not qualify for hedge accounting under IFRS-EU. The fair value changes of derivatives relating to such non-qualifying hedges are taken to the profit and loss account. However, in certain cases, the Bank mitigates the profit and loss account volatility by designating hedged assets and liabilities at fair value through profit and loss. If hedge accounting is applied under IFRS-EU, it can arise that during the hedge a hedge relationship no longer qualifies for hedge accounting, and hedge accounting cannot be continued, even if the hedge remains economically effective. As a result, the volatility arising from undertaking economic hedging in the profit and loss account may be higher than would be expected from an economic point of view.

With respect to exchange rate and interest rate derivative contracts, the notional or contractual amount of these instruments is indicative of the nominal value of transactions outstanding at the balance sheet date; however they do not represent amounts at risk. ING Bank uses credit derivatives to manage its exposure to credit risk, including total return swaps and credit default swaps, to sell or buy protection for credit risk exposures in the loan, investment and trading portfolios. Hedge accounting is not applied in relation to credit derivatives.

Fair value hedge accounting

ING Bank's fair value hedges principally consist of interest rate swaps and cross-currency interest rate swaps that are used to protect against changes in the fair value of fixed-rate instruments due to movements in market interest rates.

Gains and losses on derivatives designated under fair value hedge accounting are recognised in the profit and loss account. The effective portion of the fair value change on the hedged item is also recognised in the profit and loss account. As a result, only the net accounting ineffectiveness has an impact on the net result.

Notes to the consolidated annual accounts of ING Bank continued

For the year ended 31 December 2012, ING Bank recognised EUR –470 million (2011: EUR –1,122 million) of fair value changes on derivatives designated under fair value hedge accounting in the profit and loss account. This amount was offset by EUR 579 million (2011: EUR 1,155 million) fair value changes recognised on hedged items. This resulted in EUR 109 million net accounting ineffectiveness recognised in the profit and loss account. As at 31 December 2012 the fair values of outstanding derivatives designated under fair value hedge accounting was EUR –5,967 million (2011: EUR –6,283 million), presented in the balance sheet as EUR 2,556 million (2011: EUR 2,885 million) positive fair values under assets and EUR 8,523 million (2011: EUR 9,168 million) negative fair values under liabilities.

ING Bank applies fair value hedge accounting to portfolio hedges of interest rate risk (macro hedging) under the EU 'carve out' of IFRS-EU. 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 IFRS-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 Bank applies the IFRS-EU 'carve-out' to its retail operations in which the net exposure of retail funding (savings and current accounts) and retail lending (mortgages) is hedged. The hedging activities are designated under a portfolio fair value hedge on the mortgages using the IFRS-EU provisions.

Cash flow hedge accounting
ING Bank's cash flow hedges principally consist of (forward) interest rate swaps and cross-currency interest rate swaps that are used to protect against its exposure to variability in future interest cash flows on non-trading assets and liabilities that bear interest at variable rates or are expected to be refunded or reinvested in the future. The amounts and timing of future cash flows, representing both principal and interest flows, are projected for each portfolio of financial assets and liabilities, based on contractual terms and other relevant factors including estimates of prepayments and defaults. The aggregate principal balances and interest cash flows for the respective portfolios form the basis for identifying the notional amount subject to interest rate risk that is designated under cash flow hedge accounting.

Gains and losses on the effective portions of derivatives designated under cash flow hedge accounting are recognised in Shareholder's equity. Interest cash flows on these derivatives are recognised in the profit and loss account in interest result consistent with the manner in which the forecast cash flows affect net result. The gains and losses on ineffective portions of such derivatives are recognised immediately in the profit and loss account.

For the year ended 31 December 2012, ING Bank recognised EUR 60 million (2011: EUR –182 million) in equity as effective fair value changes on derivatives under cash flow hedge accounting. The balance of the cash flow hedge reserve in equity as at 31 December 2012 was EUR –1,048 million (2011: EUR –1,104 million) gross and EUR –761 million (2011: EUR–821 million) after deferred tax. This cash flow hedge reserve will fluctuate with the fair value changes of the underlying derivatives and will be reflected in the profit and loss account under Interest income/ expense over the remaining term of the underlying hedged items. The cash flow hedge reserve relates to a large number of derivatives and hedged items with varying maturities up to 29 years, with the largest concentration in the range of 1 year to 5 years. Accounting ineffectiveness on derivatives designated under cash flow hedge accounting resulted in a gain of EUR 17 million (2011: EUR 1 million loss), that was recognised in the profit and loss account.

As at 31 December 2012, the fair value of outstanding derivatives designated under cash flow hedge accounting was EUR –1,152 million (2011: EUR –1,985 million), presented in the balance sheet as EUR 4,914 million (2011: EUR 4,069 million) positive fair values under assets and EUR 6,066 million (2011: EUR 6,054 million) negative fair values under liabilities.

As at 31 December 2012 the fair value of outstanding non-derivatives designated as hedging instruments for cash flow hedge accounting purposes was EUR 267 million (2011: nil).

Included in Interest income and interest expense on non-trading derivatives is EUR 2,291 million (2011: EUR 2,630 million) and EUR 2,513 million (2011: EUR 2,821 million), respectively, relating to derivatives used in cash flow hedges.

Hedges of net investments in foreign operations
ING Bank's net investment hedges principally consist of derivatives (including currency forwards and swaps) and non-derivative financial instruments such as foreign currency denominated funding that are used to protect against foreign currency exposures on foreign subsidiaries.

Gains and losses on the effective portions of derivatives designated under net investment hedge accounting are recognised in Shareholder's equity. The balance in equity is recognised in the profit and loss account when the related foreign subsidiary is disposed. The gains and losses on ineffective portions are recognised immediately in the profit and loss account.

Notes to the consolidated annual accounts of ING Bank continued

As at 31 December 2012, the fair values of outstanding derivatives designated under net investment hedge accounting was EUR –24 million (2011: EUR –10 million), presented in the balance sheet as EUR 47 million (2011: EUR 136 million) positive fair values under assets and EUR 71 million (2011: EUR 146 million) negative fair values under liabilities.

As at 31 December 2012, there were EUR 283 million (2011: EUR 1,180 million) non-derivatives designated as hedging instruments for net investment hedge accounting purposes.

Accounting ineffectiveness recognised in the profit and loss account for the year ended 31 December 2012 on derivatives and non-derivatives designated under net investment hedge accounting was nil (2011: EUR 8 million).

23 ASSETS NOT FREELY DISPOSABLE

The assets not freely disposable consist primarily of interest bearing securities pledged to secure deposits from De Nederlandsche Bank (the Dutch central bank) and other banks and serve to secure margin accounts and are used for other purposes required by law. The assets not freely disposable are as follows:

Assets not freely disposable

	2012	2011
Investments	**731**	1,359
Loans and advances to customers	**25,372**	28,417
Banks	**16,420**	18,033
Other assets	**1,223**	4,431
	43,746	52,240

Banks include Amounts due from banks and balances with central banks. In some jurisdictions ING Bank N.V. has an obligation to maintain a reserve with central banks.

Loans and advances to customers that have been pledged as collateral for liquidity purposes, amount in the Netherlands to EUR 8 billion (2011: nil), in Germany to EUR 5 billion (2011: EUR 5 billion), in Spain to EUR 1 billion (2011: nil) and in the United States to nil (2011: EUR 9 billion). The amount in 2012 for the Netherlands (2011: United States) includes the loan to the Dutch State in connection with the Illiquid Assets Back-Up Facility agreement as disclosed in Note 30 'Related parties'.

The table does not include assets relating to securities lending as well as sale and repurchase transactions. Reference is made to Note 21 'Transfer of financial assets'.

There are no terms and conditions relating to the collateral represented in the above table which are individually significant.

24 CONTINGENT LIABILITIES AND COMMITMENTS

In the normal course of business ING Bank is party in activities whose risks are not reflected in whole or in part in the consolidated financial statements. In response to the needs of its customers, the Bank offers financial products related to loans. These products include traditional off-balance sheet credit-related financial instruments.

Contingent liabilities and commitments

2012	Less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Contingent liabilities in respect of						
– discounted bills	**1**					**1**
– guarantees	**17,427**	**388**	**924**	**1,140**	**4,155**	**24,034**
– irrevocable letters of credit	**7,221**	**5,747**	**1,266**	**312**	**6**	**14,552**
– other	**376**	**29**	**90**	**3**		**498**
	25,025	**6,164**	**2,280**	**1,455**	**4,161**	**39,085**
Irrevocable facilities	**34,380**	**17,582**	**2,697**	**26,128**	**5,762**	**86,549**
	59,405	**23,746**	**4,977**	**27,583**	**9,923**	**125,634**

Notes to the consolidated annual accounts of ING Bank continued

Contingent liabilities and commitments

2011	Less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Contingent liabilities in respect of						
– discounted bills	1	1				2
– guarantees	18,614	867	820	1,484	3,832	25,617
– irrevocable letters of credit	9,271	6,156	1,569	193	17	17,206
– other	452	45	65	8		570
	28,338	7,069	2,454	1,685	3,849	43,395
Irrevocable facilities	35,972	14,858	5,211	24,354	5,793	86,188
	64,310	21,927	7,665	26,039	9,642	129,583

Guarantees relate both to credit and non-credit substitute guarantees. Credit-substitute guarantees are guarantees given by ING Bank 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 Bank 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 a third-party for a customer's foreign and domestic trade transactions in order to finance a shipment of goods. ING Bank's credit risk in these transactions is limited since these transactions are collateralised by the commodity shipped and are of a short duration.

Other contingent liabilities include acceptances of bills and are of a short-term nature. Other contingent liabilities also include contingent liabilities resulting from the normal operations of the Real estate business including obligations under development and construction contracts. None of the items included in Other contingent liabilities are individually significant.

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 Bank'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.

Furthermore, ING Bank leases assets from third parties under operating leases as lessee. The future rental commitments to be paid under non–cancellable operating leases are as follows:

Future rental commitments for operating lease contracts

2013	**206**
2014	**156**
2015	**143**
2016	**121**
2017	**87**
Years after 2017	**175**

25 SPECIAL PURPOSE ENTITIES AND SECURITISATION

Securitisation

ING Bank as originator

ING Bank enters into synthetic securitisation programmes in order to reduce credit risk on certain assets. In synthetic securitisations, ING Bank enters into a credit default swap with securitisation Special Purpose Entities (SPEs), in relation to which ING Bank purchases credit protection in respect of residential mortgage loans and loans to small and medium-sized enterprises. The SPEs have in turn hedged their exposure with investors through the issue of credit linked notes or credit linked commercial paper. As a result of these transactions, ING Bank has transferred a substantial part of the credit risk related to these loan portfolios to third-party investors. In general, the third-party investors in securities issued by the SPE have recourse only to the assets of the SPE and not to ING Bank.

After securitisation of these assets ING Bank continues to recognise them on its balance sheet under Loans and advances to customers. These transactions are therefore not off-balance sheet arrangements.

Notes to the consolidated annual accounts of ING Bank continued

Assets under synthetic securitisation programmes		
	2012	2011
Loans to small and medium-sized enterprises	**656**	5,251
Mortgages	**3,878**	6,245
Total	**4,534**	11,496

In 2012, two synthetic securitisation have been unwound. The balance sheet and profit and loss account were not impacted by the unwinding.

In addition, ING Bank has originated various securitisations with approximately EUR 90 billion of AAA rated notes and subordinated notes, of which approximately EUR 3.5 billion is held by third parties. The underlying exposures are residential mortgages and SME loans. These securitisations are consolidated by ING Bank. Apart from the third party funding, these securitisations did not impact ING Bank's consolidated balance sheet and profit and loss.

ING Bank as sponsor of multi-seller conduit
In the normal course of business, ING Bank structures financing transactions for its clients by assisting them in obtaining sources of liquidity by selling the clients' receivables or other financial assets to an SPE. The SPE issues asset-backed commercial paper to the market to fund the purchases. ING Bank, in its role as administrative agent, facilitates these transactions by providing structuring, accounting, funding and operations services.

ING Bank supports the commercial paper programmes by providing the SPE with short-term standby liquidity facilities. These liquidity facilities are intended primarily to cover temporarily disruptions in the commercial paper market. Once drawn these facilities bear normal credit risk. A number of programmes are supported by granting structured liquidity facilities to the SPE, in which ING Bank covers at least some of the credit risk incorporated in these programmes itself (in addition to normal liquidity facilities), and might suffer credit losses as a consequence. Furthermore, under a Programme Wide Credit Enhancement ING Bank guarantees to a limited amount all remaining losses incorporated in the SPE to the commercial paper investors. All facilities, which vary in risk profile, are granted to the SPE subject to normal ING Bank credit and liquidity risk analysis procedures. The fees received for services provided and for facilities are charged subject to market conditions. The SPE is included in the consolidation of ING Bank. These transactions are therefore not off-balance sheet arrangements.

The normal non-structured standby liquidity facilities and the structured facilities are reported under irrevocable facilities.

ING Bank as investor
As part of its investment activities, ING Bank invests in securitisations by purchasing notes or by selling credit protection in the market using credit default swaps from securitisation SPEs. For certain own asset securitisation programmes ING Bank acts as a market maker and holds limited positions in this capacity.

Other entities
ING Bank is also a party to other SPEs used in, for example, structured finance and leasing transactions.

Investment funds
ING Bank as fund manager and investor
ING Bank sets up investment funds for which it acts as a fund manager and sole investor at the inception of the fund. Subsequently, ING Bank will seek third-party investors to invest in the fund, thereby reducing the interest of ING Bank. In general, ING Bank will maintain a small percentage of interest in these funds. These funds are included in the consolidated financial statements of the ING Bank if and when control exists, taking into account both ING Bank's financial interests for own risk and its role as investment manager.

ING Bank as fund manager
ING Bank acts as fund manager for several funds. Fees related to these management activities are charged on an arm's-length basis. In general, as a fund manager ING Bank will hold these funds in a fiduciary capacity. These funds are therefore generally not included in the consolidated financial statements of ING Bank.

Notes to the consolidated annual accounts of ING Bank continued

26 PRINCIPAL SUBSIDIARIES

The principal subsidiaries of ING Bank N.V. and their statutory place of incorporation or primary place of business are as follows:

Bank Mendes Gans N.V.	The Netherlands
ING Lease (Nederland) B.V.	The Netherlands
ING Corporate Investments B.V.	The Netherlands
ING Vastgoed Management Holding B.V.	The Netherlands
ING Commercial Finance B.V.	The Netherlands
WestlandUtrecht Bank N.V.	The Netherlands
ING België N.V.	Belgium
Record Bank N.V.	Belgium
ING Luxembourg S.A.	Luxembourg
ING Bank Slaski S.A.	Poland
ING Financial Holdings Corporation	United States of America
ING Vysya Bank Limited	India
ING Direct N.V.	Germany, Spain, Australia, France, Italy, United Kingdom
ING Bank A.S.	Turkey

27 COMPANIES ACQUIRED AND COMPANIES DISPOSED

Acquisitions effective in 2012

There were no significant acquisitions in 2012.

Disposals effective in 2012

ING Direct Canada

In August 2012, ING announced that it reached an agreement to sell ING Direct Canada for a total consideration of CAD 3.1 billion (approximately EUR 2.4 billion) to Scotiabank, a leading Canadian financial services company. ING Direct Canada had approximately CAD 40 billion in assets. The sale of ING Direct Canada lead to a transaction gain of EUR 1.1 billion after tax. Under the terms of the sale agreement, Scotiabank paid CAD 3.1 billion in cash for all of the shares in ING Bank of Canada, which is the formal name of ING Direct Canada. In addition to this, Scotiabank assumed the responsibility to redeem on 5 March 2013 (which is the first eligible call date after closing) a locally issued lower tier 2 bond (ISIN CA 456847AA01) with a total outstanding amount of CAD 321 million, which carries a guarantee from ING Bank. ING Direct Canada was included in the segment Retail Rest of World. In November 2012 ING announced that the transaction closed.

ING Direct USA

In June 2011 ING announced that it reached an agreement to sell ING Direct USA to Capital One Financial Corporation, a leading US-based financial holding company. In February 2012, ING announced that the transaction closed. Total proceeds of the transaction were approximately USD 9.0 billion (or approximately EUR 6.9 billion), including USD 6.3 billion in cash and USD 2.7 billion in the form of 54.0 million shares in Capital One, based on the share price of USD 49.29 at closing on 16 February 2012. These shares represented a 9.7% stake in Capital One at closing. The transaction resulted in a positive result after tax of EUR 489 million and had a positive impact on ING Bank's core Tier 1 ratio of approximately 80 basis points at closing. This result included the release of the currency translation reserve and the available-for-sale reserve. The net negative cash proceeds from the divestment of ING Direct USA of EUR 10.3 billion (being the net amount of cash received of EUR 4.8 billion and cash included in the divestment of EUR 15.1 billion) is included in the cash flow statement in 'disposals and redemption – group companies. ING Direct USA was previously included in the segment Retail Rest of World (ING Direct). In September 2012, ING sold all of its shares in Capital One Financial Corporation as disclosed in Note 33 'Investment income'.

In connection with the divestment of ING Direct USA, ING also completed the adjustment of the agreement with the Dutch State concerning the structure of the Illiquid Assets Back-up Facility (IABF) which was also announced on 16 June 2011. The amendment serves to de-link the IABF from ING Direct USA by putting ING Bank in its place as counterparty for the Dutch State. The IABF was further amended to ensure a continued alignment between ING and the State regarding exposure to the Alt-A portfolio. Reference is made to Note 30 'Related parties' for details on the original agreement and the amendments made

Disposals announced in 2012 but not yet closed

ING Direct UK

In October 2012 ING announced that it has reached an agreement to sell ING Direct UK to Barclays. Under the terms of the agreement, the GBP 11.6 billion (approximately EUR 13.4 billion) of savings deposits and GBP 5.5 billion of mortgages (approximately EUR 6.4 billion) of ING Direct UK will be transferred to Barclays. The transfer resulted in an after tax loss of EUR 260 million which was recognised in 2012. In 2012, ING Direct UK is classified as held for sale. ING Direct UK is included in the segment Retail Rest of World. On 6 March 2013, ING announced that the transaction closed.

Notes to the consolidated annual accounts of ING Bank continued

Most significant companies disposed in 2012

	ING Direct USA	ING Direct Canada	Total
Sales proceeds			
Cash proceeds [1]	4,777	2,448	7,225
Non-cash proceeds [2]	2,012		2,012
Sales proceeds	6,789	2,448	9,237
Assets			
Cash assets [1]	15,092	1	15,093
Investments	22,874	3,871	26,745
Loans and advances to customers	30,546	26,362	56,908
Amounts due from banks	268	773	1,041
Financial assets at fair value through profit and loss	3	17	20
Property and equipment	76		76
Miscellaneous other assets	2,103	186	2,289
Insurance and investment contracts			
Liabilities			
Amounts due to banks	5	253	258
Customer deposits and other funds on deposit	63,744	29,383	93,127
Miscellaneous other liabilities	132	148	280
Net assets	7,081	1,426	8,507
% disposed	100%	100%	
Net assets disposed	7,081	1,426	8,507
Gain/loss on disposal [3]	743	1,124	1,867

[1] Cash outflow / inflow on group companies in the cash flow statement includes in addition to the cash amounts in this table, also cash outflows / inflows on individually immaterial disposals.
[2] Non-cash proceeds include the shares in Capital One Financial Corporation received.
[3] The gain/loss on disposal comprises the sales proceeds, the net assets disposed, the expenses directly related to the disposal and the realisation of unrealised reserves.

Acquisitions effective in 2011
There were no significant acquisitions in 2011.

Disposals effective in 2011
ING REIM Europe, ING REIM Asia and Clarion Real Estate Securities (CRES)
ING announced in February 2011 that it has reached agreement with CB Richard Ellis Group, Inc., to sell ING REIM Europe, ING REIM Asia and Clarion Real Estate Securities (CRES), ING REIM's US-based manager of listed real estate securities, as well as part of ING's equity interests in funds managed by these businesses.

In July 2011 ING announced the completion of the sale of Clarion Real Estate Securities (CRES) to CB Richard Ellis. The sale resulted in a net gain on divestment of EUR 182 million. CRES was previously included in the segment ING Real Estate.

In October 2011 ING announced that it had completed the sale of REIM's Asian and European operations to US-based CBRE Group Inc., thereby completing the divestment of ING REIM. The divestment of ING REIM has resulted in an after-tax gain on disposal of approximately EUR 245 million. As a result of the agreement at closing ING continues to have certain contingent income and expenses however no significant impact on the result on divestment is expected. REIMs Asian and European operations were previously included in the segment Commercial Banking (ING Real Estate).

Clarion Partners
In June 2011 ING announced the completion of the sale of the private market real estate investment manager of its US operations, Clarion Partners, to Clarion Partners management in partnership with Lightyear Capital LLC for USD 100 million. The sale resulted in a net gain on divestment of EUR 39 million. Clarion Partners was previously included in the segment Commercial Banking (ING Real Estate).

ING Car Lease
In September 2011 ING completed the sale of ING Car Lease to BMW Group fleet management division Alphabet for total proceeds of EUR 696 million and a net transaction result of EUR 347 million. ING Car Lease was previously partly included in both Commercial Banking and Retail Banking.

Notes to the consolidated annual accounts of ING Bank continued

Most significant companies disposed in 2011

	Clarion Partners	Clarion Real Estate securities	ING REIM Asia and Europe	ING Car Lease	Total
Sales proceeds					
Cash proceeds [(1)]	69	224	365	696	1,354
Sales proceeds	69	224	365	696	1,354
Assets					
Loans and advances to customers			1	104	105
Amounts due from banks	1	3	94	103	201
Financial assets at fair value through profit and loss	5				5
Property and equipment				3,275	3,275
Miscellaneous other assets	20	44	82	341	487
Liabilities					
Amounts due to banks				101	101
Customer deposits and other funds on deposit				3,028	3,028
Miscellaneous other liabilities	10	19	116	333	478
Net assets	16	28	61	361	466
% disposed	100%	100%	100%	100%	
Net assets disposed	16	28	61	361	466
Gain/loss on disposal [(2)]	39	182	245	347	813

(1) Cash outflow / inflow on group companies in the cash flow statement includes cash outflows / inflows on individually immaterial disposals in addition to the cash flow presented.
(2) The gain/loss on disposal comprises the sales proceeds, the net assets disposed, the expenses directly related to the disposal and the realisation of unrealised reserves.

Acquisitions effective in 2010
There were no significant acquisitions in 2010.

Disposals effective in 2010
In October 2009 ING reached an agreement to sell its Asian Private Banking business for a consideration of USD 1,463 million (EUR 985 million). The Asia franchise offers private banking services in 11 markets, including Hong Kong, the Philippines and Singapore. The transaction generated a net profit for ING of EUR 332 million. The sale was completed in the first half of 2010. The Asian Private Banking Business was previously included in the segment Retail Rest of World (Retail Asia).

In October 2009 ING reached an agreement to sell its Swiss Private Banking business to Julius Baer for a consideration of EUR 345 million (CHF 520 million) in cash. The transaction generated a net profit for ING of EUR 73 million. The sale was completed in January 2010. The Swiss Private Banking business was included in the segment Retail Rest of World (Retail CE).

In August 2010 ING announced that it has agreed to sell its 50% stake in ING Summit Industrial Fund LP (‘Summit’), a Canadian light industrial property portfolio to a joint venture between KingSett Capital and Alberta Investment Management Corporation (AIMCo). The sale was completed in November 2010. The transaction value for 100% of Summit is CAD 2.0 billion (EUR 1.4 billion) and includes assumed debt. In addition to its direct investment in Summit, ING has an indirect participation through its 7.8% unit holding of ING Industrial Fund (IIF), an ING-managed listed property fund in Australia which owns the remaining 50% in Summit. As part of the transaction, IIF has agreed to simultaneously sell its stake in Summit to KingSett/AIMCo. Consequently, ING’s indirect participation in Summit will end as well. Separately, ING sold ING Real Estate Canada, the manager of Summit, to KingSett/AIMCo for an undisclosed amount. The transaction had no material impact on ING Group’s 2010 results and capital ratios. The transaction resulted in a net loss of EUR 26 million in 2010. Summit was previously included in the segment Commercial Banking (ING Real Estate).

Notes to the consolidated annual accounts of ING Bank continued

Most significant companies disposed in 2010

	Asia Private Banking business [3]	Swiss Private Banking business [3]	ING Summit Industrial Fund LP	Total
Sales proceeds				
Cash proceeds [1]	985	345	333	1,663
Sales proceeds	985	345	333	1,663
Assets				
Cash assets	4	179		183
Investments	41	236		277
Loans and advances to customers	2,390	816	6	3,212
Amounts due from banks	1,171	1,177	39	2,387
Financial assets at fair value through profit and loss	397	8		405
Real estate investments			1,620	1,620
Miscellaneous other assets	20	46	57	123
Liabilities				
Amounts due to banks	180	755	952	1,887
Customer deposits and other funds on deposit	3,098	1,382		4,480
Miscellaneous other liabilities	92	53	52	197
Net assets	653	272	718	1,643
% disposed	100%	100%	50% [4]	
Net assets disposed	653	272	359	1,284
Gain/loss on disposal [2]	332	73	–26	379

[1] Cash outflow / inflow on group companies in the cash flow statement includes cash outflows / inflows on individually immaterial disposals in addition to the cash flow presented.
[2] The gain/loss on disposal comprises the sales proceed, the net assets disposed, the expenses directly related to the disposal and the realisation of unrealised reserves.
[3] As per 31 December 2009 recognised as a disposal group held for sale.
[4] After disposal of the 50% stake ING has no remaining stake in Summit.

28 LEGAL PROCEEDINGS

ING Bank companies are involved in litigation and arbitration proceedings in the Netherlands and in a number of foreign jurisdictions, including the United States, involving claims by and against them which arise in the ordinary course of their businesses, including in connection with their activities as insurers, lenders, employers, investors and taxpayers. In certain of such proceedings, very 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 legal and regulatory proceedings, the Company’s management is of the opinion that neither it nor any of its subsidiaries is aware of any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Company is aware) which may have or have in the recent past had a significant effect on the financial position or profitability of the Company.

Because of the geographic spread of its business, ING may be subject to tax audits in numerous jurisdictions at any point in time. Although ING believes that it has adequately provided for all its tax positions, the ultimate resolution of these audits may result in liabilities which are different from the amounts recognised.

Purported class litigation has been filed in the United States District Court for the Southern District of New York alleging violations of the federal securities laws with respect to disclosures made in connection with the 2007 and 2008 offerings of ING's Perpetual Hybrid Capital Securities. The Court has determined that the claims relating to the 2007 offerings were without merit and has dismissed them. The challenged disclosures that survived the Court's ruling relate solely to the June 2008 offering, and primarily to ING Group’s investments in certain residential mortgage-backed securities. The Court granted an ING motion to dismiss the remaining claims regarding the 2008 offerings. Plaintiffs filed a notice of appeal. At this moment it is not practicable to provide an estimate of the (potential) financial effect.

In January 2010, ING lodged an appeal with the General Court of the European Union against specific elements of the European Commission’s decision regarding ING’s restructuring plan. In its appeal, ING contested the way the Commission has calculated the amount of state aid ING received and the disproportionality of the price leadership restrictions specifically and the disproportionality of restructuring requirements in general. In July 2011, the appeal case was heard orally by the General Court of the European Union. On 2 March 2012, the General Court handed down its judgment in relation to ING Group’s appeal and annulled part of the EC’s state aid decision. Subsequently, the EC filed an appeal against the General Court’s judgment before the Court of Justice of the European Union.

Notes to the consolidated annual accounts of ING Bank continued

In parallel, the EC adopted a decision on 11 May 2012 that re-approved the state aid granted to ING Group as compatible with the internal market on the basis of ING Group's 2009 Restructuring Plan. On the same date, the EC adopted an interim decision which opened an investigation concerning certain amendments and elements of the 2009 Restructuring Plan.

On 24 July 2012, ING announced that the Dutch State and ING were in dialogue with the European Commission on an amended and updated Restructuring Plan to be submitted to the European Commission. However, in order to safeguard its legal rights, ING filed an appeal with the General Court of the European Union against the European Commission's decision of 11 May 2012, which re-approved ING's Restructuring Plan that ING submitted in 2009.

On November 19, 2012, ING Group and the EC announced that the EC had approved amendments to the 2009 Restructuring Plan (the "2012 Amended Restructuring Plan"). With the approval, the Commission has closed its Investigation as announced on 11 May 2012 and ING has withdrawn its appeal at the General Court of the European Union that it filed in July 2012. For principal legal reasons the European Commission will continue with its appeal against the General Court ruling of March 2012. However, the outcome of this Appeal will not affect the EC approval of the, 2012 Amended Restructuring plan.

In January 2011 the Association of Stockholders (Vereniging van Effectenbezitters, 'VEB') has issued a writ alleging that investors were misled by the prospectus that was issued with respect to the September 2007 rights issue of Fortis N.V. (now: Ageas N.V.) against Ageas N.V., the underwriters of such rights issue, including ING Bank, and former directors of Fortis N.V. According to the VEB the prospectus shows substantive incorrect and misleading information. The VEB states that the impact and the risks of the subprime crisis for Fortis and Fortis' liquidity position have been reflected incorrectly in the prospectus. The VEB requests a declaratory decision stating that the summoned parties have acted wrongfully and are therefore responsible for the damages suffered by the investors in Fortis. The amount of damages of EUR 18 billion has not been substantiated yet. ING is defending itself against this claim; at this time ING is not able to assess the outcome of the court proceeding. Therefore at this moment it is not practicable to provide an estimate of the (potential) financial effect of such action.

In July 2011, the Dutch ING Pensioners' Collective Action Foundation (Stichting Collectieve Actie Pensioengerechtigden ING Nederland), together with two trade unions (FNV Bondgenoten and CNV Dienstenbond) and a number of individual pensioners, instituted legal proceedings against ING's decision not to provide funding for indexing pensions insured with Stichting Pensioenfonds ING (the Dutch ING Pension Fund) per 1 January 2011. This claim was rejected by the Court on 9 November 2012. An appeal was lodged against this Court decision. In July 2011, also the Interest Group ING General Managers' Pensions (Belangenvereniging ING-Directiepensioenen), together with a number of individual retired Dutch General Managers of ING, instituted legal proceedings against ING's decision not to provide funding for indexing Dutch General Managers' pensions per 1 January 2011. This claim was rejected by the Court on 22 October 2012. An appeal was lodged against this Court decision. It is not feasible to predict the ultimate outcome of these legal proceedings. The ultimate outcome of these proceedings may result in liabilities and provisions for such liabilities which are different from the amounts recognised. At this moment it is not practicable to provide an estimate of the (potential) financial effect of such proceedings.

In April 2012, Stichting Pensioenfonds ING (the Dutch ING Pension Fund) formally announced to institute arbitration against ING's decision not to provide funding for indexing pensions insured with the Dutch ING Pension Fund per 1 January 2012. Arbitrators awarded 40% of this claim. As a result ING Group agreed to pay EUR 68 million plus interest to the pension fund. The outcome of the arbitration is reflected in the 2012 Annual Accounts.

On 12 June 2012, ING Bank entered into a Settlement Agreement with U.S. Department of the Treasury's Office of Foreign Assets Control (OFAC) and Deferred Prosecution Agreements with the Department of Justice, the United States Attorney's Office for the District of Columbia and the District Attorney of the County of New York (together the "U.S. Authorities") in relation to the investigation by those agencies into compliance with U.S. economic sanctions and U.S. dollar payment practices until 2007. Under the terms of the Deferred Prosecution Agreements, no further action will be taken against ING Bank if it meets the conditions set forth in the agreements during an 18 months period. As part of the settlement, ING Bank has paid a total penalty of EUR 473 million. As announced on 9 May 2012, ING Bank recognised a provision in the first quarter of 2012 by which this issue has been sufficiently covered. ING Bank has cooperated closely and constructively with regulators and other authorities throughout this process. The U.S. Authorities have recognised ING's substantial cooperation in the resolution and ING's efforts and commitment to continuously enhance compliance within the organisation.

Notes to the consolidated annual accounts of ING Bank continued

In December 2005, Interadvies N.V., at the time a subsidiary of ING Bank N.V. (together 'ING') sold Arenda Holding B.V. and five subsidiaries (together 'Arenda') to Amodo Europe N.V. ("Amodo"). In November 2006, Amodo instituted legal proceedings against ING. Amodo claimed that ING informed them incorrectly with respect to the current and future financial status of Arenda at the time of the sale. This claim was rejected by the Court on 1 September 2010 but Amodo lodged an appeal against that Court decision. On 6 November 2012, the Court of Appeal partly awarded the claim of Amodo in an interlocutory judgement. In the interlocutory judgement, the Court of Appeal also instructed both ING and Amodo to submit a calculation of the damages involved to the Court of Appeal. Based on both calculations the Court of Appeal will make a final judgement. ING has the possibility to appeal against the legal grounds on which the final judgement is based. At this moment it is not practicable to provide an estimate of the (potential) financial effect of this proceeding.

29 JOINT VENTURES

Joint ventures are included proportionally in the consolidated financial statements as follows:

Most significant joint ventures

2012	Interest held (%)	Assets	Liabilities	Income	Expenses
Postkantoren B.V.	50	39	13	15	–27
		39	13	15	–27

Most significant joint ventures

2011	Interest held (%)	Assets	Liabilities	Income	Expenses
Postkantoren B.V.	50	57	69	16	21
		57	69	16	21

30 RELATED PARTIES

In the normal course of business, ING Bank 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. Transactions between related parties have taken place on an arm's length basis and include rendering or receiving of services, leases, transfers under finance arrangements and provisions of guarantees or collateral.

Transactions with joint ventures and associates

	Joint ventures		Associates	
	2012	2011	2012	2011
Assets	138	122	2	1,156
Liabilities	21	5	16	12
Income received	2	6	24	144
Expenses paid				20

In addition to the transactions with joint ventures and associates, ING Bank also enters into transactions with ING Group, ING Insurance and its subsidiaries. ING Bank together with ING Insurance forms the ING Group. These transactions vary from financing activities to regular purchases and sales transactions.

For the decrease in 'Associates' reference is made to Note 6 'Investments in associates'.

Transactions with ING Groep N.V. and ING Verzekeringen N.V.

	ING Groep N.V.		ING Verzekeringen N.V.	
	2012	2011	2012	2011
Assets	2,372	2,869	294	1,888
Liabilities	7,886	7,515	4,942	13,211
Income received	289	306	176	542
Expenses paid	828	868	68	338

Liabilities to ING Groep N.V. mainly include long-term funding. Liabilities to ING Verzekeringen N.V. mainly include short-term deposits and private loans made by ING Verzekeringen N.V.

As part of the exchange offers disclosed in Note 13 'Subordinated loans' EUR 1.8 billion intercompany debt from ING Bank N.V. to ING Groep N.V. was repaid in 2011.

Notes to the consolidated annual accounts of ING Bank continued

In 2012, EUR 1.9 billion (2011: EUR 1.7 billion) ING Bank mortgages were sold through the ING Insurance intermediary sales agents.

As at 31 December 2012, ING Insurance and ING Bank have a liquidity facility in place under which ING Insurance can borrow up to EUR 1,250 million (USD 1,649 million) (2011: EUR 500 million, USD 659 million) from ING Bank. The terms of this facility are at arm's length.

ING Bank provides various letters of credit directly and indirectly to ING Insurance. At 31 December 2012 and 31 December 2011 none of these Letters of Credit have been drawn.

Key management personnel compensation
Transactions with key management personnel (Management/Executive Board and Supervisory Board) and post-employment benefit plans are transactions with related parties. Transactions with post-employment benefit plans are disclosed in Note 18 'Other liabilities'.

In 2011, ING made a number of changes in the composition of the Management Board. Three of the Management Board members of ING Bank N.V. are also Executive Board members of ING Groep N.V. The total remuneration of the Executive Board of ING Groep N.V. and the Supervisory Board is borne by ING Groep N.V. The remuneration of the members and former members of the Executive Board and Supervisory Board are charged in full by ING Group to its subsidiaries, on the basis of a general allocation formula.

Key management personnel compensation (Executive Board and Management Boards)

2012 amounts in thousands of euros	Executive Board of ING Groep N.V.	Management Board of ING Bank N.V. (1)	Total
Fixed Compensation			
– Base salary	2,572	3,336	5,908
– Pension costs	311	917	1,228
Variable compensation			
– Upfront cash		417	417
– Upfront shares (2)		417	417
– Deferred cash		626	626
– Deferred shares (2)		626	626
Total compensation	2,883	6,339	9,222

(1) Excluding members that are also members of the Executive Board of ING Groep N.V.
(2) Amount is determined based on the fair market value of the shares and the related vesting conditions if any.

In 2012, the Dutch Government imposed an additional tax charge of 16% on the income in excess of EUR 150,000 of each employee who is subject to Dutch income tax. The tax is charged to the company and does not affect the remuneration of involved staff. The tax imposed on ING for relevant members of the Executive Board and Management Boards amounts to EUR 0.9 million, which is not included in the figures in the table above.

Key management personnel compensation (Executive Board and Management Boards)

2011 amounts in thousands of euros	Executive Board of ING Groep N.V.	Management Board of ING Bank N.V. (1)	Total
Fixed Compensation			
– Base salary	2,666	3,379	6,045
– Pension costs	315	1,602	1,917
– Retirement benefits		1,828	1,828
Variable compensation			
– Upfront cash		459	459
– Upfront shares (2)		459	459
– Deferred cash		688	688
– Deferred shares (2)		688	688
Total compensation	2,981	9,102	12,083

(1) Excluding members that are also members of the Executive Board of ING Groep N.V.
(2) Amount is determined based on the fair market value of the shares and the related vesting conditions if any.

Notes to the consolidated annual accounts of ING Bank continued

Key management personnel compensation (Supervisory Board)		
amounts in thousands of euros	**2012**	2011
Base salary	**806**	857
Total compensation	**806**	857

Loans and advances to key management personnel	Amount outstanding 31 December		Average interest rate		Repayments	
amounts in thousands of euros	**2012**	2011	**2012**	2011	**2012**	2011
Executive Board members ING Groep N.V.	**2,338**	1,968	**3.3%**	3.6%		
Management Board members of ING Bank N.V.	**380**	750	**4.6%**	3.3%		
Supervisory Board members		282		8.6%	**282**	
Total	**2,718**	3,000			**282**	

The disclosures relating to remuneration of the Supervisory Board reflect the amounts relating to ING Group as a whole.

In 2012, the total remuneration costs amounted to EUR 2.9 million (2011: EUR 3.0 million) for members and former members of the Executive Board, of these remuneration costs EUR 1.4 million (2011: EUR 1.5 million) was allocated to ING Bank. The total remuneration costs amounted EUR 0.8 million (2011: EUR 0.9 million) for members and former members of the Supervisory Board, of these remuneration costs EUR 0.4 million (2011: EUR 0.5 million) was allocated to ING Bank.

There are no significant provisions for doubtful debts or individually significant bad debt expenses recognised on outstanding balances with related parties.

Transactions with the Dutch State

Illiquid Assets Back-up Facility

ING Group and the Dutch State reached an agreement on an Illiquid Assets Back-Up Facility ('IABF') on 26 January 2009. The transaction closed on 31 March 2009. The Facility covers the Alt-A portfolios of ING Direct USA, with a par value of approximately EUR 26 billion. Under the IABF, ING transferred 80% of the economic ownership of its Alt-A portfolio to the Dutch State. As a result, an undivided 80% interest in the risk and rewards on the portfolio was transferred to the Dutch State. ING retained 100% of the legal ownership of its Alt-A portfolio. The transaction price was 90% of the par value with respect to the 80% proportion of the portfolio of which the Dutch State had become the economic owner. The transaction price remains payable by the Dutch State to ING and will be redeemed over the remaining life. Furthermore, under the IABF ING pays a guarantee fee to the State and receives a funding fee and a management fee. As a result of the transaction ING derecognised 80% of the Alt-A portfolio from its balance sheet and recognised a receivable from the Dutch State. The transferred Alt-A portfolio was previously included in Available-for-sale debt securities. The Dutch State also acquired certain consent rights with respect to the sale or transfer of the 20% proportion of the Alt-A portfolio that is retained by ING.

Under the terms of the transaction as agreed on 26 January 2009, the overall sales proceeds amounted to EUR 19.8 billion at the transaction date. The amortised cost (after prior impairments) at the transaction date was also approximately EUR 19.7 billion. The transaction resulted in a profit in the first quarter of 2009 of EUR 45 million after tax (the difference between the sales proceeds and the amortised cost). The fair value under IFRS-EU at the date of the transaction was EUR 13.5 billion.

In order to obtain approval from the European Commission on ING Groep N.V.'s Restructuring Plan (see below), ING agreed in to make additional Illiquid Assets Back-up Facility payments as part of the overall agreement with the European Commission to the Dutch State corresponding to an adjustment of the fees for the Illiquid Assets Back-up Facility. In total, these additional Illiquid Assets Back-up Facility payments as part of the overall agreement with the European Commission amounted to a net present value of EUR 1.3 billion pre-tax, which was recognised as a one-off charge for ING Groep N.V. (as it was not charged to ING Bank N.V.) in the fourth quarter of 2009. The remainder of the IABF as agreed in January 2009, including the transfer price of the securities of 90%, remained unaltered.

The difference between the total sales proceeds and the fair value under IFRS-EU represents a 'Government grant' under IAS 20. This government grant is considered to be an integral part of the transaction and is therefore accounted for as part of the result on the transaction.

The transaction resulted in a reduction of the negative revaluation -and therefore an increase in equity- of EUR 3.9 billion (after tax).

The valuation method of the 20% Alt-A securities in the IFRS-EU balance sheet is not impacted by the IABF. The methodology used to determine the fair value for these assets in the balance sheet under IFRS-EU is disclosed in Note 30 'Fair value of financial assets and liabilities'.

Notes to the consolidated annual accounts of ING Bank continued

As at 31 December 2012, the remaining outstanding amount from the transaction price that remained payable by the Dutch State is EUR 7.8 billion (2011: EUR 8.9 billion) for ING Bank. The net amount of other unamortised components of the total sales proceeds, as explained above, amounts to EUR 0.1 billion payable (2011: EUR 0.1 billion receivable) by ING Bank.

In connection with the sale of ING Direct USA as disclosed in Note 27 'Companies acquired and companies disposed', ING has reached an agreement with the Dutch State to adjust the structure of the Illiquid Assets Back-up Facility (IABF). This adjustment served to de-link the IABF from ING Direct USA by putting ING Bank in its place as counterparty for the Dutch State and became effective at the closing of the sale in February 2012. Under the terms of the original transaction ING Direct USA held on its balance the remaining 20% of the Alt-A portfolio, ensuring an alignment of interests between ING and the Dutch state regarding the performance of the portfolio.

Upon closing of the sale ING provided a counter guarantee to the Dutch State covering 25% of the 80% part of the Dutch State. This guarantee covered realised cash losses if they would exceed the 35% that is implied by the market value of the portfolio in June 2011. This adjustment therefore lowered the risk exposure for the Dutch State. The impact on equity and result of the alignment for ING Bank was limited.

In November 2012, ING Insurance restructured the IABF to effectively delink ING Insurance US from the IABF as another step towards a planned IPO of ING Insurance US. ING Insurance US transferred its Dutch State receivable of approximately EUR 1.1 billion (USD 1.4 billion) to ING Bank, and at the same time transferred legal title to 80% of the Alt-A portfolio to ING Bank. The securities are now held in an ING Bank custody account for the benefit of the Dutch State (the portion for which the investment risk has been transferred to the Dutch State). Following the restructuring, ING Insurance US continues to own 20% of the Alt-A portfolio (the portion for which the economic ownership and investment risk remains for the risk of ING), but will going forward have the right to sell these securities, subject to a right of first refusal granted to ING Bank. ING has committed to the Dutch State that it will not sell these securities to non-ING parties without the prior written consent of the Dutch state. The provisions of the IABF are otherwise unchanged. ING Bank is severely liable for the performance of ING Group in connection with the additional payment obligation.

European Commission Restructuring Plan

In 2009, ING Groep N.V. submitted a Restructuring Plan to the European Commission as part of the process to receive approval for the government support measures. By decision of 18 November 2009, the European Commission formally approved the Restructuring Plan. The main elements of the Restructuring Plan as announced on 26 October 2009 are as follows:

- Elimination of double leverage and significant reduction of ING Bank's balance sheet;
- Divestment of all Insurance and Investment Management activities;
- Divestment of ING Direct USA;
- Creation of a new company in the Dutch retail market composed of Interadvies (including Westland Utrecht and the mortgage activities of Nationale-Nederlanden) and the existing consumer lending portfolio of ING Retail in the Netherlands. This business, once separated, needs to be divested;
- Restriction to be a price leader in any EU country for certain retail and SME banking products and restriction to acquire financial institutions or other businesses that would delay the repayment of the non-voting equity securities. These restrictions will apply for the shorter period of three years or until the non-voting equity securities have been repaid in full to the Dutch State;
- An agreement with the Dutch State to alter the repayment terms of 50% of the non-voting equity securities;
- Repayment of EUR 5 billion of the non-voting equity securities issued in November 2008 by ING Groep N.V. to the Dutch State;
- Additional Illiquid Assets Back-Up Facility payments as part of the overall agreement with the European Commission will have to be made to the Dutch State in the form of fee adjustments relating to the Illiquid Assets Back-Up Facility which resulted in a one-off pre-tax charge to ING Groep N.V. of EUR 1.3 billion in the fourth quarter of 2009;
- Launch of a EUR 7.5 billion rights issue, in order to finance the repayment of 50% of the non-voting equity securities and a mitigation of the capital impact of the additional Illiquid Assets Back-Up Facility payment as part of the overall agreement with the European Commission to the Dutch State of EUR 1.3 billion;
- Execution of the Restructuring Plan before the end of 2013;
- If the overall return on the (remaining) non-voting equity securities (core Tier 1 securities) issued to the Dutch State is expected to be lower than 10% p.a., the European Commission may consider the imposition of additional behavioural constraints; and
- The calling of Tier 2 capital and Tier 1 hybrids will in the future be proposed case by case to the Commission for authorisation, for the shorter period of three years starting from the date of the Commission decision or up to the date on which ING has fully repaid the non-voting equity securities (core Tier 1 securities) to the Dutch State (including the relevant accrued interest of core Tier 1 coupons and exit premium fees).

ING announced in November 2012 that, together with the Dutch State, it had submitted significant amendments to the 2009 Restructuring Plan to the European Commission. The European Commission approved these amendments by Decision of 16 November 2012.

Notes to the consolidated annual accounts of ING Bank continued

Amendments to the Restructuring Plan

The amendments to the 2009 Restructuring Plan as announced in November 2012 extend the time horizon and increase the flexibility for the completion of divestments and have adjusted other commitments in light of the market circumstances, economic climate and more stringent regulatory requirements.

Under the amendments announced, the ultimate dates for divesting the insurance and investment management businesses have been extended as follows:

- The divestment of more than 50% of ING's interest in its Asian Insurance/IM operations has to be completed by year-end 2013, with the remaining interest divested by year-end 2016;
- The divestment of at least 25% of ING's interest in ING Insurance/ IM US has to be completed by year-end 2013, more than 50% has to be divested by year-end 2014, with the remaining interest divested by year-end 2016;
- The divestment of more than 50% of ING's interest in Insurance/IM Europe has to be completed by year-end 2015, with the remaining interest divested by year-end 2018; and
- As ING has committed to eliminate double leverage, proceeds from the divestments will be used to that end, while ensuring adequate leverage ratios of the insurance holding companies.

Under the terms of the original Restructuring Plan, ING was required to divest WestlandUtrecht Bank. However, due to market circumstances and changing regulatory requirements, a divestment of WestlandUtrecht has not occurred. Under the amended Restructuring Plan, the commercial operations of WestlandUtrecht Bank will be combined with the retail banking activities of Nationale-Nederlanden, which is to be divested as part of Insurance/IM Europe. Of WestlandUtrecht Bank's EUR 36.4 billion Dutch mortgage portfolio, EUR 2.6 billion will be transferred to Nationale-Nederlanden Bank. ING Bank will retain the remaining EUR 33.8 billion mortgage portfolio and in relation to this will contribute EUR 350 million to the capital of Nationale-Nederlanden Bank. To service existing WestlandUtrecht Bank labelled mortgages, insurance policies and real estate finance agreements, part of WestlandUtrecht Bank will become a separate entity within ING Retail Banking Netherlands. Part of the employees of WestlandUtrecht Bank will transfer to Nationale-Nederlanden Bank. This transaction is expected to be completed in 2013. As at 31 December 2012, the assets and liabilities that may be transferred had not yet been identified and, therefore, no transfer to assets/liabilities held for sale has yet occurred in ING Bank. The integrated retail banking business will operate under the 'Nationale-Nederlanden' brand, with the goal of becoming a competitive retail bank in the Dutch market with its own funding capabilities and a broad distribution network. Nationale-Nederlanden Bank is expected to start in the course of 2013 and will offer a broad and coherent product line, with mortgages, savings, bank annuities ('banksparen'), investments and consumer credit products, combined with the core retail insurance products of Nationale-Nederlanden.

ING has committed to ensure that Nationale-Nederlanden Bank would reach certain targets for mortgage production and consumer credit until 31 December 2015 or until the date on which more than 50% of the Insurance/IM Europe operations has been divested, whichever date comes first. Furthermore, ING has agreed to a maximum ratio for mortgage production at ING Retail Banking Netherlands in relation to mortgage production of Nationale-Nederlanden Bank until year-end 2015.

The 2009 Restructuring Plan included restrictions on acquisitions and price leadership for certain products in EU markets. These restrictions will continue to apply until 18 November 2015 or until the date on which more than 50% of each of the Insurance/IM operations has been divested, whichever date comes first.

The price leadership restrictions in Europe will be amended to reflect specific conditions in various local markets. Under the amendments, the constraint no longer applies in the Netherlands, and ING Direct in the EU will refrain from offering more favourable prices than its best priced direct competitor among the ten financial institutions having the largest market share in the respective countries.

The calling or buy-back of Tier 2 capital and Tier 1 Hybrid Securities will continue to be proposed for authorisation to the European Commission on a case by case basis until ING has fully repaid the core Tier 1 securities to the Dutch State, but ultimately until 18 November 2014, whichever date comes first. Notwithstanding this restriction, ING was allowed to call the EUR 1.25 billion ING Verzekeringen N.V. Hybrid per 21 December 2012.

The amended Restructuring Plan was formally approved by the European Commission, by decision of 16 November 2012. As a result, the Commission closed its formal investigations as announced on 11 May 2012 and ING also withdrew its appeal at the General Court of the European Union, filed in July 2012. For principal legal reasons, the European Commission has continued with its appeal against the General Court ruling of March 2012. However, ING, the Dutch State and the European Commission agreed that any outcome of this procedure will not affect the approval of the amended Restructuring Plan as announced in November 2012.

Notes to the consolidated annual accounts of ING Bank continued

Credit Guarantee Scheme

As part of the measures adopted to protect the financial sector, the Dutch State introduced a EUR 200 billion credit guarantee scheme for the issuance of medium term debt instruments by banks (the Credit Guarantee Scheme). ING Bank N.V. issued government guaranteed debt instruments under this Credit Guarantee Scheme ('Government Guaranteed Bonds') as part of its regular medium-term funding operations. The relevant Rules of the Credit Guarantee Scheme promulgate the rules applicable to any issues under the Credit Guarantee Scheme and include information such as scope, denomination, tenor and fees payable by the banks.

ING Group pays a fee of 84 basis points over the issued bonds to the Dutch State to participate in the Credit Guarantee Scheme. Reference is made to Note 14 'Debt securities in issue'.

Other

Following the transactions as disclosed in this note, the Dutch State is a related party of ING. All other transactions between ING and the Dutch State are of a normal business nature and at arm's length.

In the framework of the transactions with the Dutch State disclosed in this note, certain arrangements with respect to corporate governance and executive remuneration were agreed with the Dutch State which will remain in place as long as the Illiquid Assets Back-Up Facility is in place (which ever expires last). These arrangements require that:

- the Dutch State may recommend two candidates (the 'State Nominees') for appointment to the Supervisory Board of ING Groep N.V. Certain decisions of the Supervisory Board require approval of the State Supervisory Board members;
- ING must develop a sustainable remuneration policy for the Executive Board and Senior Management that is aligned to new international standards and submit this to its General Meeting for adoption. This remuneration policy shall include incentive schemes which are linked to long-term value creation, thereby taking account of risk and restricting the potential for 'rewards for failure'. This new remuneration policy, amongst others, must include objectives relating to corporate and social responsibility;
- members of the Executive Board may not receive any performance-related payment - either in cash, options, shares or bearer depositary receipts - for the years 2008 and 2009 until the adoption of the new remuneration policy in 2010;
- severance payments to Executive Board members are limited to a maximum of one year's fixed salary, in line with the Tabaksblat Code;
- ING has undertaken to support growth of the lending to corporates and consumers (including mortgages) for an amount of EUR 25 billion, on market conforming terms;
- ING agreed to pro-actively use EUR 10 billion of the Dutch Guarantee Scheme during 2009;
- ING has committed itself to maintaining the Dutch payment system PIN on its payment debit cards as long as other market participants, representing a substantial market share, are still making use of this payment system; and
- appointment of the Chief Executive Officer of the Executive Board of ING Groep N.V. requires approval of the State Nominees.

31 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

The following table presents the estimated fair values of ING Bank's financial assets and liabilities. Certain balance sheet items 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 Bank.

Fair value of financial assets and liabilities

	Estimated fair value		Balance sheet value	
	2012	2011	**2012**	2011
Financial assets				
Cash and balances with central banks	**15,447**	28,112	**15,447**	28,112
Amounts due from banks	**39,126**	45,269	**39,053**	45,323
Financial assets at fair value through profit and loss				
– trading assets	**114,320**	123,176	**114,320**	123,176
– non-trading derivatives	**9,075**	10,076	**9,075**	10,076
– designated as at fair value through profit and loss	**2,768**	2,838	**2,768**	2,838
Investments				
– available-for-sale	**74,279**	74,935	**74,279**	74,935
– held-to-maturity	**6,626**	8,835	**6,545**	8,868
Loans and advances to customers	**557,493**	585,041	**541,546**	577,569
Other assets (1)	**14,737**	15,444	**14,737**	15,444
	833,871	893,726	**817,770**	886,341
Financial liabilities				
Amounts due to banks	**39,628**	72,687	**38,704**	72,233
Customer deposits and other funds on deposit	**462,983**	480,265	**460,363**	479,364
Debt securities in issue	**140,758**	133,871	**134,689**	130,926
Financial liabilities at fair value through profit and loss				
– trading liabilities	**83,652**	107,682	**83,652**	107,682
– non-trading derivatives	**15,919**	18,161	**15,919**	18,161
– designated as at fair value through profit and loss	**13,399**	13,021	**13,399**	13,021
Other liabilities (2)	**16,177**	16,837	**16,177**	16,837
Subordinated loans	**15,730**	17,031	**16,407**	18,408
	788,246	859,555	**779,310**	856,632

(1) Other assets do not include (deferred) tax assets, pension assets and property development and obtained from foreclosures.
(2) Other liabilities do not include (deferred) tax liabilities, pension liabilities, prepayments received under property under development, other provisions and other taxation and social security contributions.

The estimated fair values correspond to the amounts at which the financial instruments at our best estimate could have been traded 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. Such quoted market prices are primarily obtained from exchange prices for listed instruments. Where an exchange price is not available, market prices are obtained from independent market vendors, brokers or market makers. Because substantial trading markets do not exist for all financial instruments various techniques have been developed to estimate the approximate fair values of financial assets and liabilities that are not actively traded. These techniques are subjective in nature and involve various assumptions about the relevant pricing factors, especially for inputs that are not readily available in the market (such as credit spreads for own-originated loans and advances to customers). 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.

CVA/DVA adjustments in 2012 for the banking operations of EUR 513 million negative mainly reflect a tightening of ING Bank's credit spread, compared with EUR 133 million of positive CVA/DVA adjustments in 2011. CVA/DVA adjustments are mainly included in Valuation results on non-trading derivatives and Net trading income.

The following methods and assumptions were used by ING Bank to estimate the fair value of the financial instruments:

Financial assets

Cash and balances with central banks

The carrying amount of cash approximates its fair value.

Notes to the consolidated annual accounts of ING Bank continued

Amounts due from 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 offered for receivables with similar characteristics, similar to Loans and advances to customers described below.

Financial assets at fair value through profit and 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 discounted cash flows, Black-Scholes option 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 banking 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 prices available from exchanges, dealers, brokers or providers of consensus 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.

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. If quoted prices in an active market are not available, fair value is based on an analysis of available market inputs, which may include values 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 fair values. The fair values of other 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 mortgage loans are estimated by discounting future cash flows using interest rates currently being offered for similar loans to borrowers with similar credit ratings.

Other assets
The other assets are stated at their carrying value which is not materially different from their fair value.

Financial liabilities
Subordinated loans
The fair value of the subordinated loans is estimated using discounted cash flows based on interest rates and credit spreads that apply to similar instruments.

Amounts due to 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 and other funds on deposit
The carrying values of customer deposits and other funds on deposit with no stated maturity approximate their fair values. The fair values of deposits with stated maturities 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 and loss
The fair values of securities in the trading portfolio and other liabilities at fair value through profit and 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 and loss above.

Debt securities in issue and other borrowed funds
The fair value of debt securities in issue and other borrowed funds 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.

Other liabilities
The other liabilities are stated at their carrying value which is not materially different from their fair value.

Fair value hierarchy
ING Bank has categorised its financial instruments that are measured in the balance sheet at fair value into a three level hierarchy based on the priority of the inputs to the valuation. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to valuation techniques based on 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 on whether fair values were determined based upon 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 OTC and credit 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 Bank'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 circumstances. Unobservable inputs may include volatility, correlation, spreads to discount rates, default rates and recovery rates, prepayment rates and certain credit spreads.

The fair values of the financial instruments carried at fair value were determined as follows:

Methods applied in determining fair values of financial assets and liabilities

2012	Level 1	Level 2	Level 3	Total
Assets				
Trading assets	29,214	83,615	1,491	114,320
Non-trading derivatives	43	8,541	491	9,075
Financial assets designated as at fair value through profit and loss	157	1,383	1,228	2,768
Available-for-sale investments	56,146	16,842	1,291	74,279
	85,560	110,381	4,501	200,442
Liabilities				
Trading liabilities	14,349	67,780	1,523	83,652
Financial liabilities designated as at fair value through profit and loss	1,833	6,464	5,102	13,399
Non-trading derivatives	112	15,493	314	15,919
	16,294	89,737	6,939	112,970

Notes to the consolidated annual accounts of ING Bank continued

Methods applied in determining fair values of financial assets and liabilities				
2011	Level 1	Level 2	Level 3	Total
Assets				
Trading assets	32,878	89,319	979	123,176
Non-trading derivatives	46	9,232	798	10,076
Financial assets designated as at fair value through profit and loss	225	1,150	1,463	2,838
Available-for-sale investments	49,490	23,194	2,251	74,935
	82,639	122,895	5,491	211,025
Liabilities				
Trading liabilities	20,308	86,434	940	107,682
Financial liabilities designated as at fair value through profit and loss	1,150	7,599	4,272	13,021
Non-trading derivatives	145	17,135	881	18,161
	21,603	111,168	6,093	138,864

Level 1 – Quoted prices in active markets
This category includes financial instruments whose fair value is determined directly by reference to published quotes in an active market. A financial instrument 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 on an arm's length basis.

Level 2 – Valuation technique supported by observable inputs
This category includes financial instruments whose 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. If certain inputs in the model are unobservable, but all significant inputs are, the instrument is still classified in this category, provided that the impact of those unobservable inputs on the overall valuation is insignificant. Included in this category are items whose value is derived from quoted prices of similar instruments, but for which the prices are modified based on other market observable external data and items whose value is derived from quoted prices but for which there was insufficient evidence of an active market.

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. Level 3 Trading assets, Non-trading derivatives and Assets designated as at fair value through profit and loss and Level 3 Financial liabilities at fair value through profit and loss include financial instruments with different characteristics and nature, which are valued on the basis of valuation techniques that feature one or more significant inputs that are unobservable. An instrument in its entirety is classified as valued using significant unobservable inputs 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 the price at which an arm's length transaction would be likely to occur can be derived. More details on the determination of the fair value of these instruments is included above under 'Derivatives', 'Debt securities' and 'Loans and advances to customers'.

Notes to the consolidated annual accounts of ING Bank continued

Changes in Level 3 Assets

2012	Trading assets	Non-trading derivatives	Financial assets designated as at fair value through profit and loss	Available-for-sale investments	Total
Opening balance	979	798	1,463	2,251	5,491
Amounts recognised in profit and loss account during the year	149	–283	–190	24	–300
Revaluation recognised in equity during the year				30	30
Purchase of assets	1,137	154	693	289	2,273
Sale of assets	–326	–187	–358	–580	–1,451
Maturity/settlement	–313	–2	–378	–737	–1,430
Transfers into Level 3	27	11		289	327
Transfers out of Level 3	–163		–2	–261	–426
Changes in the composition of the group and other changes				–11	–11
Exchange rate differences	1			–3	–2
Closing balance	1,491	491	1,228	1,291	4,501

Main changes in fair value hierarchy in 2012

There were no significant transfers between Level 1 and 2.

Changes in Level 3 Assets

2011	Trading assets	Non-trading derivatives	Financial assets designated as at fair value through profit and loss	Available-for-sale investments	Total
Opening balance	1,668	501	553	2,599	5,321
Amounts recognised in profit and loss account during the year	–341	254	–28	–112	–227
Revaluation recognised in equity during the year				–120	–120
Purchase of assets	750	105	905	944	2,704
Sale of assets	–559		–88	–521	–1,168
Maturity/settlement	–441	–75	–100	–378	–994
Transfers into Level 3	95	13	225	191	524
Transfers out of Level 3	–191		–2	–203	–396
Changes in the composition of the group and other changes			–1	–194	–195
Exchange rate differences	–2		–1	45	42
Closing balance	979	798	1,463	2,251	5,491

Main changes in fair value hierarchy in 2011

Changes in the composition of the group and other changes includes the decrease of the Level 3 assets in relation to the classification of ING Direct USA as a disposal group held for sale. Reference is made to Note 10 'Assets and liabilities held for sale'. Furthermore Changes in the composition of the group and other changes includes the increase of the Level 3 assets in relation to shares in real estate investment funds; this increase includes mainly as a result of the reclassification of associates to investments available-for sale as disclosed in Note 6 'Investments in associates'.

Transfers into Level 3 includes certain bonds which were transferred to Level 3 in 2011 as a result of reduced market liquidity and/or pricing sources that could no longer be classified as market observable.

There were no significant transfers between Level 1 and 2.

Notes to the consolidated annual accounts of ING Bank continued

Changes in Level 3 Liabilities

2012	Trading liabilities	Non-trading derivatives	Financial liabilities designated as at fair value through profit and loss	Total
Opening balance	940	881	4,272	6,093
Amounts recognised in profit and loss account during the year	232	–796	96	–468
Revaluation recognised in equity during the year				
Issue of liabilities	1,380	239	2,614	4,233
Early repayment of liabilities	–348	–14	–1,067	–1,429
Maturity/settlement	–535	–3	–1,174	–1,712
Transfers into Level 3	85	7	395	487
Transfers out of Level 3	–223		–30	–253
Exchange rate differences	–8		–4	–12
Closing balance	1,523	314	5,102	6,939

Changes in Level 3 Liabilities

2011	Trading liabilities	Non-trading derivatives	Financial liabilities designated as at fair value through profit and loss	Total
Opening balance	1,441	748	3,225	5,414
Amounts recognised in profit and loss account during the year	46	55	113	214
Issue of liabilities	1,138	502	1,613	3,253
Early repayment of liabilities	–705	–47	–402	–1,154
Maturity/settlement	–928	–400	–645	–1,973
Transfers into Level 3	125	25	441	591
Transfers out of Level 3	–175	–2	–80	–257
Exchange rate differences	–2		7	5
Closing balance	940	881	4,272	6,093

Amounts recognised in profit and loss account during the year (Level 3)

2012	Held at balance sheet date	Derecognised during the year	Total
Assets			
Trading assets	149		149
Non-trading derivatives	–283		–283
Financial assets designated as at fair value through profit and loss	–190		–190
Available-for-sale investments	–11	35	24
	–335	35	–300
Liabilities			
Trading liabilities	232		232
Non-trading derivatives	–796		–796
Financial liabilities designated as at fair value through profit and loss	96		96
	–468		–468

Notes to the consolidated annual accounts of ING Bank continued

Amounts recognised in profit and loss account during the year (Level 3)

2011	Held at balance sheet date	Derecognised during the year	Total
Assets			
Trading assets	–343	2	–341
Non-trading derivatives	254		254
Financial assets designated as at fair value through profit and loss	–28		–28
Available-for-sale investments	–125	13	–112
	–242	15	–227
Liabilities			
Trading liabilities	46		46
Non-trading derivatives	55		55
Financial liabilities designated as at fair value through profit and loss	113		113
	214		214

Sensitivities of fair values in Level 3

Reasonably likely changes in the non-observable assumptions used in the valuation of Level 3 assets and liabilities would not have a significant impact on equity and net result. Level 3 assets include certain positions for which the sensitivities are offset by other positions included in Level 3 liabilities as, from a risk perspective, these instruments are part of risk neutral structures.

Asset backed security portfolio

Fair value hierarchy of certain ABS bonds

2012	**Level 1**	**Level 2**	**Level 3**	**Total**
US Subprime RMBS		**15**	**8**	**23**
US Alt-A RMBS		**170**	**3**	**173**
CDO/CLOs	**7**	**71**	**305**	**383**
CMBS	**1**	**107**	**1**	**109**
Total	**8**	**363**	**317**	**688**

Fair value hierarchy of certain ABS bonds

2011	Level 1	Level 2	Level 3	Total
US Subprime RMBS		11	11	22
US Alt-A RMBS		201	5	206
CDO/CLOs	6	12	268	286
CMBS	2	175	1	178
Total	8	399	285	692

Notes to the consolidated annual accounts of ING Bank continued

Greece, Italy, Ireland, Portugal, Spain and Cyprus
Of the Government and Unsecured Financial institutions' bonds exposure in Greece, Italy, Ireland, Portugal, Spain and Cyprus as disclosed in Note 4 'Investments', EUR 2.4 billion (2011: EUR 2.5 billion) is classified as available-for-sale and is measured at fair value (with the revaluation recognised in equity, taking into account impairments that are recognised in the profit and loss account). The table below provide the fair value hierarchy per year-end 2012 for the Greek, Italian, Irish, Portuguese, Spanish and Cyprian Government and Unsecured Financial institutions' bond exposure measured at fair value.

Fair value hierarchy of Greek, Italian, Irish, Portuguese, Spanish and Cyprian bonds at fair value

2012	Level 1	Level 2	Level 3	Total
Greece				
Government bonds				
Italy				
Government bonds	611	349		960
Financial institutions	114	333		447
Ireland				
Financial institutions	15			15
Portugal				
Government bonds	620			620
Financial institutions	37			37
Spain				
Government bonds	279			279
Financial institutions	3			3
Cyprus				
Government bonds	13			13
Total	1,692	682		2,374

Fair value hierarchy of Greek, Italian, Irish, Portuguese, Spanish and Cyprian bonds at fair value

2011	Level 1	Level 2	Level 3	Total
Greece				
Government bonds		115	36	151
Italy				
Government bonds	498	86	242	826
Financial institutions	199	350		549
Ireland				
Financial institutions	44			44
Portugal				
Government bonds	438			438
Financial institutions	30	48		78
Spain				
Government bonds	312	12		324
Financial institutions	95			95
Cyprus				
Government bonds	12			12
Total	1,628	611	278	2,517

Classification of bonds in Levels 2 and 3 is mainly a result of low trading liquidity in the relevant markets.

32 INTEREST RESULT

Interest result	2012	2011	2010
Interest income on loans	**24,752**	26,373	24,844
Interest income on impaired loans	**41**	61	40
Total interest income on loans	**24,793**	26,434	24,884
Interest income on available-for-sale securities	**2,507**	3,463	3,532
Interest income on held-to-maturity securities	**297**	400	549
Interest income on trading portfolio	**24,616**	27,480	32,692
Interest income on non-trading derivatives	**1,578**	1,536	1,709
Other interest income	**6,480**	5,891	5,586
Total interest income	**60,271**	65,204	68,952
Interest expense on deposits by banks	**623**	902	652
Interest expense on customer deposits and other funds on deposit	**9,140**	9,383	8,324
Interest expense on debt securities	**3,576**	3,230	2,504
Interest expense on subordinated loans	**742**	867	1,024
Interest expense on trading liabilities	**24,047**	27,209	32,847
Interest expense on non-trading derivatives	**1,528**	1,658	2,166
Other interest expense	**8,367**	8,371	7,848
Total interest expense	**48,023**	51,620	55,365
Interest result	**12,248**	13,584	13,587

Interest margin			
in percentages	2012	2011	2010
Interest margin	**1.34**	1.42	1.44

In 2012, the decrease in total assets, partly attributable to the disposal of ING Direct USA and ING Direct Canada, led to a decrease of EUR 571 million in the interest result. In addition a decrease of 8 basis points of the interest margin led to a decrease in the interest result of EUR 765 million.

In 2011, the growth in average total assets led to an increase of the interest result of EUR 135 million and the decrease of the interest margin by 2 basis points led to a decrease of the interest result with EUR 139 million.

In 2010, the decline in average assets led to a decrease of the interest result of EUR 90 million and the increase of the interest margin by 10 basis points led to an increase of the interest result with EUR 915 million.

In 2012, total interest income and total interest expense for items not valued at fair value through profit and loss were EUR 33,919 million and EUR 22,082 million respectively (2011: EUR 35,992 million and EUR 22,296 million; 2010: EUR 34,347 million and EUR 19,947 million).

Notes to the consolidated annual accounts of ING Bank continued

33 INVESTMENT INCOME

Investment income

	2012	2011	2010
Income from real estate investments	**16**	24	128
Dividend income	**64**	49	59
	80	73	187
Realised gains/losses on disposal of debt securities	**198**	91	150
Impairments of available-for-sale debt securities	**–16**	–734	–146
Reversal of impairments of available-for-sale debt securities		74	
Realised gains/losses and impairments on debt securities	**182**	–569	4
Realised gains/losses on disposal of equity securities	**367**	39	338
Impairments of available-for-sale equity securities	**–22**	–65	–32
Realised gains/losses and impairments on equity securities	**345**	–26	306
Change in fair value of real estate investments	**–12**	–22	–50
Investment income	**595**	–544	447

In 2012, ING sold all of its shares in Capital One Financial Corporation. The transaction resulted in a gain of EUR 323 million (before and after tax), and is recognised in Realised gains/losses on disposal of equity securities. Reference is made to Note 27 'Companies acquired and companies disposed'.

In 2011, an impairment of EUR 588 million was recognised on Greek government bonds which is included in Impairments of available-for-sale debt securities. Reference is made to the 'Risk management' section for further information on impairments.

Impairment and reversal of impairment on investments are presented within Investment income, which is part of Total income. This can be specified for each segment as follows:

Impairments /reversals of impairments on investments per segment

			Impairments			Reversal of impairments
	2012	2011	2010	2012	2011	2010
Retail Belgium	**–1**	–22				
Retail Germany		–135				
Retail Rest of World		–328	–107		30	
Commercial Banking	**–26**	–301	–70		44	
Corporate Line Banking	**–11**	–13	–1			
	–38	–799	–178		74	

34 RESULT ON DISPOSALS OF GROUP COMPANIES

Result on disposals of group companies	2012
ING Direct USA	**743**
ING Direct Canada	**1,124**
ING Direct UK	**–260**
Other	**–2**
	1,605

Result on disposals of group companies	2011
Clarion Real Estate Securities	182
ING REIM Asia and Europe	245
ING Car Lease	347
Clarion Partners	39
	813

Result on disposals of group companies	2010
Asian Private Banking business	332
Swiss Private Banking business	73
ING Summit Industrial Fund LP	–26
Other	–66
	313

In 2010 Other includes EUR –24 million related to the sale of certain associates. The remainder includes result on disposal of certain real estate funds and other disposals that are individually not significant.

Reference is made to Note 27 'Companies acquired and companies disposed' for more details.

35 COMMISSION INCOME

Gross fee and commission income	2012	2011	2010
Funds transfer	**956**	916	861
Securities business	**511**	681	695
Asset management fees	**132**	353	515
Brokerage and advisory fees	**337**	347	329
Insurance broking	**164**	161	190
Other	**1,009**	1,013	966
	3,109	3,471	3,556

Other includes commission fees of EUR 230 million (2011: EUR 183 million; 2010: EUR 171 million) in respect of bank guarantees and commission fees of EUR 17 million (2011: EUR 26 million; 2010: EUR 15 million) in respect of underwriting syndication loans.

The decrease in asset management fees in 2012 is explained by the sale of ING REIM in 2011.

Fee and commission expenses	2012	2011	2010
Funds transfer	**336**	313	257
Securities business	**98**	126	125
Management fees	**10**	10	19
Brokerage and advisory fees	**86**	68	70
Insurance broking	**2**		
Other	**444**	459	452
	976	976	923

Notes to the consolidated annual accounts of ING Bank continued

36 VALUATION RESULTS ON NON-TRADING DERIVATIVES

Valuation results on non-trading derivatives	2012	2011	2010
Change in fair value of derivatives relating to			
– fair value hedges	**–470**	–1,122	–747
– cash flow hedges (ineffective portion)	**17**	–1	2
– other non-trading derivatives	**25**	–380	–802
Net result on non-trading derivatives	**–428**	–1,503	–1,547
Change in fair value of assets and liabilities (hedged items)	**579**	1,155	754
Valuation results on assets and liabilities designated as at fair value through profit and loss (excluding trading)	**–1,101**	504	69
Net valuation results	**–950**	156	–724

Valuation results on non-trading derivatives are reflected in the consolidated statement of cash flows in the line 'Result before tax - Adjusted for: other'.

The Valuation results on assets and liabilities designated as at fair value through profit and loss includes fair value changes on private equity funds and certain issued debt securities. Valuation results on assets and liabilities designated as at fair value through profit and loss are mainly due to changes in the fair value of financial liabilities driven by changes in market conditions and changes in own credit risk as disclosed in Note 17 'Financial liabilities at fair value through profit and loss'. In 2012 and 2011 market conditions includes in particular credit spread developments.

37 NET TRADING INCOME

Net trading income	2012	2011	2010
Securities trading results	**252**	–133	231
Foreign exchange transactions results	**–162**	–389	726
Derivatives trading results	**898**	882	174
Other	**113**	–49	64
	1,101	311	1,195

Securities trading results include the results of making markets in instruments such as government securities, equity securities, corporate debt securities, money-market instruments, interest rate derivatives such as swaps, options, futures and forward contracts. Foreign exchange transactions results include gains and losses from spot and forward contracts, options, futures, and translated foreign currency assets and liabilities.

The portion of trading gains and losses relating to trading securities still held as at 31 December 2012 amounts to EUR 118 million (2011: EUR –66 million; 2010: EUR 19 million).

The majority of the risks involved in security and currency trading is economically hedged with derivatives. Securities trading results are partly off-set by results on these derivatives. The result of these derivatives is included in Derivatives trading results.

Trading income mainly relates to trading assets and trading liabilities which include mainly assets and liabilities that are classified under IFRS as ‘Trading’ but are closely related to servicing the needs of the clients of ING. ING Bank offers institutional and corporate clients and governments products that are traded on the financial markets. A significant part of the derivatives in the trading portfolio are related to servicing corporate clients in their risk management to hedge for example currency or interest rate exposures. In addition, ING Bank provides its customers access to equity and debt markets for issuing their own equity or debt securities ('securities underwriting'). Although these are presented as ‘Trading’ under IFRS, these are related to services to ING’s customers. Loans and receivables in the trading portfolio mainly relate to (reverse) repurchase agreements, which are comparable to collateralised borrowing (lending). These products are used by ING Bank as part of its own regular treasury activities, but also relate to the role that ING Bank plays as intermediary between different professional customers. Trading assets and liabilities held for ING’s own risk are very limited. From a risk perspective, the gross amount of trading assets must be considered together with the gross amount of trading liabilities, which are presented separately on the balance sheet. However, IFRS does not allow netting of these positions in the balance sheet. Reference is made to Note 3 ‘Financial assets at fair value through profit and loss’ and Note 17 ‘Financial liabilities at fair value through profit and loss’ for information on trading liabilities.

Notes to the consolidated annual accounts of ING Bank continued

38 OTHER INCOME

Other income	2012	2011	2010
Net operating lease income	**1**	176	213
Income from real estate development projects	**22**	31	36
Other	**–479**	141	97
	–456	348	346

Net operating lease income comprises income of EUR 2 million (2011: EUR 772 million; 2010: EUR 1,000 million) and depreciation of EUR 1 million (2011: EUR 596 million; 2010: EUR 787 million).

In 2012, Other income - Other includes losses on disposal of Loans and advances to customers of EUR 618 million. In 2011, Other includes a gain of EUR 93 million on the repurchase of subordinated loans as disclosed in Note 13 'Subordinated loans'.

39 INTANGIBLE AMORTISATION AND OTHER IMPAIRMENTS

Intangible amortisation and (reversals of) impairments	Impairment losses			Reversals of impairments			Total		
	2012	2011	2010	**2012**	2011	2010	**2012**	2011	2010
Property and equipment	**24**	29	27	**–7**	–11	–5	**17**	18	22
Property development	**161**	217	403				**161**	217	403
Goodwill		32						32	
Software and other intangible assets	**4**	15	28			–1	**4**	15	27
(Reversals of) other impairments	**189**	293	458	**–7**	–11	–6	**182**	282	452
Amortisation of other intangible assets							**29**	39	52
							211	321	504

The 2012, impairments recognised on Property development relate to various real estate development projects (including mainly the United Kingdom, Spain, Germany and Belgium) due to worsening market conditions. In 2011, impairments on Property development were recognised due to the sale or termination of large projects in Germany, the Netherlands and on the reassessment of Dutch and Spanish real estate development projects. In 2010, impairments on Property development were recognised on a large number of Real Estate development projects in The Netherlands, Spain and the United States. The unfavourable economic circumstances in all regions resulted in lower expected sales prices.

In 2012, no goodwill impairment (2011: EUR 32 million) is recognised. Reference is made to Note 9 'Intangible assets'.

Impairments on Loans and advances to customers are presented under Addition to loan loss provisions. Impairments on Investments are presented under Investment income. Reference is made to the 'Risk management' section for further information on impairments.

40 STAFF EXPENSES

Staff expenses	2012	2011	2010
Salaries	**3,419**	3,705	3,835
Pension and other staff-related benefit costs	**–26**	171	200
Social security costs	**532**	525	532
Share-based compensation arrangements (1)	**106**	119	79
External employees	**625**	683	627
Education	**63**	69	61
Other staff costs	**202**	234	236
	4,921	5,506	5,570

(1) In 2011, the increase in Share-based compensation arrangements can be explained by ING's implementation of a global deferral plan as well as regulatory developments which require payment of variable remuneration in stock in lieu of cash.

In 2012, the Dutch Government imposed an additional tax charge of 16% on the income in excess of EUR 150,000 of each employee who is subject to Dutch income tax. The tax is charged to the company and does not affect the remuneration of involved staff. The tax imposed on ING for relevant employees amounts to EUR 16.1 million, which is included in the figures in the table above.

Notes to the consolidated annual accounts of ING Bank continued

Number of employees

	Netherlands			International			Total		
	2012	2011	2010	**2012**	2011	2010	**2012**	2011	2010
Average number of employees at full time equivalent basis	**18,072**	19,027	19,415	**48,807**	52,148	51,872	**66,879**	71,175	71,287

Pension and other staff-related benefit costs

	Pension benefits			Post-employment benefits other than pensions			Other			Total		
	2012	2011	2010	**2012**	2011	2010	**2012**	2011	2010	**2012**	2011	2010
Current service cost	**181**	220	196	**–2**	3	5	**14**	1	1	**193**	224	202
Past service cost	**–2**	–9	–1							**–2**	–9	–1
Interest cost	**548**	550	510	**4**	5	4	**6**	6	5	**558**	561	519
Expected return on assets	**–561**	–569	–590					–8	1	**–561**	–577	–589
Amortisation of unrecognised actuarial (gains)/losses	**22**	–18	21				**4**	1	1	**26**	–17	22
Effect of curtailment or other settlement	**–291**	–47	–4							**–291**	–47	–4
Other							**–17**	–10	–15	**–17**	–10	–15
Defined benefit plans	**–103**	127	132	**2**	8	9	**7**	–10	–7	**–94**	125	134
Defined contribution plans										**68**	46	66
										–26	171	200

In 2012 a curtailment was recognised due to a change to a new pension scheme. Reference is made to Note 18 'Other liabilities'.

Stock option and share plans

ING Groep N.V. has granted option rights on ING Groep N.V. shares and conditional rights on depositary receipts (share awards) for ING shares to a number of senior executives of the Bank (members of the Management Board, general managers and other officers nominated by the Management Board), to a considerable number of employees of ING Bank. The purpose of the option and share schemes, is to attract, retain and motivate senior executives and staff.

In 2012, ING granted three types of share awards, deferred shares, performance shares and upfront shares. The entitlement to the share awards was granted conditionally. If the participant remains in employment for an uninterrupted period between the grant date and the vesting date, the entitlement becomes unconditional. In addition to the employment condition, the performance shares contain a performance condition. The number of ING depositary receipts that would ultimately be granted at the end of a performance period is dependent on ING's performance over that period. Upfront and deferred shares, with retention periods as soon as it becomes unconditional, were awarded to the Management Board members of ING Bank N.V., as well as identified staff ING has the authority to apply an hold back to awarded but unvested shares and a claw-back to vested shares.

In 2012 no share awards (2011: nil; 2010: nil) were granted to the members of the Executive Board of ING Groep N.V., 134,091 share awards (2011: 129,070) were granted to the Management Board of ING Bank N.V. To senior management and other employees of ING Bank 10,296,631 share awards (2011: 11,316,095; 2010: 20,552,533) were granted.

Every year, the ING Group Executive Board decides whether the option and share schemes are to be continued and, if so, to what extent. In 2010 the Group Executive Board decided not to continue the option scheme as from 2011. The existing option schemes up and until 2010 will be run off in the coming years.

The option rights are valid for a period of five or ten years. Option rights that are not exercised within this period lapse. Option rights granted will remain valid until the expiry date, even if the option scheme is discontinued. The option rights are subject to certain conditions, including a pre-determined continuous period of service. The exercise prices of the options are the same as the quoted prices of ING Groep N.V. shares at the date on which the options are granted.

ING Group holds its own shares in order to fulfil its obligations with regard to the existing stock option plan. As at 31 December 2012, 26,429,948 own shares (2011: 42,126,329) were held in connection with the option plan compared to 85,193,177 options outstanding (2011: 108,138,551; 2010: 124,836,694). In December 2010 ING Groep N.V. announced that it will no longer rebalance its portfolio. This decision is an effort to simplify the management and administration of ING's various employee share and option programmes. The remaining shares in the hedge portfolio will be used to fund the obligations arising from exercise and vesting. Once all shares in the hedge portfolio are used ING will fund these

Notes to the consolidated annual accounts of ING Bank continued

obligations by issuing new shares (subject to approval by Executive Board and Supervisory Board).

The obligations with regard to these share plans will in the future be funded either by cash, newly issued shares or remaining shares from the portfolio of own shares at the discretion of the holder.

Changes in option rights outstanding

	Options outstanding (in numbers)			Weighted average exercise price (in euros)		
	2012	2011	2010	**2012**	2011	2010
Opening balance	**63,948,687**	75,673,707	73,393,164	**15.53**	16.23	17.95
Granted			11,251,643			7.35
Exercised or transferred	**–1,497,290**	–3,282,099	–417,682	**3.40**	15.56	9.01
Forfeited	**–459,740**	–1,439,379	–1,597,054	**11.98**	12.86	13.82
Expired	**–10,620,118**	–7,003,542	–6,956,364	**20.97**	23.69	21.52
Closing balance	**51,371,539**	63,948,687	75,673,707	**14.82**	15.53	16.23

The weighted average share price at the date of exercise for options exercised in 2012 is EUR 6.15 (2011: EUR 8.09; 2010: EUR 7.46).

Changes in option rights non-vested

	Options non-vested (in numbers)			Weighted average grant date fair value (in euros)		
	2012	2011	2010	**2012**	2011	2010
Opening balance	**18,254,509**	30,044,041	28,843,472	**2.68**	3.13	3.61
Granted			11,251,643			3.26
Vested or transferred	**–8,481,339**	–10,808,607	–8,865,571	**2.02**	3.91	4.81
Forfeited	**–237,763**	–980,925	–1,185,503	**2.70**	3.07	3.36
Closing balance	**9,535,407**	18,254,509	30,044,041	**3.26**	2.68	3.13

Summary of stock options outstanding and exercisable

2012 **Range of exercise price in euros**	**Options outstanding as at 31 December 2012**	**Weighted average remaining contractual life**	**Weighted average exercise price**	**Options exercisable as at 31 December 2012**	**Weighted average remaining contractual life**	**Weighted average exercise price**
0.00 – 5.00	**6,095,656**	**5.00**	**2.86**	**6,095,656**	**5.00**	**2.86**
5.00 – 10.00	**13,364,491**	**5.31**	**7.99**	**3,829,084**	**0.54**	**9.61**
10.00 – 15.00	**3,957,838**	**1.36**	**14.27**	**3,957,838**	**1.36**	**14.27**
15.00 – 20.00	**15,212,637**	**3.49**	**17.32**	**15,212,637**	**3.49**	**17.32**
20.00 – 25.00	**5,719,959**	**3.59**	**24.56**	**5,719,959**	**3.59**	**24.56**
25.00 – 30.00	**7,020,958**	**3.32**	**25.18**	**7,020,958**	**3.32**	**25.18**
	51,371,539			**41,836,132**		

Summary of stock options outstanding and exercisable

2011 Range of exercise price in euros	Options outstanding as at 31 December 2011	Weighted average remaining contractual life	Weighted average exercise price	Options exercisable as at 31 December 2011	Weighted average remaining contractual life	Weighted average exercise price
0.00 – 5.00	7,913,460	6.25	2.87			
5.00 – 10.00	14,056,383	6.35	7.98	3,715,334	1.17	9.67
10.00 – 15.00	4,162,719	2.36	14.27	4,162,719	2.36	14.27
15.00 – 20.00	16,333,906	4.45	17.29	16,333,906	4.45	17.29
20.00 – 25.00	14,086,126	2.10	23.44	14,086,126	2.10	23.44
25.00 – 30.00	7,396,093	4.32	25.19	7,396,093	4.32	25.19
	63,948,687			45,694,178		

As at 31 December 2012, the aggregate intrinsic values of options outstanding and exercisable are EUR 26 million (2011: EUR 21 million) and EUR 26 million (2011: nil) respectively.

As at 31 December 2012, total unrecognised compensation costs related to stock options amounted to EUR 2 million (2011: EUR 14 million; 2010: EUR 38 million). These costs are expected to be recognised over a weighted average period of 0.2 years (2011: 1.1 years; 2010: 1.9 years).

Notes to the consolidated annual accounts of ING Bank continued

The fair value of options granted is recognised as an expense under personnel expenses and is allocated over the vesting period of the options. The fair values of the option awards containing a market based performance condition have been determined using a Monte Carlo Simulation. This model takes the risk free interest rate into account (ranging from 2.02 % to 4.62%), as well as the expected life of the options granted (from 5 to 9 years), the exercise price, the current share price (EUR 2.90 - EUR 26.05), the expected volatility of the certificates of ING Groep N.V. shares (25% - 84%) 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.

41 OTHER OPERATING EXPENSES

Other operating expenses

	2012	2011	2010
Depreciation of property and equipment	**362**	371	382
Amortisation of software	**214**	332	312
Computer costs	**725**	707	693
Office expenses	**713**	737	659
Travel and accommodation expenses	**157**	120	102
Advertising and public relations	**495**	594	591
External advisory fees	**253**	332	363
Postal charges	**80**	82	87
Addition/(releases) of provision for reorganisations and relocations	**457**	387	109
Other	**1,255**	737	795
	4,711	4,399	4,093

Other operating expenses include lease and sublease payments in respect of operating leases of EUR 234 million (2011: EUR 148 million; 2010: EUR 192 million). No individual operating lease has terms and conditions that materially affect the amount, timing or certainly of the consolidated cash flows of ING Bank.

For Addition/(releases) of provision for reorganisations and relocations reference is made to the disclosure on the reorganisation provision in Note 18 'Other liabilities'.

Other operating expenses – Other includes in 2012, amongst other, the settlement with US authorities of EUR 473 million as disclosed in Note 28 'Legal proceedings' and the Netherlands bank tax of EUR 175 million.

42 TAXATION
Profit and loss account

Taxation by type

	Netherlands			International			Total		
	2012	2011	2010	2012	2011	2010	2012	2011	2010
Current taxation	**120**	–211	256	**950**	1,033	922	**1,070**	822	1,178
Deferred taxation	**–150**	497	139	**204**	–103	91	**54**	394	230
	–30	286	395	**1,154**	930	1,013	**1,124**	1,216	1,408

The tax charge in the Netherlands decreased with EUR 316 million to EUR –30 million (2011: EUR 286 million), due to lower taxable profits. A significant part of the profit in the Netherlands was non-taxable due to tax exempt divestments.

Notes to the consolidated annual accounts of ING Bank continued

Reconciliation of the weighted average statutory income tax rate to ING Bank's effective income tax rate			
	2012	2011	2010
Result before tax	**4,330**	5,299	5,983
Weighted average statutory tax rate	**28.3%**	27.7%	28.7%
Weighted average statutory tax amount	**1,227**	1,469	1,719
Associates exemption	**–441**	–209	–213
Other income not subject to tax	**–96**	–194	–120
Expenses not deductible for tax purposes	**95**	72	53
Impact on deferred tax from change in tax rates	**25**	12	7
Current tax benefit from previously unrecognised amounts	**–30**	1	
Write-off/reversal of deferred tax assets	**382**	63	13
Adjustment to prior periods	**–38**	2	–51
Effective tax amount	**1,124**	1,216	1,408
Effective tax rate	**26.0 %**	22.9%	23.5%

The weighted average statutory tax rate in 2012 compared to 2011 does not differ significantly.

The weighted average statutory tax rate did not differ significantly in 2011 compared to 2010.

The effective tax rate in 2012 is slightly lower than the weighted average statutory tax rate. This is mainly caused by non-taxable income, current tax benefits from previously unrecognised amounts and prior year adjustments, which are only partly offset by non-deductible expenses and write-offs of deferred tax assets.

The effective tax rate in 2011 was lower than the weighted average statutory tax rate. This was mainly caused by tax exempt income, which was only partly offset by non-deductible expenses and write-off of deferred tax assets.

The effective tax rate in 2010 was lower than the weighted average statutory tax rate, mainly caused by tax exempt income.

Adjustment to prior periods in 2012 relates mainly to a tax settlement.

Adjustment to prior periods in 2011 related to final tax assessments and other marginal corrections.

Adjustment to prior periods in 2010 related to a tax settlement.

Comprehensive income

Income tax related to components of other comprehensive income			
	2012	2011	2010
Unrealised revaluations	**774**	–318	61
Realised gains/losses transferred to profit and loss (reclassifications from equity to profit and loss)	**–58**	189	–17
Changes in cash flow hedge reserve	**–9**	–91	–20
Exchange rate differences	**–6**	37	–20
Other revaluations	**56**	48	–12
Total income tax related to components of other comprehensive income	**757**	–135	–8

Notes to the consolidated annual accounts of ING Bank continued

43 SEGMENTS

ING Bank's segments relate to the internal segmentation by business lines. As of 2012 the internal management reporting structure for the banking operations was changed in order to improve transparency and to reflect the impact of the divestments of ING Direct USA and ING Real Estate Investment Management. The segments have changed accordingly. The comparatives have been adjusted to reflect the new segment structure for the banking operations. ING Bank identifies the following segments:

Segments of ING Bank
Retail Netherlands
Retail Belgium
Retail Germany
Retail Rest of World
Commercial Banking

In 2011, ING Bank identified the following segments: Retail Netherlands, Retail Belgium, ING Direct, Retail Central Europe, Retail Asia, Commercial Banking (excluding Real Estate) and ING Real Estate.

Retail Banking Germany (previously part of ING Direct) is now a separate segment. The remainder of ING Direct is combined with Retail Central Europe and Retail Asia into one new segment Retail Rest of World. ING Real Estate is included in Commercial Banking.

The Management Board of ING Bank N.V. sets the performance targets, approves and monitors the budgets prepared by the business lines. Business lines formulate strategic, commercial and financial policy in conformity with the strategy and performance targets set by the Management Board.

The accounting policies of the segments are the same as those described under Accounting policies for the consolidated annual accounts. Transfer prices for inter-segment transactions are set at arm's length. Corporate expenses are allocated to business lines based on time spent by head office personnel, the relative number of staff, or on the basis of income, expenses and/or assets of the segment.

ING Bank evaluates the results of its segments using a financial performance measure called underlying result. The information presented in this note is in line with the information presented to the Management Board. Underlying result is defined as result under IFRS-EU excluding the impact of divestments and special items. Disclosures on comparative years also reflect the impact of current year's divestments.

The following table specifies the main sources of income of each of the segments:

Specification of the main sources of income of each of the segments

Segment	Main source of income
Retail Netherlands	Income from retail and private banking activities in the Netherlands, including the SME and mid-corporate segments. The main products offered are current and savings accounts, business lending, mortgages and other consumer lending in the Netherlands.
Retail Belgium	Income from retail and private banking activities in Belgium, including the SME and mid-corporate segments. The main products offered are similar to those in the Netherlands.
Retail Germany	Income from retail and private banking activities in Germany. The main products offered are current and savings accounts, mortgages and other customer lending.
Retail Rest of World	Income from retail banking activities in the rest of the world, including the SME and mid-corporate segments in specific countries. The main products offered are similar to those in the Netherlands.
Commercial Banking	Income from wholesale banking activities (a full range of products is offered from cash management to corporate finance), real estate and lease.

In addition to these segments, ING Bank reconciles the total segment results to the total result of ING Bank using the Corporate Line Banking. Corporate Line Banking is a reflection of capital management activities and certain expenses that are not allocated to the banking businesses. ING Group applies a system of capital charging for its banking operations in order to create a comparable basis for the results of business units globally, irrespective of the business units' book equity and the currency they operate in.

This note does not provide information on the revenue specified to each product or service as this is not reported internally and is therefore not readily available.

Notes to the consolidated annual accounts of ING Bank continued

Segments

2012	Retail Nether-lands	Retail Belgium	Retail Germany	Retail Rest of World	Commer-cial Banking	Corporate line Banking	Total
Underlying income							
Net interest result	3,377	1,723	1,141	1,788	3,422	540	11,992
Commission income	485	335	87	328	907	6	2,149
Total investment and other income	35	136	–36	–381	633	–90	297
Total underlying income	3,897	2,194	1,193	1,735	4,963	457	14,438
Underlying expenditure							
Operating expenses	2,340	1,411	669	1,713	2,274	281	8,689
Additions to loan loss provision	665	168	83	251	955		2,122
Other impairments*	13	6			162	29	211
Total underlying expenses	3,018	1,586	752	1,965	3,391	311	11,022
Underlying result before taxation	878	609	441	–230	1,572	146	3,416
Taxation	219	169	161	37	422	23	1,031
Minority interests			1	66	23		91
Underlying net result	660	439	278	–333	1,127	123	2,294
Divestments				1,449			1,449
Special items	–284	–22			–129	–193	–628
Net result	376	417	278	1,116	997	–70	3,115

* Analysed as part of operating expenses

Reconciliation between IFRS-EU and Underlying income, expenses and net result

2012	Income	Expenses	Net result
Underlying	14,438	11,022	2,294
Divestments	1,865	151	1,449
Special items	–4	795	–628
IFRS-EU	16,299	11,968	3,115

Divestments in 2012, includes the gain on sale of ING Direct Canada of EUR 1,135 million, the gain on sale of ING Direct USA of EUR 489 million and the loss of EUR 260 million related to the announced sale of ING Direct UK.

Special items in 2012, includes costs mainly related to the strategic reorganisation measures taken in Retail Netherlands and Commercial Banking of approximately EUR 360 million, the separation of Banking and Insurance, costs related to the final settlement with US authorities concerning transactions subject to sanctions by the US of EUR 386 million, which is partly offset by a pension curtailment of EUR 218 million following the new Dutch employee pension scheme announced in 2012.

Notes to the consolidated annual accounts of ING Bank continued

Segments

2011	Retail Netherlands	Retail Belgium	Retail Germany	Retail Rest of World	Commercial Banking	Corporate line Banking	Total
Underlying income							
Net interest result	3,612	1,606	1,247	1,829	3,739	275	12,308
Commission income	481	336	117	331	977	–13	2,230
Total investment and other income	52	88	–230	–185	307	–23	11
Total underlying income	4,145	2,031	1,134	1,975	5,023	239	14,549
Underlying expenditure							
Operating expenses	2,399	1,425	649	1,635	2,317	106	8,532
Additions to loan loss provision	457	145	91	167	477		1,336
Other impairments*	29	6	–1	1	210	61	307
Total underlying expenses	2,885	1,577	740	1,803	3,004	167	10,175
Underlying result before taxation	1,261	455	395	172	2,019	72	4,373
Taxation	316	108	134	37	485	54	1,135
Minority interests			1	59	19		79
Underlying net result	944	347	259	76	1,516	18	3,160
Divestments	12	2		408	873		1,295
Special items	–246	–12			–80	–112	–450
Net result	710	337	259	484	2,309	–94	4,005

* Analysed as part of operating expenses

Reconciliation between IFRS-EU and Underlying income, expenses and net result

2011	Income	Expenses	Net result
Underlying	14,549	10,175	3,160
Divestments	2,792	1,232	1,295
Special items	–146	489	–450
IFRS-EU	17,195	11,896	4,005

Divestments in 2011 mainly reflects the results on the sale of ING Real Estate Investment Management (REIM) and ING Car Lease as well as the operating result of the divested units.

Special items in 2011 includes costs for the Retail Netherlands change programme and strategic repositioning initiatives at Commercial Banking, additional costs for the combining of ING Bank and Postbank in the Netherlands, the transformation programme in Belgium, further restructuring at ING Real Estate following the sale of ING REIM, and costs related to the separation of Banking and Insurance, as well as an adjustment of the Illiquid Assets Back-up Facility based on higher prepayment behaviour in the underlying Alt-A securities and the result on the repurchase of subordinated loans executed in December 2011 as disclosed in Note 38 ‘Other income’ and Note 13 ‘Subordinated loans’.

Notes to the consolidated annual accounts of ING Bank continued

Segments

2010	Retail Nether-lands	Retail Belgium	Retail Germany	Retail Rest of World	Commer-cial Banking	Corporate line Banking	Total
Underlying income							
Net interest result	3,816	1,608	1,070	1,818	3,672	146	12,129
Commission income	498	345	118	342	939	–13	2,228
Total investment and other income	–4	95	–17	32	739	229	1,074
Total underlying income	4,310	2,047	1,171	2,192	5,350	361	15,431
Underlying expenditure							
Operating expenses	2,337	1,345	607	1,547	2,258	124	8,218
Additions to loan loss provision	560	160	120	118	490		1,448
Other impairments*	39		3	1	385	34	461
Total underlying expenses	2,936	1,505	729	1,666	3,133	158	10,127
Underlying result before taxation	1,374	542	442	526	2,217	203	5,304
Taxation	361	91	139	143	511	40	1,285
Minority interests		–6	1	42	33		70
Underlying net result	1,013	458	302	340	1,674	162	3,949
Divestments	16	75		739	56		886
Special items	–232	–13			–65	–30	–340
Net result	797	520	302	1,079	1,664	133	4,495

* Analysed as part of operating expenses

Reconciliation between IFRS-EU and Underlying income, expenses and net result

2010	Income	Expenses	Net result
Underlying	15,431	10,127	3,949
Divestments	2,470	1,335	886
Special items		456	–340
IFRS-EU	17,901	11,918	4,495

Divestments in 2010 mainly relates to the sale of Private Banking businesses in Asia and Switzerland and to the sale of ING's 50% stake in Summit Industrial Fund LP as well as the operating result of the in 2010 and 2011 divested units.

Special items in 2010 mainly relates to the combining of the Dutch retail activities, the Belgium retail transformation program, the cost related to the separation of Banking and Insurance and restructuring cost.

Interest income and interest expenses breakdown by segments

2012	**Retail Nether-lands**	**Retail Belgium**	**Retail Germany**	**Retail Rest of World**	**Commer-cial Banking**	**Corporate line Banking**	**Total external**
Interest income	**7,986**	**2,684**	**3,738**	**6,976**	**36,922**	**1,965**	**60,271**
Interest expense	**1,952**	**997**	**2,676**	**4,996**	**34,047**	**3,355**	**48,023**
	6,034	**1,687**	**1,062**	**1,980**	**2,875**	**–1,390**	**12,248**

Interest income and interest expenses breakdown by segments

2011	Retail Nether-lands	Retail Belgium	Retail Germany	Retail Rest of World	Commer-cial Banking	Corporate line Banking	Total external
Interest income	8,169	2,959	3,688	8,856	39,997	1,534	65,203
Interest expense	1,708	1,202	2,411	5,619	37,534	3,146	51,620
	6,461	1,757	1,277	3,237	2,463	–1,612	13,583

Notes to the consolidated annual accounts of ING Bank continued

Interest income and interest expenses breakdown by segments

2010	Retail Nether-lands	Retail Belgium	Retail Germany	Retail Rest of World	Commer-cial Banking	Corporate line Banking	Total external
Interest income	7,916	3,093	2,665	9,391	44,265	1,621	68,951
Interest expense	1,524	1,015	1,471	5,917	42,772	2,665	55,364
	6,392	2,078	1,194	3,474	1,493	–1,044	13,587

IFRS-EU balance sheets by segment are not reported internally to, and not managed by, the chief operating decision maker. IFRS-EU balance sheet information is prepared for the Banking operations as a whole.

Further balance sheet related information for the banking operations is provided by segment in the section 'Risk Management'.

44 INFORMATION ON GEOGRAPHICAL AREAS

ING Bank's business lines operate in seven main geographical areas: the Netherlands, Belgium, Rest of Europe, North America, Latin America, Asia and Australia. The Netherlands is ING Bank's country of domicile. Geographical distribution of income is based on the origin of revenue.

A geographical area is a distinguishable component of the Bank 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.

Geographical areas

2012	**Nether-lands**	**Bel-gium**	**Rest of Europe**	**North Ame-rica**	**Latin Ame-rica**	**Asia**	**Aus-tralia**	**Other**	**Elimi-nations**	**Total**
Total income	**7,009**	**3,020**	**4,048**	**1,007**	**64**	**766**	**453**		**–68**	**16,299**
Total assets	**500,633**	**171,669**	**327,763**	**51,592**	**2,051**	**42,807**	**41,734**	**220**	**–302,401**	**836,068**

Geographical areas

2011	Nether-lands	Bel-gium	Rest of Europe	North Ame-rica	Latin Ame-rica	Asia	Aus-tralia	Other	Elimi-nations	Total
Total income	6,353	2,498	4,969	1,908	44	897	525		1	17,195
Total assets	512,211	169,599	310,809	179,095	9,685	44,181	41,939	207	–306,561	961,165

Geographical areas

2010	Nether-lands	Bel-gium	Rest of Europe	North Ame-rica	Latin Ame-rica	Asia	Aus-tralia	Other	Elimi-nations	Total
Total income	6,378	2,666	5,147	2,320	180	784	427		–1	17,901
Total assets	496,336	150,528	312,579	169,932	13,558	40,969	42,151	153	–293,133	933,073

45 NET CASH FLOW FROM INVESTING ACTIVITIES

Information on the impact of companies acquired or disposed of is presented in Note 27 'Companies acquired and companies disposed'.

Notes to the consolidated annual accounts of ING Bank continued

46 INTEREST AND DIVIDEND INCLUDED IN NET CASH FLOW

Interest and dividend received and paid	2012	2011	2010
Interest received	**61,789**	66,855	70,816
Interest paid	**–48,958**	–52,693	–56,357
	12,831	14,162	14,459
Dividend received	**97**	127	187
Dividend paid	**–2,125**	–3,000	–200

47 CASH AND CASH EQUIVALENTS

Cash and cash equivalents	2012	2011	2010
Treasury bills and other eligible bills	**518**	2,611	4,442
Amounts due from/to banks	**4,633**	–4,506	3,227
Cash and balances with central banks	**15,447**	28,112	9,519
Cash and Cash equivalents classified as Assets held for sale	**14**	4,980	
Cash and cash equivalents at end of year	**20,612**	31,197	17,188

Treasury bills and other eligible bills included in cash and cash equivalents	2012	2011	2010
Treasury bills and other eligible bills included in trading assets	**79**	1,471	1,698
Treasury bills and other eligible bills included in available-for-sale investments	**439**	1,140	2,744
	518	2,611	4,442

Amounts due to/from banks	2012	2011	2010
Included in cash and cash equivalents			
– amounts due to banks	**–12,147**	–19,122	–12,898
– amounts due from banks	**16,780**	14,616	16,125
	4,633	–4,506	3,227
Not included in cash and cash equivalents			
– amounts due to banks	**–26,557**	–53,111	–59,954
– amounts due from banks	**22,273**	30,707	35,703
	–4,284	–22,404	–24,251
Total as included in balance sheet			
– amounts due to banks	**–38,704**	–72,233	–72,852
– amounts due from banks	**39,053**	45,323	51,828
	349	–26,910	–21,024

Cash and cash equivalents includes amounts due to/from banks with a term of less than three months from the date on which they were acquired.

ING Bank's Risk management (including liquidity) is explained in the 'Risk management' section.

Notes to the consolidated annual accounts of ING Bank continued

48 SUBSEQUENT EVENTS

On 1 February 2013, the nationalisation of SNS Reaal, a Dutch financial institution, was announced. As a consequence of the arrangements made by the Dutch government, ING Bank and other Dutch banks will be required to pay a one-time levy of EUR 1 billion in 2014. For ING, based on current limited information, this is estimated to result in a charge of EUR 300-350 million. ING will carefully assess further details on form, amount and timing of the levy as they become available.

Risk management

amounts in millions of euros, unless stated otherwise

RISK MANAGEMENT

Taking risks is an essential part of banking business. To ensure controlled and measured risk-taking throughout the organisation, ING Bank operates through a comprehensive risk management framework. This ensures that these risks are identified, well understood, accurately measured, controlled and pro-actively managed at all levels of the organisation so that ING Bank's financial strength is safeguarded.

ING Bank uses risk assessment and measurement models to guide decision making. To guard the quality of these risk models there is a governance process for approval of risk models, methods and parameters. This ensures compliance with business and regulatory requirements, via a clear assignment of responsibility and accountability. Nevertheless, users of the disclosed information in the risk management section should bear in mind that the analyses provided are based on forward looking models that rely on assumptions and estimates of future events, some of which are considered extreme and therefore unlikely to occur. In the normal course of business ING Bank continues to develop, recalibrate and refine the various models that support risk metrics, which may result in changes to the risk analyses as disclosed.

Although ING Bank strives towards a reporting basis that is consistent over time, the risk management section is subject to enhancements and improvements. These are needed to reflect the continuous developments that take place in ING Bank's risk function and on-going (macro-) economic developments that require additional disclosures. Also the continuing changes in the environment in which ING Bank operates like new regulations but also voluntary initiatives from the banks themselves need to be reflected. In October 2012, the Financial Stability Board (FSB) published the results of the 'Enhanced Disclosure Task Force' (EDTF). This taskforce consisted of a collaboration between users and preparers of financial reports, and the recommendations are therefore not only based on expertise from but also supported by global financial institutions (ING Bank included), investors, rating agencies and external auditors. The taskforce identified some fundamental principles for enhancing the bank's risk disclosures and thereby contributing towards the further development of financial disclosures that communicate banks' business models and the key risks arising from them.

As ING Bank's risk disclosure has been striving to generate the same high-quality and transparent description of its risk, it embraces the EDTF principles and recommendations and used it to further fine-tune its practice on risk disclosures. ING Bank is of the opinion that disclosures should be clear, balanced and understandable by external observers, and that risk information is disclosed on a timely basis. The latter not only applies for the Annual Accounts and the risk management paragraph but also for the concurrent publication of the Pillar 3 section.

The risk management section describes the ING Bank business model, and the key risks that arise from it. It also 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', risk management as independent observer in the 'second line of defence' and the internal audit function in the 'third line'. The key risks resulting from the bank's business model are managed by dedicated and specific risk management departments that each covers their own area of expertise. Each of these departments explains the respective governance framework, relevant risks and how they are expressed on a qualitative and quantitative basis within this report. Although ING Bank strives towards a reporting basis that is consistent over time, changes arise due to new regulations and on-going (macro-) economic developments that require additional disclosures.

Although it is ING Bank's ambition to disclose all risk related items into one comprehensive section, this is in practice not always possible. For instance, the capital-linked recommendations that have been listed by EDTF are included in the Capital Management section. Further, assets and liabilities per contractual maturity via predefined time-bands are displayed in specific notes of the Consolidated Annual Accounts. The additional Pillar 3 information that stems from the Basel II accords provides detailed tables on ING Bank's credit portfolio. An overview of all the EDTF recommendations and how they are being followed-up can also be found in the introduction of this same Pillar 3 section. It is ING Bank's ambition to incorporate most of the information into the risk management section such that all disclosed risk information is present in one section of the Annual Report. This contributes to the EDTF recommendations that strive towards transparent and comparative risk disclosures by global banks

With respect to comparability of risk disclosures, it is important to note that since the start of the financial crisis there has been much debate on the risk-weighted capitalisation of banks, and in specific whether internal models are appropriate for such purposes. ING Bank is of the opinion that internal models are very valuable since they better represent the bank's business model, its customers and its credit quality than a standardised approach. However, we also acknowledge that interpretations between banks and also between regulators may differ. This stresses the importance of having a level playing field via a uniform banking supervision within the EU, but also includes improving and aligning risk disclosures as proposed by the EDTF as much as possible. To reflect this importance, ING Bank aligned its Risk Weighted Assets (RWA) disclosure as much as possible with the EDTF set-up to present RWAs on a detailed and granular level, and to make our risk profile more comparable with peers.

Many elements of the EDTF recommendations were already reflected in last year's risk disclosure, although not all in the form that can be directly linked to the EDTF set-up. Given the limited time between publication of the EDTF recommendations and publishing date of this report, ING Bank has decided to incorporate the most feasible elements of the EDTF recommendations into this year's risk disclosure.

Risk management continued

The remaining others will be disclosed in future reports.

Most significant changes due to EDTF

Subject	Improvement	Page
Business model and risk culture	Explicit inclusion of a description and how these link to the already disclosed key risks and key model disclosures	118
Risk appetite framework	More extensive description	119
RWA disclosure	More aligned with the EDTF set-up, and also better linked to ING Bank's capital position and balance sheet composition.	133
Credit portfolio per type (per exposure class, per product type and per geography) and Basel II model approach	Better alignment to the EDTF recommendations of our disclosures, More aligned Information on the bank's credit quality via non-performing loan disclosures, provisions and past due loans	141
Forbearance	Inclusion of a quantitative and qualitative disclosure in line with EDTF, also in the light of the recent European Securities and Markets Authority (ESMA) proposals	148

The results of all these improvements can be found within the below described sections that describe qualitative and quantitative elements of ING Bank's risk practice. The set-up of the risk disclosure is as follows:

- Mission and objective of ING Bank's risk management. This is followed by a description of our risk governance where ING Bank's risk culture is described – including how risk is embedded throughout the organisation based on the three lines of defence model.
- ING Bank's business model and the resulting key financial and non-financial risks. This section includes the functioning of our Risk Appetite Framework at bank level and how it's translated throughout the organisation.
- Quantitative risk disclosure on Bank level, where the most common metrics over all different risk types are displayed: RWA via regulatory capital and economic capital, followed by an overview of the key risk developments in 2012.
- Detailed disclosure of the most significant financial and non-financial risk types, where per risk type the organisation, governance, risk metrics and risk profile is elaborated.
- Additional information on ING Bank's credit portfolio, in terms of composition, credit quality and modelling approaches, can be found in the Pillar 3 section.

MISSION

The mission of ING Bank's risk management function is to have a sustainable competitive advantage by fully integrating risk management into daily business activities and strategic planning. This mission is fully embedded in ING Bank's business processes. The following principles support this mission:

- Products and portfolios are structured, underwritten, priced, approved and managed appropriately and compliance with internal and external rules and guidelines is monitored;
- ING Bank's risk profile is transparent, managed to avoid surprises, and is consistent with delegated authorities;
- Delegated authorities are consistent with the overall Bank strategy and risk appetite;
- Transparent communication to internal and external stakeholders on risk management and value creation.

Risk management benefits ING Bank and its stakeholders directly by providing more efficient capitalisation and lower costs of risk and funding. The cost of capital is reduced by working closely with rating agencies and regulators to align capital requirements to risks. Risk Management helps business units to lower funding costs, make use of the latest risk management tools and skills, and lower strategic risk. This enables them to focus on their customers with excellent service, fair and transparent products and pricing. Thus maintaining a loyal customer base and a leadership position in our key markets and product franchises.

RISK GOVERNANCE

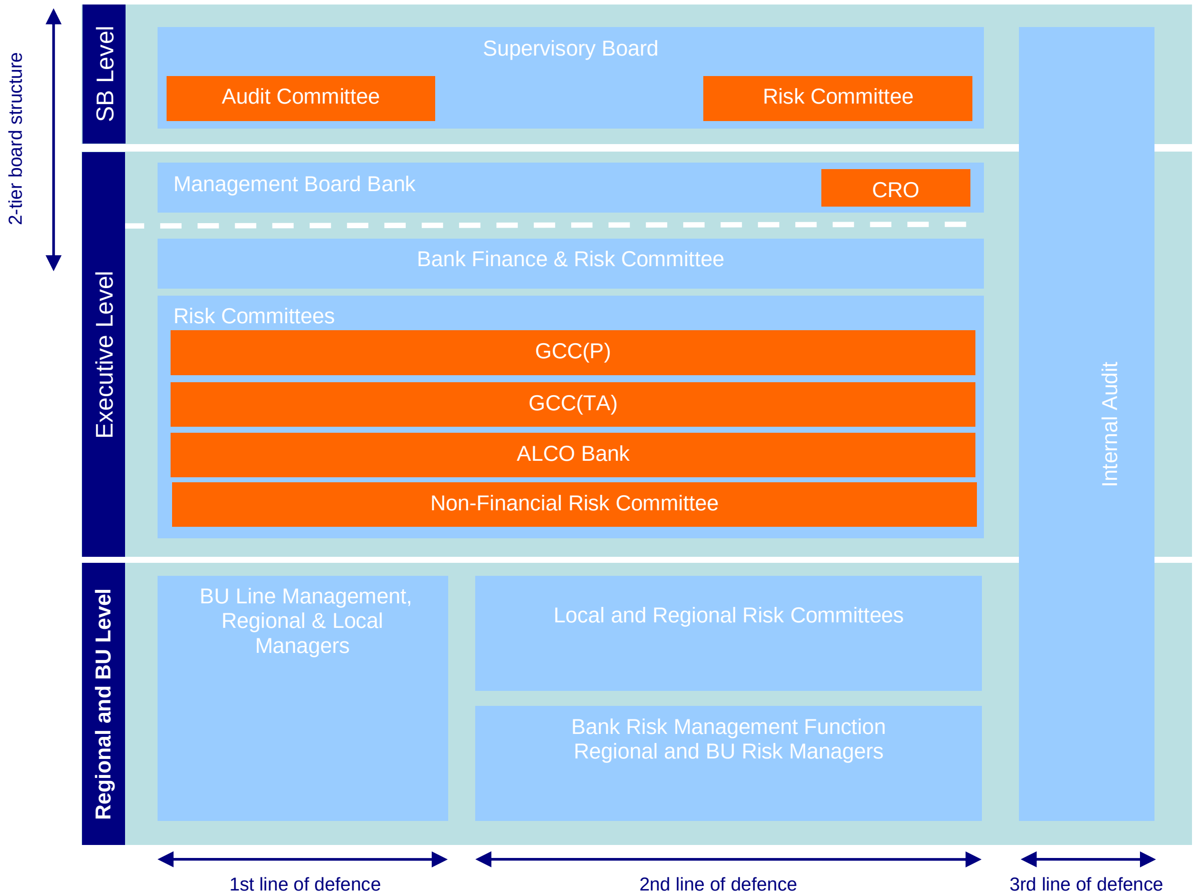
ING Bank's risk management framework is based on a 'three lines of defence' governance model, whereby ownership for risk is taken at three levels in the organisation. This governance framework ensures that risk is managed in line with the risk appetite as defined by the Management Board Bank (and ratified by the Supervisory Board) and is cascaded throughout ING Bank.

The commercial departments form the first line of defence. They originate loans, deposits, insurance and wealth management products and other products, they know our customers well and are best placed to act in both the customers' and ING's best interest.

The second line of defence consists of the risk management organisation, headed by the chief risk officer (CRO), and the corporate legal function. The membership of the CRO on the MBB ensures that risk management issues are heard and discussed at the highest level, thus establishing the appropriate tone at the top. The CRO steers a functional, independent risk organisation both at bank and regional/local level, which supports the commercial departments in their decision-making, but which also has sufficient countervailing power to prevent risk concentrations and other forms of excessive risks.

Risk management continued

The internal audit function provides an on-going independent (i.e. outside of the risk organisation) and objective assessment of the effectiveness of internal controls of the first two lines, including financial and non-financial risk management and forms the third line of defence.



Board level risk oversight
ING Bank has a two-tier board structure consisting of the Management Board Bank and the Supervisory Board; both tiers play an important role in managing and monitoring the risk management framework.

- The Supervisory Board is responsible for supervising the policy of the Management Board Bank, the general course of affairs of the Company and its business (including its financial policies and corporate structure). For risk management purposes the Supervisory Board is assisted by two sub-committees:
  - The Audit Committee, which assists the Supervisory Board in reviewing and assessing ING Bank’s major risk exposures and the operation of internal risk management and control systems, as well as policies and procedures regarding compliance with applicable laws and regulations; and
  - The Risk Committee, which assists the Supervisory Board on matters related to risk governance, risk policies and risk appetite setting.
- The Management Board Bank (MBB) is responsible for managing risks associated with the activities of ING Bank. The MBB’s responsibilities include ensuring that internal risk management and control systems are effective and that ING Bank complies with relevant legislation and regulations. On a regular basis, the MBB reports on these issues and discusses the internal risk management and control systems with the Supervisory Board. On a quarterly basis, the MBB reports on the Bank’s risk profile versus its risk appetite to the Risk Committee, explaining changes in the risk profile.

The Chief Risk Officer (CRO) ensures that the boards are well informed and understand ING Bank’s risk position at all times. Every quarter, the CRO reports to the board committees on ING Bank’s risk appetite levels and on ING Bank’s risk profile. In addition the CRO briefs the board committees on developments in internal and external risk related issues and ensures the board committees understand specific risk concepts.

Risk management continued

As part of the integration of risk management into the annual strategic planning process, the MBB issues a Planning Letter which provides the corporate strategic direction, and addresses key risk issues. Based on the Planning Letter, the business lines and business units develop their business plans which align with the Bank's strategic direction. The process includes a qualitative and quantitative assessment of the risks involved. As part of the process strategic limits and risk appetite levels are explicitly discussed. Based on the business plans, the Management Board Bank formulates the Strategic Plan which is submitted to the Supervisory Board for approval.

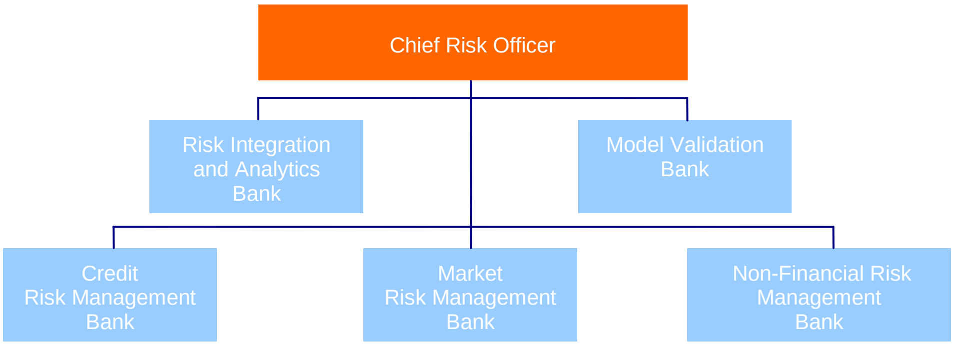
Executive Level
The ING Bank Finance and Risk Committee (F&RC) is a platform for the CRO and the Chief Financial Officer (CFO), along with their respective direct reports, to discuss and decide on issues that relate to both the finance and risk domains. The primary responsibility of the F&RC is to co-ordinate, on a high level, the finance and risk decisions that have an impact on internal and/or external reporting.

The risk committees described below act within the overall risk policy and delegated authorities granted by the Management Board Bank:

- ING Bank Credit Committee – Policy (GCC(P)): Discusses and approves policies, methodologies and procedures related to credit, country and reputation risks within ING Bank. The GCC(P) meets on a monthly basis;
- ING Bank Credit Committee – Transaction Approval (GCC(TA)): Discusses and approves transactions which entail taking credit risk (including issuer investment risk). The GCC(TA) meets twice a week;
- Asset and Liability Committee ING Bank (ALCO Bank): Discusses and approves on a monthly basis the overall risk profile of all ING Bank's market risks that occur in its Commercial Banking and Retail Banking activities. ALCO Bank defines the policy regarding funding, liquidity, interest rate mismatch and solvency for ING Bank; and
- Non-Financial Risk Committee Bank (NFRC Bank): Accountable for the design and maintenance of the Risk Management Framework including the ORM, Compliance and Legal policies, minimum standards, procedures and guidelines; the NFRC structure; development of tools, methods and key parameters (incl. major changes) for risk identification, measurement and monitoring/ reporting.

Risk Management Function
The risk management function is embedded in all levels of ING Bank organisation. The Chief Risk Officer, who is a MBB member, bears primary overall responsibility for the risk management function. The CRO is responsible for the management and control of risk on a consolidated level to ensure that ING Bank'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.

The organisation chart below illustrates the functional reporting lines within ING Bank risk organisation.



The heads of these departments (Risk General Managers) report to the CRO and bear direct responsibility for risk (mitigating) decisions at the Bank level. The Risk General Managers and the CRO are responsible for the harmonisation and standardisation of risk management practices.

In addition two staff departments report to the CRO:

- Risk Integration and Analytics (RI&A), which is responsible for inter-risk aggregation processes and for providing bank-wide risk information to the CRO and Management Board Bank; and
- Model Validation (MV), which carries out periodic validations of all material risk models used by ING Bank. To ensure independence from the business and other risk departments, the department head reports directly to the CRO.

Risk policies
ING Bank has a framework of risk management policies, procedures and standards in place to create consistency throughout the organisation, and to define minimum requirements that are binding to all business units. The governance framework of the business units aligns with the Bank's level framework and meets local (regulatory) requirements. Senior management is responsible to ensure policies, procedures and standards are implemented and adhered to. Policies, procedures and standards are regularly reviewed and updated via the relevant risk committees to reflect changes in markets, products and emerging best practices.

Risk model governance and model validation

All risk models are built according to the internal risk modelling methodology standards and model life cycle, in line with regulatory requirements. After thorough review of the documentation by model development departments and Model Validation (MV), specific model risk committees for each risk type approve the models. After approval by the dedicated risk committee, a risk model is implemented and entitled for usage. In addition, MV validates each model on a regular basis. The validation results and its capital impact are reported on a quarterly basis to senior management and to DNB. Independent Model Validation is one of the cornerstones of ING Bank's risk model governance. It consists of the process of determining that a model is appropriate for its intended use. It is an on-going process whereby the reliability of the model is verified at different stages during its lifecycle: at conception, before approval, periodically after implementation, and when significant changes are made to the model. The validation process contains a mix of developmental evidence, process verification and outcome analysis. To ensure the independence of Model Validation, this department reports directly to the CRO.

The Model Validation department undertakes backtesting of all existing risk models. In addition to evaluating the underlying model parameters, ensuring continued applicability of the models for the relevant portfolios, and discussing the model performance with front office and risk users of the models, Model Validation also tests the observed performance of a model (and its components) with the predicted level. A model where the observed results deviate from the predicted results is a candidate for either re-calibration or re-development.

BUSINESS MODEL AND RISK PROFILE

Business Model

ING Bank is a large European Retail Bank with a strong world-class Commercial Banking franchise operating an extensive network with presence in over 40 countries. Next to the operations in its historic markets of the Benelux, ING has developed a strong (internet) banking franchise in a number of European countries and in Asia and Australia.

This business model is translated into the following specific ambitions:

- ING Bank's long term ambition is to become a strong predominantly European focussed bank with a low risk balance sheet offering a competitive return on equity of 10% to 13% through low costs and low risks.
- Retail Banking will pursue the One Bank strategy: ING Bank will converge to one retail model: "easy, fair, and at low costs".
- Commercial Banking will build further on its present strengths: leadership position in core markets (Benelux, Germany and Central and Eastern Europe) and in its core products (Structured Finance and Benelux Corporate market).

Key Risks

ING Bank recognises the following key risks (financial as well as non-financial risks) that are associated with its business activities.

Financial risks:

- Credit risk: the risk of potential loss due to default by ING Bank's debtors (including bond issuers) or trading counterparties;
- Market risk: the risk of potential loss due to adverse movements in market variables. Market risks include interest rate, equity, real estate, implied volatility, credit spread, and foreign exchange risks;
- Liquidity risk: 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. Liquidity risk can materialise both through trading and non-trading positions; and
- Business risk: the exposure to value loss due to fluctuations in volumes, margins and costs, as well as customer behaviour risk. 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; and
- Compliance risk: the risk of impairment of ING Bank's integrity as a result of failure (or perceived failure) to comply with relevant laws, regulations, ING Bank policies and standards as in ING Bank Business Principles.

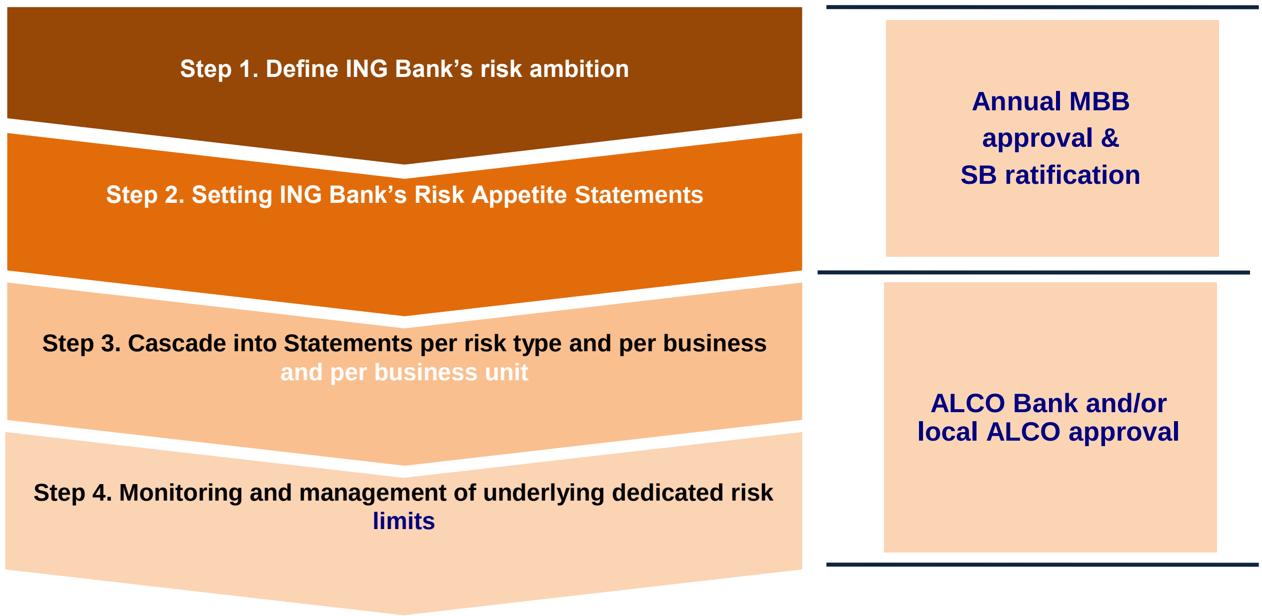
Risk Appetite Framework

ING Bank uses an integrated risk management approach for its banking activities. The Management Board Bank (MBB) uses the bank risk appetite framework both to set boundaries for the budget process (MTP) monitor and manage the actual risk profile in relation to the risk appetite.

Process

The ING Bank risk appetite framework consists of specific risk appetite statements which are approved in the MBB on an annual basis or more frequently if this is felt necessary, and reviewed quarterly in the MBB and the Supervisory Board (SB). The bank risk appetite process is focused on setting the appetite at the consolidated Bank level and across the different risk categories. It is therefore essentially a top down process, which bases itself on the ambition of the Bank in terms of its risk profile and a function of the actual risk profile, the regulatory environment and the economic context. The process is set up according to the following steps:

Risk management continued



Step 1. Define ING Bank's risk ambition
ING Bank defines a Bank Risk Appetite Framework in line with its business model and risk ambition, which is currently formulated as following:

ING Bank Risk Appetite: ING Bank has the ambition to be and remain a strong bank, resilient to possible adverse events on a standalone basis and able to address such developments based on its own strengths and resources.

In order to achieve this risk ambition, ING Bank believes it should have the following targets:
- Rating: have a rating ambition which is in line with the strongest among its peer group;
- State Support: be able to restore capital and liquidity position following a stress situation on its own strength;
- Regulatory based: be in a position to meet current and forthcoming regulatory constraints and targets;
- Peer comparison based: have a risk profile that compares favourably to its main banking peers.

Step 2. Setting ING Bank Risk Appetite Statements
Based on ING Bank's risk ambition, specific targets are set for both financial and non-financial risks:

Financial risks
For financial risks, ING Bank expresses its risk appetite as the tolerance to allow key ratios to deviate from their target levels. Therefore the high level risk ambition is translated into quantitative targets on ING Bank level for solvency risk, liquidity & funding risk and for concentration & event risk.

The solvency risk appetite is closely aligned to Capital Management activities and policies. ING Bank has expressed tolerances for its risk weighted solvency position (core tier 1 ratio), for non-risk weighted solvency (leverage ratio) and for more value based solvency (economic capital). The solvency risk appetite statements are not only compared to the actual reported level, but also include the potential impact of a standardised and pre-determined 1 in 10 years stress event (i.e. at the 90% confidence level and a 1 year horizon). Based on this mild stress scenario the impact on ING Bank's earnings, revaluation reserve and RWA is calculated (which are labelled as earnings-at-risk, revaluation reserve-at-risk and RWA-at-risk). These stressed figures are used as input for a two year simulation which depicts the developments of ING Bank's solvency level versus its risk appetite.

Liquidity and funding risk have two dimensions: where liquidity focuses on having a sufficient buffer to cope with the short term situation, managing the funding profile ensures long term compliance to both internal and external targets. Managing liquidity and funding risk focuses on both 'business as usual' (based on the run-off profile to show the stickiness of deposits combined with the run-off of assets without new production) and a stressed situation. There we define liquidity risk as the time to survive a specific scenario, while for funding risk we focus on the maximum funding gap allowed.

The concentration and event risk appetite set at ING Bank level are directly translated into corresponding limits in the underlying credit, market and liquidity & funding risk appetite statements.

Non-financial risks
To ensure robust non-financial risk management, ING Bank monitors the implementation of ING Bank's Risk Policies and Minimum Standards. Business units have to demonstrate that the appropriate steps have been taken to control their operational, compliance and legal risks. ING Bank applies Key Control testing scorecards to measure the quality of the internal controls within a business unit, which are based on the ability to demonstrate that the required risk management processes are in place and effective within the business units.

Key Control testing forms one of the inputs of the Non-Financial Risk Dashboard (NFRD) which is a report that is a fixed item on the agenda for the meetings of the MBB and the Risk Committee. NFRD provides management at all organisational levels with information on their key operational, compliance and legal risks. NFRD is based on their risk tolerance within their business and a clear description of the risks and responses enabling management to prioritise and to manage operational, compliance and legal risks.

Step 3. Cascade into statements per risk type and per business
The Bank Risk Appetite is translated per risk type, which is further cascaded down through the organisation to the lowest level needed. The risk appetite statements are then translated into dedicated underlying risk limits which are used for day-to-day monitoring and management of ING Bank's risks.

For financial risks a sequence of different risk appetite frameworks are implemented to address the most significant risks. This implies that a whole framework of credit risk limits is in place that monitors the overall quality of the ING Bank credit portfolio, but also of all the underlying portfolios. In addition, specific concentration risk appetites are defined on product level, geographic level and (single name) counterparty level which are cascaded down into the organisation. For market risk, the risk appetite for the trading book activities within Financial Markets is accompanied by a risk appetite framework for market risks in the banking books. For both types of market risk, limits at Bank level are translated down into the organisation. The liquidity & funding risk appetite statements that are defined on ING Bank level are translated down into the organisation, taking the liquidity & funding specific situation of each (solo) unit into account.

The non-financial risk appetite framework that is described under the previous step is cascaded down within the organisation without any need to make specific adjustments for each of the reporting solo entity.

Step 4. Monitoring and management of underlying risk limits
In order to verify that it remains within the risk appetite framework as it is executing its budget, ING reports monthly through regular reporting towards senior management committees as ALCO Bank. The Risk Management Report reflecting the exposure of ING Bank against the Risk Appetite targets is submitted to the MBB and to the (Risk Committee of the) Supervisory Board.

Stress testing
Stress testing is a key tool of risk management that involves consideration of the impact of adverse movements in one or more risk factors. Its importance and awareness has been substantially increased as a result of the recent financial crisis. For ING Bank, stress testing evaluates the bank's financial stability under severe but plausible stress scenarios and assists in decision-making that assures that the bank remains a financially-healthy on-going concern after a severe event occurs. Stress testing is used to understand what happens to ING Bank's ability to meet its external and internal capital as well as liquidity requirements, if external conditions change for the worse over a period of time and is expressed in increased RWA, risk costs and losses. The scope of stress testing can include the whole balance sheet of ING Bank, but it can also be used to analyse the potential impact on certain asset classes or certain activities. Stress testing helps ensure the risks we take remain within our Risk Appetite, and is a key component of our capital management and internal capital adequacy assessment processes (ICAAP). Stress testing outcomes are regularly reviewed by senior management, including the Finance & Risk Committee.

ING Bank regularly performs ad-hoc stress testing which has become a very important risk management tool during the past couple of years. Although stress testing is not formally part of the Bank Risk Appetite Statements, it is an integral part of ING Bank's risk management practice. Bank-wide stress tests are conducted under the governance of the Stress Test Steering Committee (STSC). All stakeholders are represented in the STSC, such as representatives of the different Corporate Risk departments, Capital Management, Finance and the Economic Bureau. The STSC ensures a solid stress test process and submits the stress test results to the Finance & Risk Committee for formal approval.

Internal stress testing
Our internal stress testing program utilises stress scenarios featuring a range of severities based on exceptional, but plausible adverse market and economic events. These stress scenarios are evaluated across the organisation, and results are integrated to develop an enterprise-wide view of the impacts on our financial results and capital requirements. This program uses situation specific macroeconomic projections that are then transformed into stress impacts on various types of risk across the organisation. Our evaluations indicate whether the resulting capital and financial impacts of these stress scenarios are within our ability to manage.

Risk management continued

Sector-wide stress testing
In addition to the enterprise-wide program, ING takes part in a broad range of stress testing activities that are specific to a particular line of business, portfolio or risk type including market risk, liquidity risk, structural interest rate risk, retail and wholesale credit risk. Test results are used in a variety of decision-making processes including adjustments to certain risk limits, specific portfolios, and business implementation strategies.
In October 2012, the European Banking Authority published the results of a capital requirements exercise. These confirmed that the Bank remains well capitalised with a strong core Tier 1 capital ratio.

ECONOMIC CAPITAL

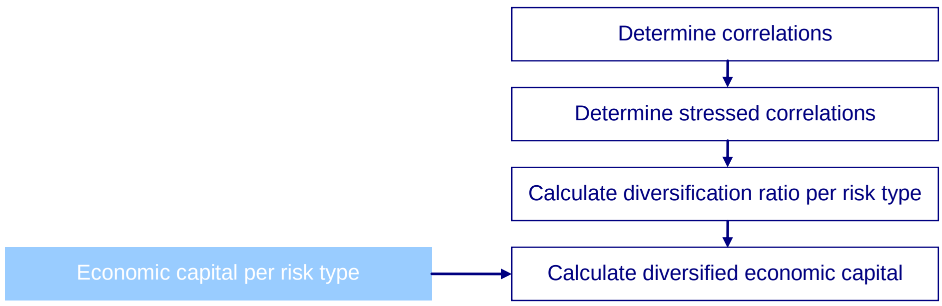
Model Disclosure
This model disclosure section explains the methodologies and models used to determine Economic Capital (EC) the disclosed metrics. The risk models for the EC calculations are reviewed on a periodic basis and validated by the internal Model Validation department. The Economic Capital calculation is also used as part of the Basel II Pillar 2 Internal Capital Adequacy Assessment Process (ICAAP) and the Supervisory Review and Evaluation Process (SREP) that is performed regularly by the Dutch Central Bank.

Economic Capital is defined as the amount of capital that a transaction or business unit requires in order to support the economic risks it takes. In general EC is measured as the unexpected loss above the expected loss at a given confidence level. This Economic Capital definition is in line with the net market value (or surplus) definition. The process of EC modelling enables ING Bank to allocate Economic Capital to the business units and support risk-adjusted performance measurement (RAROC). The use of RAROC increases focus on risks versus rewards in the decision making process, and consequently stimulates the use of scarce capital in the most efficient way.

The following fundamental principles and definitions have been established for the model:
- ING Bank uses a one-sided confidence level of 99.95% - consistent with ING's target debt rating (AA) - and a one-year time horizon to calculate EC;
- It is assumed that all currently known measurable sources of risk are included;
- The best estimate risk assumptions are as objective as possible and based on proper analysis of statistical data. There is one set of best-estimate assumptions for each risk type to be used at ING Bank;
- The EC calculation is based on fair value principles. Where complete and efficient markets exist, fair value is equal to market value;
- The EC calculations reflect known embedded options and the influence of customer behaviour in banking products;
- The EC calculations are on a pre-tax basis and do not consider the effect of regulatory accounting and solvency requirements on capital levels; and
- The framework does not include any franchise value of the business, discretionary management intervention or future business volumes and margins.

Specific measurement by risk type is described in greater detail in the separate risk type sections.

Aggregation model
The main processes executed in ING Bank Economic Capital aggregation model are depicted in the flowchart below. The white boxes show the processes performed by the model while the shaded box indicates inputs from other risk departments.



Correlation factors between risk types used for diversification are based on best estimate assumptions supported by statistical analysis of historical data, ING Bank risk expert judgement, external benchmark studies and common logic. As shown in the flow-chart, the correlation factors are stressed upwards where necessary to account for potential measurement inaccuracy in extreme events due to limited historic data observations. Expert opinion is used for aggregating business and operational risk.

Risk management continued

The Economic Capital for ING Bank involves the aggregation of the underlying EC of five risk types, namely credit, transfer, market, operational and business risks. Model disclosures are given in the respective risk sections. These risk types are aggregated to provide a total diversified ING Bank Economic Capital by applying the variance-covariance approach with a 5 x 5 inter-risk correlation matrix.
For allocation of Economic Capital to units and products, diversification factors are calculated for each risk type. These factors are applied consistently throughout ING Bank. The level of diversification benefit is dependent on both the inter-risk correlations as well as the relative size of the undiversified EC exposure for each risk type.

Reporting Framework
For each business unit and product line, the gross Economic Capital for each risk type is delivered. The net Economic Capital figures are calculated by taking the product of the gross EC and one minus the diversification factor. Total Economic Capital is calculated as the sum of the net EC for each risk type at all reporting levels.

Economic Capital and Regulatory Capital
Main risk management tools for ING Bank are Economic Capital (EC) and Regulatory Capital (RC). Both of these Capital metrics are used to determine the amount of capital that a transaction or business unit requires to support the economic risks it faces. RC is driven by methodologies prescribed by regulators whereas EC is driven by internally developed models.

Economic capital is a non-accounting measure which is inherently subject to dynamic changes and updates as a result of ING Bank's portfolio mix and general market developments. ING Bank has been and will continue recalibrating the underlying assumptions to its economic capital models, which may have a material impact on the economic capital values going forward.

The tables below provide ING Bank's Economic Capital and Regulatory Capital by risk type and business line. The main driver of the decrease in capitals compared to 2011 is the divestment of ING Direct US and ING Direct Canada in combination with the further de-risking of the balance sheet. Excluding ING Direct US and Canada in 2011, the total EC for 2011 would have been EUR 24 billion and the total RC for 2011 would have been EUR 23.5 billion.

Economic and Regulatory Capital (Bank diversified only) by risk type

	Economic Capital		Regulatory Capital	
	2012	2011	**2012**	2011
Credit risk	**11,875**	14,365	**18,684**	22,474
Add-on credit risk	**4,248**			
Market risk	**6,326**	8,262	**772**	1,124
Business risk	**1,837**	2,448		
Operational risk	**1,763**	1,683	**2,836**	2,836
Total banking operations	**26,049**	26,758	**22,292**	26,434

Economic Capital (Bank diversified only) by business line combination

	Economic Capital		Regulatory Capital	
	2012	2011	**2012**	2011
Commercial Banking	**8,019**	9,726	**9,897**	11,615
Retail Banking Benelux	**4,155**	4,445	**5,679**	5,552
Retail Banking International	**6,518**	9,475	**6,028**	8,783
Corporate Line Bank [1]	**3,109**	3,112	**688**	484
Unallocated	**4,248**			
Total banking operations	**26,049**	26,758	**22,292**	26,434

[1] Corporate Line includes funding activities at ING Bank level, internal transactions between business units and the Corporate Line, and is managed by Capital Management.

Risk management continued

Differences between RC and EC are mainly due to:

- The EC figures shown reflect all diversification effects within ING Bank, including risk reduction between the risk categories; while for RC no diversification is taken into account.
- The credit risk EC is lower than RC due to the fact that Economic Capital (EC) is defined as ING's own methodology for credit risk. It is the amount of capital that is needed at a minimum to cover for Unexpected Losses within a certain confidence level and a certain time horizon. Further credit risk EC includes transfer risk while RC does not;
- The market risk Economic Capital is higher than the Regulatory Capital primarily due to the inclusion of the interest rate risk banking books in Economic Capital. The market risk RC includes a stressed VaR charge, while EC does not; the EC figures take the diversification across risk types into account;
- The EC figures include Business risk, while RC does not;
- The operational risk Economic Capital is lower than the Regulatory Capital mainly due to the application of inter-risk diversification, whilst Regulatory Capital does not encompass inter-risk diversification; and
- A 99.95% confidence level is used for EC, while the confidence level is 99.9% for RC. Correcting for the difference in confidence level will lead to an EC figure that is lower than the RC figure.

In addition to the “bottom-up” calculated credit risk EC, ING Bank has added EUR 4.2 billion to its internal Economic Capital framework for elements such as concentration risk and model risk. This amount is not yet allocated per business line.

The above risk metrics and risk appetite framework do not cover liquidity risk: the risk that ING Bank or one of its subsidiaries cannot meet its financial liabilities, at reasonable cost and in a timely manner, when they come due. ING Bank has a separate liquidity management framework in place to manage this risk, which is described in the Liquidity Risk section of ING Bank.

ONGOING CHANGES IN THE REGULATORY ENVIRONMENT

After the turmoil in the financial markets over the last couple of years and the need for governments to provide aid to financial institutions, financial institutions have been under more scrutiny from the public, supervisors and regulators. The resulting revised regulations are intended to ensure that a crisis in the financial system can be avoided in the future.

To accomplish this, regulations focus primarily at the following issues:

- The Basel III proposal more stringently aligns risk taking with the capital position of financial institutions via enlarged risk weights for counterparty credit risk. The Basel III proposal narrows the definition of core Tier 1 and Tier 1 capital, and limits a bank’s leverage via a ratio that should become part of Pillar 1 of the Basel framework. The Basel Committee has also issued proposals for liquidity and funding requirements via the so-called Liquidity Coverage Ratio and the Net Stable Funding Ratio. The aim of the first metric is to monitor a bank’s capability to survive a short-term liquidity stress, where the latter aims to ensure that long term asset activities are similarly funded.
- Apart from the above mentioned proposals, another aim is to reduce ‘pro-cyclicality’, to avoid that banks would be required to increase their capital in difficult financial times when it is most scarce. Lastly, there is a proposal to introduce additional capital requirements for counterparty credit risk. In addition, the Basel Committee and Financial Stability Board (FSB) are currently considering measures that may have the effect of requiring higher loss absorbency capacity, liquidity surcharges, exposure limits and special resolution regimes for ‘systemically important banks’ (SIBs) and so-called ‘Global’ SIBs (G-SIB). ING Bank has been designated as a global SIB by FSB and a domestic SIB by DNB.
- Separate from but in line with the Basel III proposal, on a country level local regulators are becoming more stringent on the maximum credit risk bank subsidiaries and branches are allowed to have on their holding companies. In the absence of a supranational harmonisation this leads to so-called trapped pools of liquidity, i.e. excess liquidity in a country that cannot merely be transferred (unsecured) to a central treasury in another country.

The Basel III proposals and their potential impact are semi-annually monitored via semi-annual monitoring exercises, where ING Bank participates in. Due to such monitoring exercises and on-going discussions within the regulatory environment revisions take place in the original Basel III proposals as for instance has been done for the Liquidity Coverage Ratio in January 2013. For European banks these Basel III requirements will be implemented through the Capital Requirement Directive (CRD) IV, which might deviate in its final state from the original Basel III requirements.

The Basel III accord was originally intended to enter its first phase of implementation on 1 January 2013. This has been extended by the regulators. Nonetheless, ING Bank has been preparing for the functioning of the key Basel III elements and was prepared to implement. Significant management actions have been undertaken on both the liquidity and capital front to adjust the business model and exposure to certain asset classes to minimise the impact of Basel III developments. Examples include reducing short-term funding and shifting significant derivative settlement to Central Clearing Parties. Although not all definitions and parameters of Basel III have been finalised, ING Bank has been making continuous impact analyses of the proposed changes. The overall effect of Basel III on ING Bank’s capital and liquidity ratios, even before management actions, was considered to be lower than most peers. The key principles of Basel III have been included in both the Solvency and Liquidity Risk Appetite Framework that are continuously monitored by senior management.

Therefore, Basel III and the implications for ING Bank were the central theme in the January 2012 ING Investor Day. The strategy of the Bank focuses on effective balance sheet management in order to meet all the new requirements. The stricter capital requirements will be met by combining strong continued capital generation with RWA containment. To underpin this, ING Bank disclosed its ambition to reach a Basel III Core Tier 1 ratio in 2013 that is greater than 10%. Via strong capital generation and further continuing balance sheet optimisation efforts, also the Basel III Leverage Ratio will be met. To adhere to the new liquidity and funding requirements strong funds entrusted generation and increased long-term funding will be combined with reduced reliance on short-term professional funding and the transformation of the investment book into a liquidity portfolio.

RISK DEVELOPMENTS IN 2012

Monitoring exposures and Eurozone developments

The problems in the Eurozone have been a top priority for risk management throughout 2012, and will continue to be a top priority in 2013. ING closely monitors the exposures in debt securities, lending and credit derivatives in the involved countries, and regularly assesses whether the positions still fit with its risk appetite. This assessment is supported by internal stress tests.

Throughout 2012 ING has continued to de-risk its balance sheet, including reducing its positions in especially covered bonds, ABS securities and Real Estate investments for some of the weaker countries as a result of these risk analyses. The Spanish funding mismatch was reduced to EUR 9 billion, and will continue to decline as securities run off.

Several European countries have been downgraded in 2012. But there have also been some positive developments related to the Eurozone crisis. Financial markets rallied due to amongst others the Long-term Refinancing Operations from the ECB and better than expected economic data. Credit spreads for some of the involved countries tightened significantly. On 21 February 2012 a new common understanding on key terms of a voluntary exchange of privately held Greek government bonds was reached. In March 2012 the Treaty of Stability, Coordination and Governance (“Fiscal Treaty”) was signed by 25 EU member states. The treaty encourages greater long term fiscal responsibility on the part of the individual member states and bolsters market confidence in the Euro and European sovereign debt. In the summer of 2012 the chairman of the ECB announced that ECB would take any appropriate action that was deemed necessary to ensure the stability of the Euro. These measures helped to calm down the situation at the global financial markets and government bond rates (and consequent CDS spreads) of peripheral countries decreased to more manageable levels.

Nevertheless, despite these positive signs the Eurozone is not yet out of the doldrums, as many of the fundamental problems still remain. There is no guarantee that the weaker countries will succeed in making their economies more competitive, which is a prerequisite for long-term debt sustainability. Risks and concerns about the debt crisis in Europe, as well as the possible exit from the Eurozone of one or more European states and/or the replacement of the Euro by one or more successor currencies, could have a detrimental impact on the global economic recovery, sovereign and non-sovereign debt in these European countries and the financial condition of European financial institutions, including ING.

Greece, Italy, Ireland, Portugal, Spain and Cyprus

In the first half of 2010 concerns arose regarding the creditworthiness of several southern European countries, which later spread to a few other European countries. As a result of these concerns the fair value of sovereign debt decreased and those exposures were being monitored more closely. With regard to the sovereign debt crisis, ING Bank’s main focus is on Greece, Italy, Ireland, Portugal and Spain as these countries have either applied for support from the European Financial Stability Facility (‘EFSF’) or receive support from the ECB via government bond purchases in the secondary market. Within these countries, ING’s main focus is on exposure to Government bonds and Unsecured Financial institutions’ bonds. Further details are included in Note 4 ‘Investments’.

The table below provides information on ING Bank’s risk exposure with regard to Greece, Italy, Ireland, Portugal and Spain. Unless otherwise indicated, the amounts represent risk exposure values and exposures are included based on the country of residence of the direct Obligor to which ING has primary recourse of repayment of the obligations, except most RMBS, which exposures are based on country of risk. Cyprus is not included in the table below as the net credit risk linked to Cyprus is not material for ING Bank.

During 2012, ING Bank further improved the scope and the presentation of the disclosures of exposure on Greece, Italy, Ireland, Portugal and Spain. Furthermore, certain definitions have been improved and/or aligned. Comparative figures as per 31 December 2011 have been amended. The changes mainly relate to the inclusion of Pre-settlement exposures, the presentation of trading and banking books CDS exposure, the definitions and scope of Real Estate and ABS exposure (from 'country of residence' to 'country of risk') and the classification of corporate bonds. In total these restatements did not have a material impact on ING's exposure on Greece, Italy, Ireland, Portugal and Spain.

On 21 July 2011 a Private Sector Involvement to support Greece was announced. This initiative involved a voluntary exchange of existing Greek government bonds together with a Buyback Facility. On 12 March 2012, the agreement under the Private Sector Initiative (‘PSI’) to exchange Greek Government bonds into new instruments was executed. Under this exchange, ING received new listed Greek Government bonds, listed European Financial Stability Facility (‘EFSF’) notes and listed short-term EFSF notes. Furthermore, ING received listed GDP-linked securities issued by Greece. In July 2012 ING Bank sold all its Greek government bonds to ING Insurance.

Risk management continued

Greece, Italy, Ireland, Portugal and Spain - Total risk exposures [1]

						31-dec-12
Amounts in millions of euros	**Greece**	**Italy**	**Ireland**	**Portugal**	**Spain**	**Total**
Residential mortgages and other consumer lending	3	7,531	6	4	9,661	17,205
Corporate Lending	287	8,391	680	1,015	5,733	16,106
Financial institutions Lending		227	4	76	372	679
Government Lending		203			35	238
Total Lending	290	16,352	690	1,095	15,801	34,228
RMBS		667	69	442	2,495	3,673
CMBS			12			12
Other ABS		149	43	49	35	276
Corporate Bonds		32	15	40	3	90
Covered Bonds		227	354	154	11,274	12,009
Financial Institutions' bonds (unsecured)		476	38	18	2	534
Government Bonds		1,128		629	339	2,096
CDS exposures in banking book [2]					–390	–390
Total Debt Securities		2,679	531	1,332	13,758	18,300
Real Estate [3]		106			268	373
Trading excluding CDS exposures		450	28	8	454	940
Sold CDS protection		1	1	1	7	10
Bought CDS protection	–2	–22	–11	–1	–51	–87
Trading including CDS protection	–2	429	18	8	410	863
Undrawn committed facilities	165	1,286	258	181	2,779	4,669
Pre-settlement exposures [4]	80	516	343	41	953	1,933
Total risk exposure	533	21,368	1,840	2,657	33,969	60,367

Footnote: Total risk exposures to companies registered in Cyprus were approximately EUR 0.9 billion as per end of December 2012, which consisted mostly of corporate lending (EUR 0.7 billion) and Financial Markets trades (EUR 0.1 billion). Majority of the corporate lending risk exposures were either deals with country of risk outside of Cyprus, Letter of credits or Trade Commodity Finance with maturity less than 3 months. Therefore, net credit risk linked to Cyprus is not material for ING Bank.

(1) The exposures reported are credit, market and real estate exposures based on source systems and measurement criteria that can differ from those of similar exposures reported in Note 4 'Investments' of the Annual Accounts.

(2) At the end of 2012 ING Bank holds CDS protection (notional value) on the Spanish government, Financial Institutions and covered bonds.

(3) Real Estate includes Real Estate Development, Real Estate Investments and Property in Own Use; it does not include (indirect) exposure through Real Estate Finance, which is reflected in Total Lending and Total Debt Securities

(4) Pre-settlement exposure is exposure typically existing of dealing room products such as options, swaps, and securities financing transactions. This exposure is based on the replacement value (Marked-To-Market) of each product plus potential future volatility concept.

Risk management continued

Greece, Italy, Ireland, Portugal and Spain - Total risk exposures [1][2]

						31-dec-11
Amounts in millions of euros	Greece	Italy	Ireland	Portugal	Spain	Total
Residential mortgages and other consumer lending	2	7,027	4	3	9,157	16,193
Corporate Lending	307	9,011	422	996	7,092	17,828
Financial institutions Lending	1	853	57	139	1,691	2,741
Government Lending		195			55	250
Total Lending	310	17,086	483	1,138	17,995	37,012
RMBS	127	864	619	621	3,721	5,952
CMBS			310			310
Other ABS		334	116	101	78	629
Corporate Bonds		75	15	42	103	235
Covered Bonds [2]		218	335	172	16,160	16,885
Financial Institutions' bonds (unsecured)		714	208	59	188	1,169
Government Bonds	151	1,131		632	524	2,438
Total Debt Securities	278	3,336	1,603	1,627	20,774	27,618
Real Estate [3]		102		17	205	324
Trading excluding CDS exposures		569	33	7	261	870
Sold CDS protection		9	1		64	74
Bought CDS protection	–3	–29			–13	–45
Trading including CDS protection	–3	549	34	7	312	899
Undrawn committed facilities	411	1,229	523	140	2,302	4,605
Pre-settlement exposures [4]	70	670	425	14	909	2,088
Total risk exposure	1,066	22,972	3,068	2,943	42,497	72,546

Footnote: Total risk exposures to companies registered in Cyprus were approximately EUR 1 billion as per end of December 2011, which consisted mostly of corporate lending (EUR 0.6 billion) and Financial Markets trades (EUR 0.3 billion). Majority of the corporate lending risk exposures were either deals with country of risk outside of Cyprus, Letter of credits or Trade Commodity Finance with maturity less than 3 months. Therefore, net credit risk linked to Cyprus is not material for ING Bank.

(1) The exposures reported are credit, market and real estate exposures based on source systems and measurement criteria that can differ from those of similar exposures reported in Note 4 'Investments' of the Annual Accounts.

(2) More information on the risk management definitions and practices can be found in the remainder of this section.

(3) Real Estate includes Real Estate Development, Real Estate Investments and Property in Own Use; it does not include (indirect) exposure through Real Estate Finance, which is reflected in Total Lending and Total Debt Securities

(4) Pre-settlement exposure is exposure typically existing of dealing room products such as options, swaps, and securities financing transactions. This exposure is based on the replacement value (Marked-To-Market) of each product plus potential future volatility concept.

Total exposure to the GIIPS countries was reduced by EUR 12,179 million in 2012. ING Bank completed the planned de-risking of its investment portfolio in the fourth quarter of 2012 as part of its balance sheet optimisation programme. ING reduced its exposure in debt securities, with covered bonds going down by EUR 4,876 million and RMBS position diminishing by EUR 2,278 million, and its lending portfolio by EUR 2,784 million, driven by Financial Institutions lending by EUR 2,062 million and corporate lending with a decrease of EUR 1,722 million offset by an increase in residential mortgages and other consumer lending by 1,011 million.

The reduction was mainly in Spain with a decrease of EUR 8,528 million in 2012 to EUR 33,969 million. The lending book declined by EUR 2,194 million to EUR 15,801 million. This decrease was driven by a EUR 1,320 million reduction in financial Institutions lending and EUR 1,359 million in corporate lending, partly offset by a EUR 504 million increases in residential mortgages and other consumer lending. The debt securities portfolio decreased by EUR 7,016 million mainly due to a decrease in covered bonds by EUR 4,886 million and RMBS by EUR 1,226 million.

Derivatives

In these countries, ING Bank has limited derivative exposure and largely enters derivative transactions to help clients reduce exposure to interest and currency movements. Many of these transactions are covered either via CSA agreements or as part of the collateral of the underlying financing. The key credit risk ING Bank faces in these derivative transactions is movements in markets creating an uncollateralised exposure to a counterparty or that the collateral is not sufficient. ING monitors these mark to market movements on a daily basis.

Liquidity risk

In 2012, funding and liquidity risk management continued to be an important topic for senior management and the Asset and Liability Committee (ALCO) Bank, as markets remained volatile in respect of the Eurozone uncertainties. External market and regulatory developments and internal financial developments are closely monitored. Regular stress testing and measurement of early warning indicators are, among others, used to provide additional management information. In 2012 the funding and liquidity risk appetite statements were updated. The appetite statement is set and allocated throughout ING Bank. In addition, funding and liquidity usage is steered by means of funds transfer pricing thus embedding funding and liquidity risk management in the total organisation. This all is part of global project that was started in 2011 on new frameworks for funding and liquidity risk management. The implementation of these frameworks will be finalised in the course of 2013.

Capital markets and money markets improved in the course of 2012 and ING Bank continued to have access to funding at acceptable pricing, sufficient long tenors and good volume. Short term professional funding was further reduced and partly replaced by long-term debt, as the bank continues to lengthen its funding profile as part of its balance sheet optimisation programme ahead of Basel III. ING Bank issued EUR 33 billion of long term debt in 2012. Growth in funds entrusted continued to develop favourably at Retail Banking, while within Commercial Banking deposits from corporate treasuries and assets managers decreased. Throughout the credit and liquidity crisis, ING has maintained its liquidity position within conservative internal targets. ING Bank's Loan-to-Deposit ratio, excluding securities that are recorded at amortised costs in loans and advances and the IABF government receivable, improved to 1.13.

Dutch Mortgages

In 2012 the Dutch housing market slowed down significantly due to economic downturn and political uncertainty regarding the housing market. The Dutch housing market is historically characterised by housing shortage, high income tax with deductibility of interest on mortgages, and tax driven mortgage products. Due to elections of a new government in September 2012 and the need of a reduction of the government deficit the tax-deductions where reviewed. During 2012 there was a lack of clarity of the new government plans and economic uncertainty resulting in households postponed buying houses, with a lowering impact on the Dutch house prices. As long as the government plans concerning the total housing market (including reform of the rental market) remain uncertain and consumer confidence is not restored, the housing market coming will not recover early 2013. Although the house prices decreased, the Dutch payment morality is good, reflecting in a slightly elevated but still low percentage of non-performing loans by the end of 2012. Given the significant amount of mortgages in our credit portfolio, ING Bank closely follows all developments related to Dutch housing market and its mortgage portfolio.

Business lending Benelux

ING Bank's Business Lending, defined as lending to corporates in the business line Retail Banking, is concentrated within the Benelux. The weak economic environment was reflected by increased risk costs and elevated percentage of non-performing loans. The Netherlands showed the same development as Belgium and Luxembourg, with increased non-performing loans in the categories Builders & Contractors, Food, Beverages and personal care and Transport & Logistics.

Real Estate Finance

ING Bank finances commercial real estate via Real Estate Finance (REF) in various countries over the world, although half of this portfolio is based in the Netherlands. Risk costs and non-performing loans in REF were elevated given deteriorating European commercial real estate markets. REF financing policy is based on cash flow generating prime real estate portfolio, senior secured facilities, relatively low starting LTV's and conservative covenant setting. Construction is less than 0.9% of the total portfolio and at least 70% is pre-sold/pre-rented.

Cybercrime

2012 saw an increase in the world-wide cyber threat and more stringent regulations being introduced regarding cyber security of e-banking (e.g. ECB's Recommendations for the security of Internet Payments). Under the auspices of the Management Board, a Cybercrime Task Force has been set up within ING to ensure a coordinated and effective response to the threat of cybercrime. The Cybercrime Task Force aims to improve knowledge sharing and to structure effective prevention, detection and incident response across ING Bank. The Cybercrime Task Force is chaired by CIO Bank and includes key e-business management, risk, anti-fraud and IT senior management representatives.

In 2012 we have further strengthened our external collaboration against cybercrime with the industry (e.g. national bank associations), law enforcement, government (e.g. Nationale Cyber Security Center) and Internet Service Providers (ISPs). At the beginning and the end of our measures is the customer: we are trying to make the customer aware of the cyber threats/risks and to collaborate with us for a safer internet.

Recovery and Resolution plans

As a consequence of the global financial crisis ING Bank has set up an all-encompassing recovery planning process to enhance the bank's readiness and decisiveness to tackle financial crises on its own strength. Furthermore in the course of 2012, DNB has requested ING Bank to prepare and submit information on the basis of which the Dutch Resolution Authorities will be able to develop a Resolution Plan. ING is diligently working towards providing this information and meeting the deadlines provided by DNB.

CREDIT RISK

The credit risk section provides information on how ING Bank manages, measures and monitors credit risk and will give an insight into the ING Bank portfolio from a credit risk perspective. Prior to providing insight into the portfolio, we will explain how ING Bank ensures that credit risk is properly addressed and managed within ING Bank.

The ING Bank business model is to be a strong predominantly European bank, with leading positions in attractive, stable home markets, with options for future growth beyond Europe. ING Bank primarily extends credit to two types of customers; Retail customers made up largely of individuals and small businesses and Commercial Banking made up of larger corporate, financial, and sovereign counterparties. In general, Retail customers tend to be served by country specific organisations while Commercial Banking counterparties are often multi-jurisdictional and even global. Therefore, it is important that the credit risk management department has both local product knowledge as well as understanding of global industries.

In order to properly assess, monitor, and manage the credit risks over such a broad spectrum of products, industries, and geographies, Credit Risk Management (CRM) is organised both locally and centrally. The local risk management teams have knowledge of specific geographic markets and the products and their risk characteristics. The central risk team focuses on more global industries and customers. The central risk team is also responsible for setting the ING Bank credit risk policies and standards. The local and central credit risk teams strive to have a consistent risk appetite which is facilitated by a large number of job rotations and a robust credit risk infrastructure that supports the entire credit lifecycle.

The overall credit risk appetite framework allows ING Bank to manage the portfolio and avoid undesired concentrations of credit risk. CRM is supported by dedicated credit risk information systems and internal credit risk measurement methodologies for all types of counterparties. CRM creates consistency throughout the credit risk organisation by providing common credit risk policies, methodologies, and tools across the ING Bank. Credit risk managers use these tools and processes to manage credit risk within ING Bank.

Credit risk management has evolved into a multifactorial discipline and CRM has a responsibility to ensure a common understanding of the contribution of credit risk to ING Bank’s strategy and the diverse aspects of credit risk throughout ING Bank. To accommodate this CRM actively involves stakeholders from the business and other risk departments, but in addition CRM promotes assignments and exchange of employees to facilitate a shared understanding and create an environment of co-operation. CRM informs the ING Bank community about new developments and insights in multiple manners, ranging from presentations, workshops and news alerts.

Credit Risk Definitions

Credit risk is the risk of loss from the default and/or credit rating deterioration of counterparties (including bond issuers). Credit risks arise in ING Bank's lending, financial market and investment activities. 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. Each level can in turn be broken down from the consolidated ING Bank NV level to a local branch/unit level. As the distribution of the exposures is of great importance in correctly managing the credit risk exposure, ING Bank has established the credit risk appetite and concentration framework.

CRM uses risk categories to differentiate between the different types of credit risk exposures. All products within ING Bank are aggregated to one of the following risk categories:

- **Pre-settlement risk**: arises when a counterparty defaults on a transaction before settlement and ING Bank has to replace the contract by a trade with another counterparty at the then prevailing (possibly unfavourable) market price. The pre-settlement risk (potential or expected risk) is the cost of ING Bank 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 risk**: arises when ING Bank 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 Bank may lose the deposit placed. Money market risk is measured as the notional value of the deposit, excluding any accrued and unpaid interest or the effect of any impairment.
- **Lending risk**: arises when ING Bank 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 notional amount of the financial obligation that the counterparty has to repay to ING Bank, excluding any accrued and unpaid interest, discount/premium amortisations or impairments.
- **Investment risk**: is the credit default and risk rating migration risk that is associated with ING Bank’s investments in bonds, commercial paper, securitisations, and other similar publicly traded securities. This can be viewed as the worst-case loss that ING Bank 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 Bank’s investments in the banking books is for liquidity management.

Risk management continued

- **Settlement risk**: is the risk that a counterparty will fail to deliver on financial markets (PS or MM) transaction/contract at Settlement and ING Bank could lose up to 100% of the value expected to be delivered. Settlement Risk 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 Bank delivers but does not receive delivery from ING Bank's counterparty. ING manages Settlement Risk in the same way as other risks including a per borrower risk limit structure. However, because of the short term nature and per definition double count of Settlement Risk, ING Bank does not hold provisions or capital for specific Settlement Risk. Although a relatively low risk, ING increasingly uses DVP (Delivery versus Payment) and FITO (First in Then Out) payment techniques to reduce Settlement Risk.

Governance
Credit risk management (CRM) within ING Bank belongs to the second line of defence (the front office being the first) and aligns the credit risk taking with the strategic planning of ING Bank. It is responsible for reviewing and managing credit risk including environmental and social risk for all types of counterparties. CRM consists of line credit risk managers who are responsible for their business lines and manage specific portfolios and experts who support both the line credit risk manager as well as the business with tools like credit risk systems, policies, models and reporting. The CRM General Manager is functionally responsible for the global network of credit risk staff and the heads of the credit risk management functions for the business lines and the corporate staff functions report directly to him.

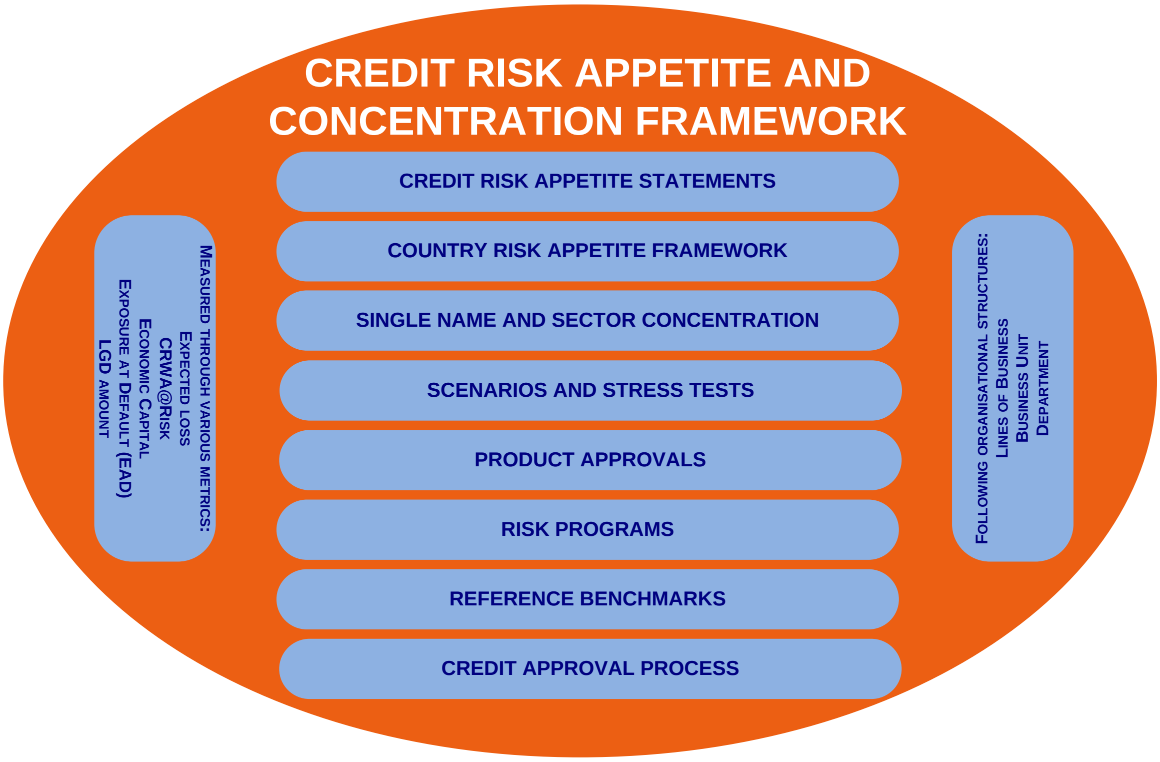
ING Bank's credit policy is to maintain an internationally diversified loan and bond portfolio, while avoiding large risk concentrations. The emphasis is on managing business developments within the business lines by means of the top-down risk appetite framework, which sets concentration limits for countries, individual counterparties and counterparty groups and investment activities. The aim is to expand relationship-banking activities, while maintaining stringent internal risk/reward guidelines and controls. To ensure a proper risk reward balance in our portfolios, the risk appetite framework is linked to the Medium Term Planning (MTP) process.

Credit analysis at portfolio level is a function of different concentration levels and various metrics like Economic Capital, Regulatory Capital, Exposure at Default, Probability of Default and Loss Given Default. The risk/reward is monitored and managed at portfolio level to ensure efficient use of ING Bank's capital. Credit analysis at facility level is also risk/reward-oriented in that the level of credit analysis is a function of the risk amount, tenor, structure (e.g. covers received) of the facility, and the risks entered into. Risk Adjusted Return on Capital (RAROC)-based tools are used internally to ensure a proper balance of risk and reward within the portfolio and concentration parameters. ING Bank's credit analysts make use of publicly available information in combination with in-house analysis based on information provided by the counterparty, peer group comparisons, industry comparisons and other quantitative techniques and tools. .

Within ING Bank, the ultimate authority to set the risk appetite and approve or decline credit proposals resides with the executive board. The executive board has further delegated authorities, based on amounts and tenors to lower levels of 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 business units have delegated authority to decide within policies and mandates approved by CRM and any decisions outside those policies or above the delegated mandate require a specific credit risk approval.

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



Credit Risk Appetite

Credit risk appetite is the maximum level of credit risk ING Bank is willing to accept for growth and value creation. This credit risk appetite is linked to the overall Bank-wide Risk Appetite Framework. Articulating the credit risk appetite is a complex task that requires balanced views. It can be expressed in quantitative and qualitative measures. Having a credit risk appetite achieves:

- Clarity over the credit risks that ING Bank can strategically assume; Focused execution in balancing ING Bank's credit risk exposures within the boundaries of ING's strategy, target setting and prudent risk management;
- Consistent communication to different stakeholders;
- Guidelines how to align reporting and monitoring tools with the organisational structure and strategy;
- Alignment of business strategies and key performance indicators of business units with the overall ING Bank credit risk appetite by means of the MTP.

Credit risk appetite is present across different levels within ING Bank, at the portfolio level as well as transaction level. The various credit risk appetite components at the portfolio and transaction level together result in the credit risk appetite framework.

Credit risk appetite statements are defined top-down across the credit risk categories (pre-settlement, money market, lending, investment, but excluding settlement), and connected to ING Bank high-level risk appetite across all risk types (credit, market, business and non-financial risk). They consist of a set of high-level credit risk metrics; expected loss, economic capital, risk-weighted assets and exposure at default. For each credit risk metric a boundary is set that is cascaded down and monitored on a monthly basis. The adherence to the boundaries and the pro-active approach to manage the portfolio within the risk appetite boundaries are part of the key performance indicators of the business line managers and as such have a direct impact on their remuneration.

Concentration Risk Framework

The concentration risk framework consists of a number of different components to properly manage and control any concentration levels within the ING portfolio.

Risk management continued

Country risk framework
Country risk is the risk specifically attributable to events in a specific country (or group of countries). Country risk is the risk of loss that ING Bank faces associated with lending, pre-settlement, money market and investment transactions in any given country or group of countries, as a result of country risk events. A country risk event can be described as any event or crisis, which relates mostly to large domestic economic, financial and political shocks, as well as transfer or exchange restrictions, affecting all counterparties in a specific country in an indiscriminate way. The occurrence of a country risk event may cause all counterparties in a country to be unable to ensure timely payments, despite their willingness to meet their contractual debt obligations. As such, country risk is an additional factor to be taken into account in the credit approval process of individual customers, as the country risk event probability may impact the default probability of individual counterparties.

To manage country risk effectively, ING Bank uses two components, which together form the country risk framework: The first component is to set a maximum economic capital consumption and the second component is to assign country reference benchmarks, which define the maximum appetite for credit risk, that ING Bank has per country to ensure that exposures and potential future losses do not exceed a certain agreed level. The country reference benchmark is based on the country's GDP and the funds entrusted locally in that country. In countries where ING Bank is active, the relevant country's risk profile is regularly evaluated, resulting in a country rating, which is used to set the country reference benchmark. Based on these two components country limits are set and exposures derived from lending, investment, pre-settlement and money market activities are then measured and reported against these country limits on a daily basis.

Single name and sector concentration
ING Bank has established the concentration risk framework in order to identify, measure monitor concentrations at portfolio and/or counterparty level. It consists of single name concentration: losses due to the unexpected jump-to-default of a single counterparty. Sector concentration (systemic risk): substantial increase of the ING Bank risk profile (expressed in increased risk weighted assets) due to the joint deterioration of a group of correlated counterparty/transactions, sensitive to the same external (macro-economic) factor(s) related to their geographic location, exposure class or industry. The risk metrics used for the single name concentration is the loss given default amount.

Scenarios and Stress Tests
Stress testing is a valuable risk management tool. Stress testing evaluates the bank's financial stability under severe but plausible stress scenarios and assists in decision-making that assures the bank to remain a financially-healthy on-going concern after a severe event occurs. In addition to the bank-wide stress test framework as described in the risk profile section of ING Bank, CRM performs stress tests on a monthly basis in order to continually assess the portfolio risks and concentrations. These monthly stress tests are consistent with the stress scenario as established in the ING Bank wide credit risk appetite framework. The monthly stress tests are reviewed in the Credit Portfolio Committee (CPC) and potential management actions are proposed if necessary.

ING Bank performs periodical stress tests based on a standardised and pre-determined 1-in-10year-stress event (i.e. at 90% confidence level and 1 year horizon) which is similar to the one applied in the solvency risk appetite. Based on this confidence level, a through the cycle rating migration for the entire portfolio is simulated. For this simulated portfolio, provisions, RWA and EC are recalculated to assess what the combined impact of such a year would be. The additional CRWA that ING should allocate in such an event is named CRWA@Risk. These stress test results are submitted to CPC on a periodical basis, in which the results are explained and discussed. If needed actions are formulated.

Next to the periodical pre-determined stress test related to CRWA@Risk, CRM performs ad-hoc stress tests based on severe but plausible scenarios. These stress tests can be for internal purposes or at the request of the regulators and are input for future Credit Risk Appetite setting. Stress testing is used as an additional safety net within CRM. Through stress tests the impact of severe but plausible downturn scenarios are determined, which might not be captured in the regular rating models (Probability of Default, Loss Given Default and Exposure at Default). Therefore, next to the Pillar 1 and Pillar 2 capital calculations, based on the results of various stress test, ING Bank ensures that adequate levels of capital (and liquidity) are available to sustain such severe but plausible scenarios.

Product Approvals
Across ING Bank the product approval and review process ensures effective management of risks associated with products. It ensures that sound due diligence is performed by relevant stakeholders to ensure that risks (credit, operational, legal etc.) are mitigated.

Risk Programs
Within ING we distinguish between risk programs for retail lending and risk programs for commercial lending business.

Risk management continued

The retail risk portfolio program is defined as a set of policies and processes, which are laid down to manage a retail risk portfolio within a predefined risk appetite statement. A retail risk portfolio is defined as a group of sufficiently homogeneous credit assets, where:

- A consistent set of credit policies and processes for approving a high volume of counterparties and transactions could be applied,
- Exposures could be pooled and managed through a set of standard policies and procedures over its entire life cycle.

A risk appetite statement in the context of a retail risk portfolio program is a pre-defined set of minimum performance criteria required to be achieved for ING Bank business labels conducting retail risk portfolio program.

The commercial lending risk program is a detailed analysis of a defined product and/or industry that identifies the major risk drivers and mitigants, the internal business mandate, and proposes the minimum risk (including business) parameters – and potentially the maximum product and/or portfolio limit - to undertake that business. A risk program is always prepared by the Front Office responsible for the internal business mandate and requires an approval from the Global Credit Committee (unless specifically delegated to a region).

Reference Benchmarks
A reference benchmark defines the maximum appetite for credit risk per counterparty group. It is expressed as an EAD Exposure at the concentration risk level, which corresponds to an (maximum) internal capital consumption for credit risk. It is used as a tool in the credit approval process.

Credit Approval Process
The credit approval process ensures that individual transactions are assessed on a name-by-name basis. For each type of counterparty (corporate, banks/financial institution, structured products clients) there is a separate process. The line credit risk managers are organised along the business lines of ING Bank and are specialised in the relevant area of expertise. The credit approval process is supported by, amongst others, a credit approval system which ensures consistency and completeness; a risk rating (PD) system which contains all the risk rating models to ensure a proper rating is given to a counterparty and a limit and exposure monitoring system which subsequently feeds into the credit approval system. The rating model is used to indicate a counterparty's creditworthiness, and to determine the maximum risk appetite that ING Bank may have for a given type of counterparty (reference benchmark). The determination of the delegated authority (the amount that can be approved at various levels of the organisation) also depends on the risk rating. ING Bank has a rating system with in total 22 grades (1=highest rating; 22=lowest rating) and are split in the following categories:

- Investment grade (Risk Rating 1-10);
- Non-investment grade (Risk Rating 11-17);
- Problem Loan grade (Risk Rating 18-22);
  - Restructuring (Risk Rating 18-19)
  - Default (Risk Rating 20-22).

The rating grades categories 1 to 17 are in alignment with the risk grades used by S&P and Fitch/IBCA (AAA-CCC) as well as Moody's (Aaa-Caa1).

Problem Loan management
A problem loan is a loan where there is a reasonable probability that ING Bank may end up with a loss, unless ING Bank intervenes with specific and significant actions. In other words, in this category, an account or portfolio requires a more intensified approach, which may include renegotiation of terms and conditions and/or business/financial restructuring. Problem loans are managed by the Global Credit Restructuring (GCR) or by the Regional Restructuring Units (RRUs) in the various regions and network banks. GCR, which structurally falls under CRM, is the dedicated corporate department unit at the highest level, entrusted with the management of problem loans. Front Office, including mid- and back office functions, remain fully involved and committed to the management of GCR files. GCR's management of problem loans can be divided in:

I. Watch list: An assessment is made whether there may be deterioration in the risk reward relationship. At this stage, no specific and significant intervention from ING Bank is deemed necessary to ensure that the risk reward relationship improves. For severe cases additional monitoring takes place. Theoretically, accounts with watch-list status carry a risk rating of 1 to 19, but would typically have a rating of 15 to 17;
II. Restructuring: A credit enhancement process is needed to achieve a turnaround in the problem loan. This may involve financial and/or business workarounds with the objective of ultimately improving the risk profile. The (credit) relationship is maintained during and after the period of restructuring. Accounts with restructuring status can be rated anywhere in the 15-19 range but typically carry a risk rating of 18 to 19;
III. Recovery: An amicable or forceful exit from the (credit) relationship, where the objective is to lower the risk cost as much as possible. All Recovery status accounts are rated 20, 21 or 22. Based on expected cash flows for loans (above a certain threshold) rated between 20 – 22 specific, provisions are taken to minimise ING Bank's exposure.

Risk management continued

	Regular	Watch List	Restructuring	Recovery
Possible ratings	1–19	1–19	15–19	20–22
Typical ratings	1–14	15–17	18–19	20–22
Deterioration in risk	Not significant	Significant	Significant	Significant
Significant intervention	Not required	Not required	Required	Required
Impaired	No	No	No	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
Second Signature	Credit Risk Management	Credit Risk Management	Front Office	Front Office
Accounting provisioning	IBNR	IBNR	IBNR	INSFA/ISFA

Credit Risk capital and measurement

Credit Risk capital

Regulatory Capital (RC) is a law based prudent measure defined by regulators and serves as the minimum amount of Tier 1, Tier 2 and supplementary capital required to absorb for unexpected losses. RC is the minimum amount of capital (based on 99.90% confidence level) that ING Bank must hold from a regulatory perspective as a cushion to be able to survive large unexpected losses.

RWA COMPARISON

Comparison of RWA and risk weights across institutions is inherently challenging. A recent study classified differences in RWA among banks in 3 categories –

1. Risk based drivers that stem from the differences in underlying risk at the exposure/ portfolio level and in business models/ strategies including asset class mix.
2. Practice-based drivers including approaches to risk management and risk measurement
3. Regulating environment such as supervisory practices, implementing laws and regulations including national discretion and accounting standards.

Risk Based Drivers

ING Bank portfolio is heavily dominated by secured lending especially in the areas of residential mortgages, structured finance, leasing and commercial real estate. Secured lending tends to have a much lower LGD, given the collateral involved, which is a key driver of RWA. Another key element of the ING business model is the focus on retail exposures collateralised by residential property. The regulatory formula for this exposure class tends to result in the lowest RWA, all other factors being equal.

Practice Based Drivers

ING Bank tries to have an “early in early out” approach to troubled exposures. This means that ING has a very conservative default definition. This will have a direct impact on the level of RWA. For non-retail customers, ING uses a borrower rating which means that a customer will only have one PD regardless of the type(s) of transactions done with ING Bank. This also means that if one facility is in default, all facilities of the client are in default. ING Bank generally does not use a “quarantine” period for defaulters. Once a customer is deemed to be performing, a non-default PD will be given to the borrower.

Regulatory Environment

ING Bank is regulated by many host supervisors; however the primary regulating entity in DNB. Several strict interpretations of the Basel Accord are enforced by DNB including the requirement to have at least 85% of the portfolio qualify as AIRB before allowing AIRB implementation. This prevents arbitrage between the different Basel approaches. DNB also has a strict “significant change” policy that requires all changes to the Basel measurement above a threshold to be reviewed and approved by DNB.

Risk based drivers, practice based drivers and regulatory environment can have a substantial impact on the regulatory capital/ RWA of a financial institution. These factors make it challenging to compare capital levels across banks. ING Bank continues to work with industry groups including EDTF to improve the transparent reporting of our capital calculations.

Risk management continued

Economic Capital (EC) reflects ING Bank's own view on credit risk, which allows it to be used in decision making processes at transaction level, counterparty level and (sub) portfolio levels. Credit risk and transfer risk capital are calculated on all portfolios which contain credit or transfer risk, including investment portfolios. EC is the minimum amount of capital required to cover for unexpected losses within a 99.95% confidence level and a 12 months' time horizon. It is used throughout ING Bank in the transactional decision making process (mainly commercial banking), in risk adjusted counterparty and portfolio profitability measurement tools (commercial banking and retail), in investment and divestment decisions, in the country risk framework and in concentration risk management such as risk appetite statements (RAS) and the systemic risk reports (sector concentration report).

EC is an important ingredient for the risk adjusted return on capital (RAROC) ratio. RAROC is a risk adjusted profitability measure over economic capital and supports transaction decision-making processes (for example through the ING Bank loan pricer tool). RAROC allows measuring the risk adjusted return of different products and structures within different parts of the organisation along one and the same yardstick. Next to Pillar 2 based RAROC, within commercial banking, a Pillar 1 "sanity check" is performed on transaction level. This sanity check is a "margin over credit risk weighted asset (CRWA)" ratio, which should exceed a pre-determined level (hurdle), which is tested in the Front Office "green light committees".

An important characteristic of the CCRM infrastructure and framework is that models are built for several purposes, including EC, RC and Loan Loss Provision. Since these rating models are broadly used throughout the ING Bank organisation it enforces the compliance to the Basel Use Test requirement.

In order to provide a short overview the main differences between RC and EC, within ING Bank are listed here below:

Conceptual differences between Regulatory Capital and Economic Capital

Regulatory Capital	Economic capital
Use of Regulatory Downturn PD values, which are floored for non-Sovereign exposures	Non-floored economic PD values
Regulatory downturn based LGD values, including a 10% Residential Mortgages LGD floor	Economic LGD values (without downturn factors and without Regulatory floor for Residential Mortgages)
Regulatory (Basel II based) confidence level of 99.90%	Linked to our Risk Appetite, a more conservative confidence level of 99.95% is used
Basel II Scaling-factor of 1.06 is used	No Basel II Scaling-factor is used
For most non-FM and non-trade related finance exposures a regulatory minimum tenor of 1 year is used, for all exposures a 12 month PD is used	For short tenor exposures, the actual tenor is used and for exposures shorter than 1 year the effective PD (not 12 months PD) is used
For OTC derivatives and Repo Like transactions, based on Current Exposure Method (CEM), risk weights are laid down in the law	For OTC derivatives and Repo Like transactions, risk weights are based on internal methodology
The best rated Sovereign exposures (Credit quality step 1, translated into: internal rated 1 up to and including 4) expressed in local currency are under the partial permanent exemption	EC is calculated for all Sovereigns based on the economic PD, LGD, EAD and remaining maturity
For Securitisations the Securitisation Framework is followed (external risk weights based on external ratings)	EC for Securitisations is calculated through the Corporate B2 methodology (based on internal PD, EAD, LGD values and remaining maturity)
CRWA for SA portfolios are based on Regulatory SA rules	For SA and AIRB portfolios the same INCAP methodology apply

EC is calculated using the economic values of rating models (PD, EAD and LGD). In line with regulatory requirements, so-called "significant changes" to these rating models are communicated to the regulator for approval. Significant changes relate to the impact on CRWA (Pillar 1) or to the significance (size) of the model to the ING Bank portfolio.

Economic and Regulatory Capital (Bank diversified only) by risk type

	Economic Capital		Regulatory Capital	
	2012	2011	**2012**	2011
Credit risk	**11,875**	14,365	**18,684**	22,473
Add-on credit risk	**4,248**			

ING Bank also proposes several credit economic capital additions based on elements such as concentration and model risk. In 2012, EUR 4.2 billion of additional credit risk economic capital was proposed.

Risk management continued

Credit Risk Measurement
There are two broad ways to measure credit risk within ING Bank's portfolio, depending on whether the exposure is booked under an ING office which is permitted by the DNB to use the Advanced Internal Rating Based (AIRB) approach, or if it falls under the Standardised (SA) approach. ING Bank does not use the Basel Foundation (FIRB) approach for any portfolio.

Standardised Approach
Unlike the AIRB approach, the standardised approach applies a fixed risk weight to each asset as dictated by the Financial Supervisory Authorities, and is based on the exposure class to which the exposure is assigned. As such, the Standardised Approach is the least sophisticated of the Basel II methodologies and is not as sensitive as the risk-based approach. Where external rating agency ratings are available, they may be used as a substitute to using the fixed risk weightings assigned by the Financial Supervisory Authorities. Because the underlying obligors are relatively small, the underlying obligors tend not to have external ratings.

Advanced Internal Rating Based (AIRB) Approach
There are four elements which drive the Basel II 'risk-based approach' to the determination of the capital base.
Probability of Default (PD): The first 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 to 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 outstandings that may occur on that date is also not known, ING Bank 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 outstandings, 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 Bank 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.

Maturity (M): The fourth element is the time to the maturity of the underlying financial obligation. Basel II caps the maturity element at five years, despite the fact that many obligations extend longer than five years.

Expected Loss (EL): The expected loss provides a measure of the value of the credit losses that ING Bank may reasonably expect to incur on its portfolio. ING Bank must hold a reserve (as part of its capital base) to cover the expected losses in its credit portfolio. In its basic form, the expected loss can be represented as:

$$EL = PD * EAD * LGD$$

Additionally, ING Bank must also 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.

Securitisations
ING Bank has implemented the AIRB approach for credit risk. As a consequence, ING Bank uses the Rating Based Approach (RBA) for investments in tranches of asset-backed securities (ABS) and mortgage-backed securities (MBS) which have been rated by external rating agencies. Rating agencies which are used by ING Bank under the RBA include: Standard & Poor's, Fitch, Moody's and DBRS.

Under the RBA, the risk-weighted assets (RWA) are determined by multiplying the amount of the exposure by the appropriate regulatory risk weights, which depend on:
- The external rating or an available inferred rating;
- The seniority of the position; and
- The granularity of the position.

ING Bank uses the Internal Assessment Approach (IAA) for the support facilities it provides to Asset Backed Commercial Paper (ABCP) conduit Mont Blanc Capital Corp., based on externally published rating agency methodologies.

Credit Risk Models
Within ING Bank internal Basel models are used to determine the PD, EAD and LGD for regulatory and economic capital. Bank wide, ING Bank has implemented more than 100 models, including various sub models that may be applicable for a specific portfolio.

There are three types of modelling which form the foundation of these PD, EAD and LGD models used throughout the bank.

- Statistical models are created where a large set of default or detailed loss data is available. They are characterised by a sufficient number of data points that facilitate meaningful statistical estimation of the model parameters. The model parameters are estimated with statistical techniques based on the data set available.
- Expert models are based on the knowledge and experience of experts from both risk management and front office staff and literature from rating agencies, supervisors and academics. These models are especially appropriate for 'Low Default Portfolios', where limited historical defaults exist; thereby reducing the reliability of a statistical model.
- Hybrid models contain characteristics of both expert and statistical models.

Next to the model choice, the definition of default is an important starting point for model building. ING Bank uses a framework that integrates elements of the regulatory definition of 'Default' and the loan loss provisioning indicators under IAS 39. The rationale is that several indicators are very close to the indications of an obligor's 'unlikeliness to pay' under Basel II and similar regulations. Integration of both frameworks makes it possible to use the regulatory risk components PD, LGD and EAD in the collective provisioning process under IAS 39, further enhancing ING Bank's compliance with the Basel II 'use test'. Key differences between the parameters used for Loan Loss Provisioning and Regulatory Capital calculations are that Regulatory Capital parameters are typically through the cycle while Loan Loss parameters tend to be more point in time. Additionally, the LGD for Regulatory Capital calculations is based on a down-turn LGD.

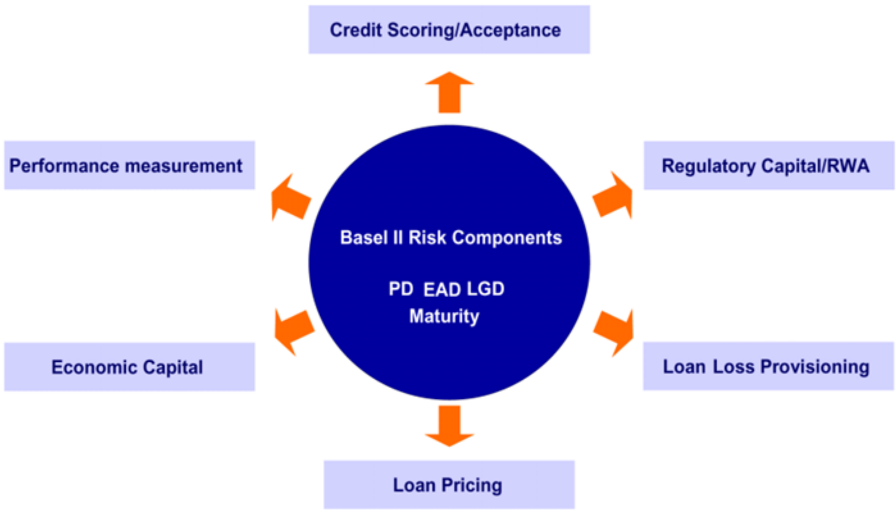
Pre Settlement (PS) measurement models.
For regulatory capital the Pre-Settlement (PS) exposure is calculated using a Marked to market (MtM) plus regulatory-based add-on tables. For internal capital purposes ING Bank uses two methodologies to calculate its Pre-Settlement (PS) exposures. Ideally, all parts of ING Bank would apply identical methodologies at all times. However, it is recognised that the ability to implement risk measurement methodologies is highly dependent on systems capabilities, and in certain cases the benefits of implementing a methodology may not be justified by the costs. Therefore more than one methodology is presently in use at ING Bank.

- MtM plus model based add-on approach: In this approach, the PS risk is calculated as the sum between the MtM of the trade and the model-based Add-on. The MtM fluctuates through the life of the contract. The model-based Add-on is product-specific, and takes into account remaining time to maturity, profiling per time-buckets etc. Add-ons are updated with a frequency that takes into account the major market changes. This methodology is used for pre-deal exposure assessment of all ING Bank financial markets products and for post-deal risk calculations for financial markets portfolios for which computational efforts and costs associated with implementation of Scenario Simulation approach are not justifiable;
- Scenario Simulation approach (Monte Carlo approach): Scenario Simulation approach is the most complex of the methods for PS risk calculations. This approach is the only approach that fully takes into account the daily market conditions, including correlations between the risk factors and portfolio benefits. This approach is also referred to as Monte Carlo (MC) approach and is currently used for the largest volume of derivative products such as FX and interest rate derivatives. ING Bank is in the process of implementing this approach for more products. The monitoring of the PS exposures and the limit setting for the products within the scope of the MC approach are based on the exposures resulting from the MC approach, the pre-deal check exposure assessment is based on the MtM plus model add-on approach.

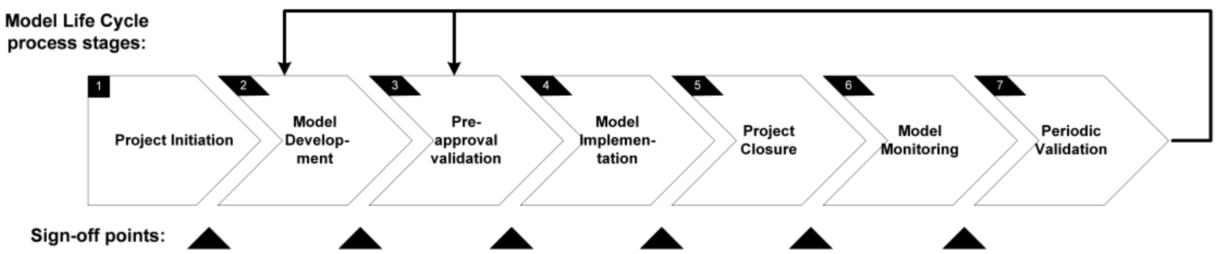
In addition to the two approaches ING recognises that certain trading products that are outside of this scope may be deemed insufficiently accurate. For example, highly structured or exotic derivative transactions may differ significantly from the generic transactions used to calculate the Add-ons. For the assessment of risk exposures of such complex products a bespoke calculation is made.

Risk management continued

The figure below provides a high level summary of the application of model outcomes (PD, EAD and LGD).



Credit risk model governance
All PD, EAD and LGD models are built according to the ING Bank internal credit risk modelling methodology standards and model life cycle. After thorough review of the documentation by the Model Development Committee (MDC) and Model Validation (MV) the Credit Risk Committee (CRC) approves the models. Local model approval is delegated by the CRC to the MDC. 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 organisation. The capital impact from the implementation of approved models is reported to the DNB in a quarterly report. In addition, MV validates each model on an annual basis. During such periodical validation the model performance is analysed via amongst others back testing. Most of the credit models reviewed by Model Validation show a conservative observed performance compared to predicted levels.



Credit risk rating process
In principle all risk ratings are based on a Risk Rating (PD) Model that complies with the minimum requirements detailed in the CRD, the DNB Supervisory Rules and EBA guidelines. This concerns all counterparty types and segments, including countries.

ING Bank's probability of default (PD) rating models are based on a 1-22 scale, which roughly corresponds to the same rating grades that are assigned by external rating agencies, such as Standard & Poor's and Fitch. For example, an ING Bank rating of 1 corresponds to an S&P/Fitch rating of AAA and a Moody's rating of Aaa; an ING Bank rating of 2 corresponds to an S&P/Fitch rating of AA+ and a Moody's rating of Aa1, and so on.

Risk ratings (PD) for performing loans (1-19) are calculated in ING Bank IT systems with internally developed models based on data either manually or automatically fed. Under certain conditions, the outcome of a manually fed model can be challenged through a clearly defined rating appeal process. Risk ratings for non-performing loans (20-22) are set on the basis of an approved subjective methodology by the global or regional restructuring unit. For securitisation portfolios, the external ratings of the tranche in which ING Bank has invested are leading.

Risk ratings assigned to counterparties are regularly, at least annually, reviewed, and the performance of the underlying models regularly monitored.

Risk management continued

Over 95% of ING Bank's credit risks have been rated using one of the in-house developed PD rating models. Within the AIRB Portfolio, the level of Basel II ratings exceeds 99% coverage by exposure. Some of these models are universal in nature, such as models for Large Corporates, Commercial Banks, Insurance Companies, Central Governments, Local Governments, Funds, Fund Managers, Project Finance, and Leveraged Companies. While other models are more regional or country specific, such as PD models for SME companies in Central Europe, the Netherlands, Belgium, Luxembourg, and the United Kingdom, as well as residential mortgage and consumer loan models in the various retail markets.

Rating Models for retail counterparties are predominantly statistically driven and automated, such that they can be updated on a monthly or bi-monthly basis. Models for SME companies, and larger corporates, institutions and banks are manually updated, and are individually monitored on at least an annual basis.

Exposure classes

The Basel II Accord has developed the concept of 'Exposure Classes'. These are essentially groupings of credit risks associated with a common counterparty type or product type. For the AIRB Approach, most of the exposure classes have subcategories. ING Bank has applied the following definitions to determine Exposure Classes:
Governments include Sovereign Government entities, Central Banks and Basel II recognised Local / Regional Authorities as well as Supranational Organisations;
Institutions include all Commercial Banks, non-Bank Financial Institutions, such as Funds and Fund Managers, and Insurance Companies, as well as local and regional government entities not classified as governments;
Corporates includes all legal entities, that are not considered to be Governments, Institutions or Retail Other;
Residential Mortgages include all mortgage loans for residential properties that are not part of a securitisation; and
Retail Other includes all other credit obligations related to Retail SMEs, such as partnerships, one-man businesses and private individuals, such as consumer loans, car loans and credit cards.
Securitisations include securitisation programs for which ING Bank acts as an investor, sponsor or originator.

Under these exposure class definitions, it is possible for a private individual to be included under both residential mortgages and retail other. For other types of counterparties or issuers, there is no potential overlap.

The Pillar 3 disclosure provides detail of the ING portfolio classified by these Exposure Classes. This should be helpful for comparison with other AIRB banks. However, ING Bank does not manage its portfolio according to these exposure classes but based more on geography, customer segment, industry, and product. Therefore, additional portfolio breakdowns are also provided in Pillar 3 that reflect these management classifications of the portfolio.

Securitisations

ING Bank primarily plays three roles in its exposure to securitisations programs which are:

ING Bank as Investor

ING Direct has been the primary investor in securitisation transactions within ING Bank. Its core strategy is gathering customer deposits and providing lending products to its retail customers. The savings product is typically the first product to be launched in a country followed by mortgages and other retail products (current accounts, unsecured loans, credit cards etc.). The difference between retail liabilities and own originated retail assets is invested in high quality bonds and when appropriate in certain internal assets originated by other ING Bank entities. The execution of this business model in a cost-efficient manner is ING Direct's competitive advantage. Given ING Direct's business model as a liability driven operation with a focus on cost efficiency, ING Direct invests with a view to minimise credit risk, while ensuring sufficient liquidity. Hence, ING Direct accumulates highly rated debt securities with minimal credit risk thereby capitalising on its economies of scale.

ING Bank as Originator

ING Bank originates own securitisation transactions for economic and regulatory capital purposes, as well as liquidity and funding purposes. Securitisations originated by a company may only be considered for balance sheet de-recognition when the requirements for significant credit risk transfer have been fulfilled. However, for a securitisation transaction to be recognised as for RWA reduction, risk transfer alone may be insufficient due to the increasing impact of the maturity mismatch formula. As a consequence, the RWA of the retained tranches for one of the transactions would be higher than the total RWA of the underlying pool before securitisation. In such cases the RWA calculation for the transaction is performed as if it was not securitised.

ING Bank as Sponsor

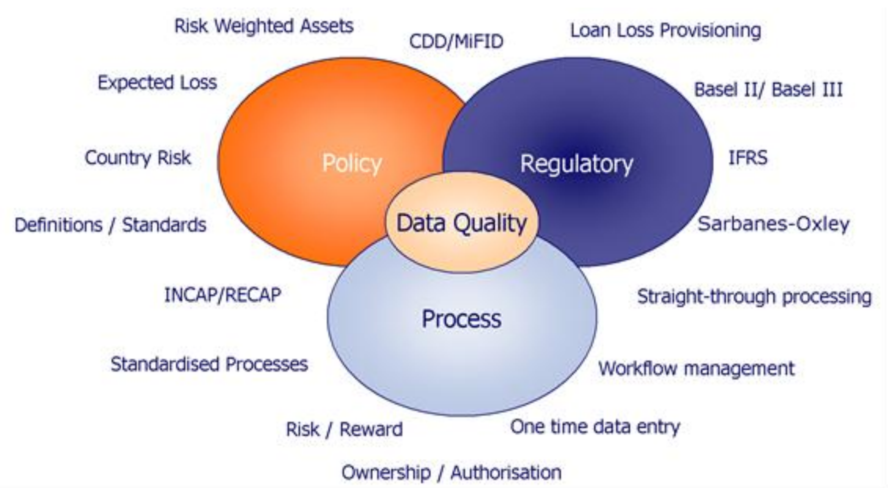
In the normal course of business, ING Bank structures financing transactions for its clients by assisting them in obtaining sources of liquidity by selling the clients' receivables or other financial assets to an SPV. The transactions are often funded by the ING Bank administered multi seller Asset Backed Commercial Paper (ABCP) conduit Mont Blanc Capital Corp. (rated A-1/P-1). Mont Blanc Capital Corp. continues to fund itself externally in the ABCP markets. In its role as administrative agent, ING Bank facilitates these transactions by providing structuring, accounting, funding and operations services. ING Bank also provides support facilities (liquidity and program wide enhancement) backing the transactions funded by the conduit. Mont Blanc is fully consolidated into the ING Bank financial accounts.

Risk management continued

Credit Risk tools
Credit Risk Policies
ING credit risk policies provide for generic rules and roles and responsibilities that should always prevail within ING Bank. While allowance is given for discretionary variation to comply with local regulations, such variations must always comply with the content of a global ING Bank wide credit risk policy and approved by (local) credit risk. All credit risk policies are created according to the policy development standards and reviewed on a regular basis. Each policy has a credit risk sponsor and is created in close consultation with the various stakeholders within credit risk, front office and where applicable other corporate departments. All policies require approval by the Credit Risk Committee (CRC) and where applicable (for instance in case of determining delegated authorities) by the Global Credit Committee (GCC).

Credit Risk systems and data standards
The acceptance, maintenance, measurement, management and reporting of credit risks at all levels of ING Bank is accomplished through promotion of single, common credit risk data standards and the integration into common credit risk tools that support standardised and transparent credit risk practices. ING has chosen to develop the credit risk tools centrally. Corporate Credit Risk Management (CCRM) together with the Bankwide Customer Domain (BCD) jointly designs and operates the tools, the process and the environment while the ING units (the users) provide the data input and various other ING departments and/or external regulators provide the rules, policies, and methodology embedded in the various tools.

The philosophy is to re-use the same data for all purposes, in an integrated approach that overlaps the three key areas of ING Bank policy, the regulatory environment in which we operate, and the daily processes which are active throughout the group. Overlapping these three areas is the essential requirement to ensure data quality standards and discipline remains high. The integrated approach is illustrated in the following diagram.



The CCRM/BCD customer-centric data model conforms strongly to the three core business needs of ING Bank:

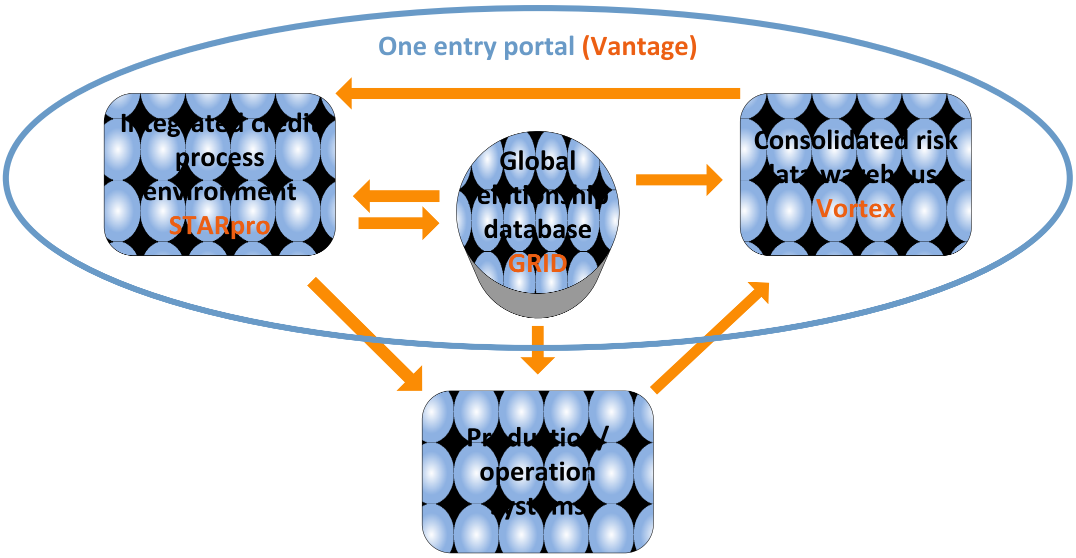
- To transact efficiently with our counterparties;
- To be compliant with our internal and external obligations; and
- To monitor the risks we undertake.

The customer-centric approach ensures that ING Bank can react quickly to changing regulations, business needs and best practices in our dealings with our clients and prospects.

Guiding principles regarding data elements
The guiding principles are that each data element should only be input once, and should have a clear "home" system or database which is leading throughout all uses of that data element. From the data "home", the data may then be redistributed to other systems or databases that may require that data in an automated straight through processing (STP) method. Depending on the need, the data may be transferred in real time, near real time, daily, weekly or monthly. This frequency of underlying data transfer is independent from the data transfer that may take place for consolidation purposes. The main credit risk systems are all accessed through a portal (Vantage), which also provides global tools for the customer domain (GRID), compliance, and regulatory reporting.

Risk management continued

ING Bank main credit risk systems



Global relationship database (GRID)
One global counterparty database for all incorporated entities throughout the world, GRID is leading for all data related to an organisation, such as ownership (legal and economic), legal name, industry code, town and country of residence, town and country of incorporation, customer type, and customer segment. The data in GRID is static, which implies that it does not change (on average) more than once per year.

The organisations in GRID include ING Bank's counterparties and prospects. GRID also contains private individuals, who are in scope when they are Private Banking customers, Ultimate Beneficiary Owners (UBOs), related parties, or cover providers to businesses. GRID also contains ING's contacts.

GRID's cross-reference functionality is essential. It enables us to link company information from different internal and external databases, with different local identification codes. Additionally, ING Bank automatically uploads credit ratings (from S&P, Fitch, and Moody's) and any (new) security ID (CUSIP, SEDOL, Bloomberg ID, or ISIN) on a daily basis, based on this cross-reference structure.

To ensure data integrity, GRID is reconciled on a weekly basis to over 17 external databases. Internally, GRID feeds data to 108 databases and additionally reconciles data for 122 systems.

ING Bank consolidated risk data warehouse (Vortex)
Vortex was built based on the credit risk requirements, which means it thinks, calculates and reports based on this concept. Vortex has three main functions and three main purposes. The three main functions of Vortex;
- Credit Risk Data Warehouse covering close to 100% of ING Bank credit risk exposure;
- Calculation Engine: Vortex calculates country risk, large exposure, exceptions, average limit/ Outstanding, provisions, economic capital and regulatory capital;
- Provide reports at a transactional, organisational, counterparty, department or ING Bank entity level.

The three main purposes of Vortex;
- Analysis for decision makers;
- Compliance: Vortex is compliant and meets the requirements set by the regulators;
- Disclosure: Vortex delivers reports to external rating agencies and investor relations.

Integrated credit process environment (STARpro)

STARpro is an integrated suite of applications, which manages various workflow processes related to counterparty on-boarding for most of the commercial and business banking activities. STARpro is actually a series of interrelated functions that are required to seek approval, such as:

- Financial statements import and projection analysis;
- Establishing and appealing risk ratings;
- Customer due diligence (CDD) Risk Level determination;
- MiFID classification determination;
- Environment and social responsibility reviews
- Determining loan pricing;
- Seeking credit risk approval (the analysis);
- Administration of (standardised) documentation;
- Problem loan management and determining the level of ISFA provisions;
- Document management (an electronic library);
- Research reports from external rating agencies (S&P, Fitch, Moody's, and Graydon) as well as internal equity research;
- STARpro automatically receives organisation data from GRID and exposure information from Vortex.

The Financial Statements module provides the user with the ability not only to register a company's financial statements in a common (IFRS-based) format, but also to project the company's future financial position as a result of the transactions contemplated. This allows the common view on the company's financial status to be communicated throughout ING and to form a consistent basis on decision making processes relying on financial information. This data is then aggregated and presented on the (read-only) browser-based Financial Statements component of STARpro.
Financial Statements data is automatically forwarded to Risk Rater, where it is incorporated into one of the various probability of default rating models. Risk Rater contains two kinds of rating models:

- Automated, whereby the data for a large number of counterparties is automatically processed from the source systems on a periodic (usually monthly) basis to determine new risk ratings; and
- Manual ratings, which are calculated on an individual basis and where the user is required to also answer additional subjective questions in order to create a rating.

Once a rating is approved the rating results are forwarded in real time to GRID. GRID then redistributes the rating (update) to the subscribing systems.
The Loan Pricer module is used to price loans and investments. It accesses existing data from within Vantage for existing deals and uses this data in the loan pricing component, a tool which assists the user in structuring and optimising a deal, while determining if the transaction meets ING Bank's internal risk/reward requirements. Functionality includes the ability to create and compare different scenarios, and to search for break-even values.
The Approval Package module supports the credit approval process by automating the creation and management of credit application documents and routing them to reviewers and approvers. Approval Package is the tool that collects the data from all of the other modules (including data received from other STARpro modules and all exposure data from Vortex), in order to put together the credit application package. For annual reviews, the user is required to check the existing data (sourced from their local tools via Vortex), and make any requested changes. For new deals, the user (usually an account manager) inputs the entire deal structure (using local source system codes) directly into Approval Package. The tool then has a workflow function to guide the credit application through the credit approval process.
The Problem Loans module is used to create provisions for organisations where the rating is set to 20, 21 or 22 and the outstanding is equal or bigger than the threshold (in general 1 million Euro, in individual cases or for certain units, the threshold could be lower). It also records detailed information on organisations in default. In addition the Problem Loan tool supports the problem loan provisioning process by automating the creation of problem loan applications and routing provisioning proposals to designated reviewers and approvers. It also provides a centralised ING Bank-wide repository for problem loan applications. All relevant policies, regulations and methodologies are as much incorporated in the systems as possible, providing an integrated approach.

Credit Risk reporting

Credit risk reporting is a crucial element of credit risk management. Regulators and ING Bank’s management increasingly recognise the value of risk-reporting systems and accessibility of data to monitor trends as well as to keep consistency and credibility in published data. A dedicated credit risk reporting department addresses various reporting requirements as well as key reporting principles.

Role of reporting department

The credit risk reporting department contributes in the following ways to CRM:

- Provides periodic overviews of credit capital, migration of risk weighted assets, concentration overviews by industry/sector/counterparty names required or requested by the DNB and other European regulators;
- Participate in the various exercises/simulations conducted by regulators and other policy-makers by being transparent in the data and analysis shared, to allow useful results and work towards more stable and efficient financial markets;
- Provides senior management and other risk departments an insight showing trends and quantitative as well as qualitative analysis in material risk areas within ING Bank in a comprehensive and simplified manner to facilitate informed decision-making;
- Addresses ad hoc requests from regulators, analysts and rating agencies and other external stakeholders which are driven by current market events impacting specific regions, portfolios or counterparties;
- Serves as a control function by analysing various portfolios and comparing them to certain risk policies. In addition, significant monthly portfolio changes are analysed and reviewed.

ING Bank's reporting principles

The Basel Committee on Banking Supervision (BCBS) released a consultative paper in June 2012, entitled "Principles for Effective Data Aggregation and Risk Reporting". The paper stems from a recommendation made by the Financial Stability Board (FSB) and outlines 11 key principles for global systemically important banks to follow. ING Bank has done a self-assessment and rates itself satisfactory or better on all principles. Nonetheless, gaps have been identified in certain sub-portfolios and actions are being planned to further improve the credit information technology and reporting. The following are the key principles based on which this information is obtained and shared:

- Accuracy: Reports made by analysts are peer-reviewed, management reviewed, reconciled with other publications for consistence and validated by responsible departments.
- Timeliness: Up to date information is provided to stakeholders in a timely and dynamic manner to ensure relevance and usefulness in this quickly changing economic environment;
- Completeness: ING Bank's reporting tools capture and aggregate all credit risk data across the banking group providing a complete overview within the depth and scope of ING Bank's operations and risk profile;
- Adaptability: Reporting systems and tools are enabled with various filters and options which allow the reporting department to quickly aggregate risk data to meet a broad range of ad hoc requests;
- Auditability: Data, sources and methods used for reporting are maintained in a proper and clear manner which is audited by external sources to ensure credibility and efficiency.

Credit Risk Portfolio

ING Bank's credit exposure is mainly related to traditional lending to individuals and businesses followed by investments in bonds and other securitised assets. 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. Bonds in the investment portfolio are generally unsecured. Securitised assets such as Mortgage Backed Securities and Asset Backed Securities are secured by the pro rata portion of the underlying diversified pool of assets (commercial or residential mortgages, car loans and/or other assets) held by the security's issuer. The last major credit risk source involves pre-settlement exposures which arise from trading activities, including derivatives, repurchase transactions and securities lending/borrowing and foreign exchange transactions.

Risk rating buckets per line of business

Risk rating buckets are defined based upon the quality of the exposures in terms of creditworthiness, varying from investment grade to problem grade expressed in S&P, Moody's and Fitch/IBCA equivalents.

Risk classes ING Bank portfolio, as % of total outstandings [1]

	Commercial Banking		Retail Banking Benelux		Retail Banking International [2]		Corporate Line		Total ING Bank	
	2012	2011	**2012**	2011	**2012**	2011	**2012**	2011	**2012**	2011
1 (AAA)	**2.9%**	2.9%	**0.0%**	0.0%	**7.6%**	9.6%	**0.8%**	6.1%	**3.3%**	4.5%
2-4 (AA)	**12.6%**	17.7%	**5.1%**	4.2%	**16.0%**	16.0%	**80.5%**	81.9%	**12.5%**	13.8%
5-7 (A)	**19.3%**	20.4%	**5.8%**	5.1%	**21.2%**	17.8%	**9.0%**	10.5%	**15.0%**	15.0%
8-10 (BBB)	**25.5%**	24.6%	**42.6%**	42.8%	**26.7%**	29.2%	**0.8%**	0.7%	**31.1%**	31.3%
11-13 (BB)	**25.4%**	22.4%	**34.6%**	37.3%	**20.9%**	15.9%	**0.2%**	0.3%	**26.7%**	24.1%
14-16 (B)	**8.9%**	8.2%	**6.2%**	5.4%	**5.5%**	8.1%	**0.4%**		**6.8%**	7.3%
17-22 (CCC & Problem Grade)	**5.4%**	3.8%	**5.7%**	5.2%	**2.1%**	3.4%	**8.3%**	0.5%	**4.6%**	4.0%
	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
[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.

Risk management continued

The relative shifts in rating classes 1 and 17 – 22 for Corporate Line are the results of the run off of certain ING securitisation programs and the inclusion of parts of the ING Direct ALT-A portfolio in the Corporate Line after the sale of ING Direct US, respectively. On a total portfolio level, in absolute numbers, these changes are negligible.

Credit Risk types

Within the Lending portfolio, by nature the largest risk category with 78%, there was an upward shift towards rating classes A and AA. In these buckets a noticeable shift in outstandings was seen from Central Governments to Private Individuals, in line with ING's continuous focus on core clients. In the Investment portfolio there was a shift to better risk categories across the Institutions portfolio. Bond investments especially in Southern Europe were actively de-risked. The decrease in the AA bucket for Money Market is directly related to less deposits given to the Dutch and North American central banks. The decrease in the AAA bucket for Investment is directly related to the divestment of Direct US and Direct Canada.

Risk classes ING Bank portfolio per credit risk type, as % of total outstandings [1]

	Lending		Investment		Money Market		Pre-settlement		Total ING Bank	
	2012	2011	**2012**	2011	**2012**	2011	**2012**	2011	**2012**	2011
1 (AAA)	**1.4%**	1.6%	**12.9%**	18.9%	**9.8%**	1.4%	**3.5%**	2.9%	**3.3%**	4.5%
2-4 (AA)	**6.3%**	5.2%	**45.3%**	38.3%	**35.5%**	71.6%	**11.0%**	17.0%	**12.5%**	13.8%
5-7 (A)	**10.7%**	9.4%	**18.2%**	23.9%	**35.7%**	19.3%	**54.9%**	50.9%	**15.0%**	15.0%
8-10 (BBB)	**36.1%**	37.8%	**11.4%**	13.3%	**13.4%**	2.7%	**17.4%**	18.5%	**31.1%**	31.3%
11-13 (BB)	**31.6%**	31.5%	**9.3%**	2.2%	**5.4%**	4.9%	**10.1%**	8.2%	**26.7%**	24.1%
14-16 (B)	**8.4%**	9.7%	**1.1%**	0.4%	**0.2%**	0.1%	**1.9%**	1.7%	**6.8%**	7.3%
17-22 (CCC & Problem Grade)	**5.5%**	4.8%	**1.8%**	3.0%	**0.0%**	0.0%	**1.2%**	0.8%	**4.6%**	4.0%
	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 only extended to private individuals.

As part of the focus on core clients, ING Bank further reduced its relative exposure to central governments and banks and the financial sector while growing the private individual and corporate portfolios. The category Central Banks reduced considerably as less excess liquidity was deposited at Central Banks.

Risk concentration: ING Bank portfolio, by economic sector [1]

	Commercial Banking		Retail Banking Benelux		Retail Banking International		Corporate Line		Total ING Bank	
	2012	2011	**2012**	2011	**2012**	2011	**2012**	2011	**2012**	2011
Private Individuals	**0.0%**	0.0%	**75.4%**	75.3%	**58.4%**	55.0%			**42.9%**	41.2%
Commercial Banks	**12.8%**	16.2%	**0.2%**	0.2%	**12.3%**	11.1%	**9.2%**	14.9%	**8.1%**	9.8%
Real Estate	**14.9%**	13.0%	**4.6%**	4.5%	**1.1%**	0.9%			**7.0%**	6.2%
Non-Bank Financial Institutions	**11.1%**	10.7%	**0.9%**	1.1%	**8.3%**	14.5%	**10.6%**	4.5%	**6.8%**	9.4%
Central Governments	**9.7%**	10.7%	**0.9%**	0.9%	**4.6%**	6.6%	**79.5%**	48.5%	**6.7%**	6.5%
Natural Resources	**13.3%**	10.9%	**0.4%**	0.4%	**0.7%**	0.4%			**4.9%**	4.1%
Transportation & Logistics	**6.9%**	5.9%	**1.2%**	1.3%	**0.2%**	0.2%			**2.9%**	2.5%
Central Banks	**6.0%**	9.6%	**0.1%**	0.1%	**2.2%**	3.3%		30.7%	**2.8%**	4.6%
Lower Public Administration	**0.5%**	0.4%	**1.9%**	1.4%	**5.9%**	4.4%			**2.6%**	2.1%
Services	**3.4%**	3.3%	**3.1%**	3.3%	**0.5%**	0.3%		0.5%	**2.4%**	2.2%
Food, Beverages & Personal Care	**3.5%**	3.0%	**2.1%**	2.1%	**1.1%**	0.6%		0.0%	**2.3%**	1.9%
General Industries	**3.4%**	3.3%	**1.4%**	1.5%	**1.4%**	0.8%	**0.4%**		**2.1%**	1.9%
Builders & Contractors	**2.7%**	2.4%	**1.9%**	2.0%	**1.3%**	0.8%			**2.0%**	1.7%
Other	**11.8%**	10.6%	**5.9%**	5.9%	**2.0%**	1.1%	**0.3%**	0.9%	**6.6%**	5.9%
Total	**100.0%**	100.0%	**100.0%**	100.0%	**100.0%**	100.0%	**100.0%**	100.0%	**100.0%**	100.0%

[1] Based on 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.

Risk management continued

Country Risk
In 2012 a more comprehensive Country Risk Framework was implemented which resulted in enhanced disclosure of country risk information. For comparison reasons, we have used the same framework settings for the 2011 figures.

The largest relative geographic area of growth was Rest of Europe which was mainly due to increased exposure to Private Individuals in Turkey and Poland. Germany was the second region in terms of relative growth which was also due to increased exposure to Private Individuals.

In line with ING Bank's de-risking strategy, the portfolio developments in the Americas showed the biggest relative decline due to the sale of ING Direct US and ING Direct Canada. Exposure in the Netherlands continued to decline mainly due to decreased exposure to the Dutch Central Bank.
Exposure continued to grow in core home markets of Europe, while declining in North America due to the sale of the units ING Direct US and Canada in the course of 2012. This also had a large relative effect and far outweighed any currency movements.

Largest economic exposures: ING Bank lending portfolio, by geographic area [1]

	Commercial Banking		Retail Banking Benelux		Retail Banking International		Corporate Line		Total ING Bank	
	2012	2011	**2012**	2011	**2012**	2011	**2012**	2011	**2012**	2011
Netherlands	**15.5%**	18.6%	**72.5%**	73.7%	**0.6%**	3.4%	**76.6%**	83.4%	**31.1%**	29.1%
Belgium	**8.0%**	7.5%	**25.7%**	24.3%	**0.6%**	0.3%	**0.3%**	0.5%	**11.5%**	9.6%
Germany	**4.0%**	4.2%	**0.2%**	0.1%	**39.2%**	25.5%	**2.2%**	5.4%	**12.6%**	10.4%
Rest of Europe	**45.1%**	41.6%	**1.3%**	1.2%	**36.3%**	27.8%	**10.6%**	8.0%	**27.7%**	25.4%
Americas	**15.0%**	16.1%	**0.2%**	0.2%	**1.0%**	28.0%	**10.3%**	2.6%	**6.2%**	15.7%
Asia/Pacific	**11.8%**	11.5%	**0.1%**	0.1%	**22.3%**	15.0%	**0.0%**	0.1%	**10.7%**	9.5%
Rest of World	**0.6%**	0.5%	**0.0%**	0.4%	**0.0%**	0.0%	**0.0%**	0.0%	**0.2%**	0.3%
Total	**100.0%**	100.0%	**100.0%**	100.0%	**100.0%**	100.0%	**100.0%**	100.0%	**100.0%**	100.0%

[1] Geographic areas are organisation based and for private individuals based on country of residence.

Credit Risk Mitigation
As with all financial institutions and banks in particular, ING Bank is in the business of taking credit risks in an informed, controlled and measured fashion. As such, the creditworthiness of our customers, trading partners and investments is continually evaluated for their ability to meet their financial obligations to ING Bank. ING Bank uses different credit risk mitigation techniques, of which entering into Master Agreements, Collateral Agreements and CDS contracts are the main techniques used.

Compensation and master agreements
ING Bank uses various market pricing and measurement techniques to determine the amount of credit risk on pre-settlement activities. These techniques estimate ING Bank's potential future exposure on individual and portfolios of trades. Master agreements and collateral agreements are frequently entered into to reduce these credit risks.

ING Bank matches trades with similar characteristics to determine their eligibility for offsetting. This offsetting effect is called 'compensation'. Subsequently, ING Bank reduces the amount by any legal netting that may be permitted under various types of Master Agreements, such as ISDAs, GMRAs, GMSLAs, etc. Lastly, the amount is further reduced by any collateral that is held by ING Bank under CSAs or other similar agreements.

The use of Central Clearing Parties (CCPs) is becoming an increasing element of the derivative business. CCPs do not really mitigate the counterparty risk. Instead, the credit risk is shifted from Counterparties to CCPs. By year end 2012 the notional Pre-Settlement exposure that was cleared via CCPs increased by 50%.

Collateral policies
During the assessment process of creating new loans, trading limits, or making investments, as well as reviewing existing loans trading positions and investments, ING Bank determines the amount and type of collateral, if any, that a customer may be required to pledge to ING Bank. Generally, the lower the perceived creditworthiness of a borrower or financial counterparty, the more collateral the customer or counterparty will have to provide. Within counterparty trading activities, ING Bank actively enters into various legal arrangements whereby ING Bank and/or counterparties 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 Bank can receive or pledge. The type of collateral which is held as security is determined by the structure of the loan or position. Consequently, since ING Bank's portfolio is diversified, the profile of collateral it receives is also diversified in nature. The one exception is residential mortgages which comprise a significant part of the lending portfolio. Per definition, residential mortgages are collateralised by housing. ING Bank maintains the residential mortgage collateral in its centralised data base and in most cases uses external data to index the market value.

As part of its securities financing business, ING Bank entities actively enter into agreements to sell and buy back marketable securities. These transactions can take many legal forms. Repurchase and reverse repurchase agreements, buy/sellback and sell/buyback agreements, and securities borrowing and lending agreements are the most common. The amount of marketable securities that ING Bank held as collateral under these types of agreements was EUR 88.4 billion at 31 December 2012 and EUR 74.0 billion at 31 December 2011. Overall open securities financing trades showed a small increase at year end 2012 compared to year end 2011. These amounts exclude the cash leg of the respective transactions, as well as any pledges of securities under Tri-Party agreements (as the underlying is not directly pledged to or owned by ING Bank). As a general rule, the marketable securities that have been received under these transactions are eligible to be resold or repledged in other (similar) transactions. ING Bank is obliged to return equivalent securities in such cases.

Repossession policy

It is ING Bank's general policy not to take possession of assets of defaulted debtors. Rather, ING Bank attempts to sell the assets from within the legal entity that has pledged these assets to ING Bank, in accordance with the respective collateral or pledge agreements signed with the obligors. In those cases where ING Bank does take possession of the collateral, ING Bank generally attempts to sell the assets as quickly as possible to prospective buyers. Based on internal assessments to determine the highest and quickest return for ING Bank, the sale of repossessed assets could be the sale of the obligor's business as a whole (or at least all of its assets), or the assets could be sold piecemeal. With regard to the various mortgage portfolios, ING Bank often has to take possession of the underlying collateral but also tries to reduce the amount of time until resale.

Credit derivatives

ING Bank actively participates in the credit risk derivative (CDS) trading market, as a net purchaser of credit risk protection from other counterparties. ING Bank has purchased a small amount of credit risk protection for hedging purposes, usually in order to reduce concentration on certain 'legal one obligor groups' without having to reduce ING Bank's relationship banking activities. ING Bank does not actively sell credit default swaps for hedging or investment purposes. Although Basel II rules permit a reduction of credit risk capital under certain circumstances where ING Bank has purchased CDS protection, ING Bank does not currently make use of this provision in determining its Basel II capital base.

Credit Covers

At ING Bank, cover is a term which is defined as any security, lien, mortgage, or collateral interest in an asset or guarantee, indemnification or undertaking received (either by contract and/or by law) that is intended to reduce the losses incurred subsequent to an event of default on an obligation (usually financial in nature) a customer may have towards ING Bank. Within ING Bank, covers are subdivided into two distinct groups, called collateral and promises. Reference is made to credit risk management classification as included in the accounting policies for the consolidated annual accounts for a reconciliation between credit risk outstandings categories and financial assets.

Collateral

Collateral is a security interest in assets. If the customer defaults on its promised performance, the asset is given as collateral or security for that obligation is liquidated, such that the proceeds can be applied towards full or partial compensation of the pledgor's (financial) obligation to ING Bank. Assets have monetary value and are generally owned by the person or organisation, which gives them as collateral to ING Bank. An asset may be tangible, like plant & machinery, buildings, bonds, receivables etc. or intangible like patents, copyrights and trademarks.

In the table below the residential mortgage portfolio, the mortgage collateral amounts and the commercial banking related exposures and its attached collaterals are shown. Please note that the figures shown for the AIRB portfolio are based on official regulatory settings, amongst others resulting in collateral values before haircuts, as, if and when applicable. The exposure classes shown are based on Basel II Accord exposure classes. ING Bank records collateral values per facility: for the AIRB portfolio, these figures are based on original cover values, although some business units attempt to update to actual market values. This is inherently difficult in volatile markets. Some facilities have various levels of collateral; others have no collateral at all. Looking at the total figures may not reflect the collateral value per facility.

Promises

Promises are defined as a legally binding declaration by persons or organisations that give ING Bank the right to expect and claim from those persons or organisations if ING Bank's customer fails on its obligations to ING Bank. Common examples are guarantees received and letters of credit.

The following table shows the regulatory credit risk exposures at default and cover values per line of business: Retail Banking (comprising both Benelux, Direct & International) and Commercial Banking. Exposures for Retail Banking are reported for the most relevant retail product being Residential Mortgages while the remaining regulatory exposures at default are classified as Retail SME Retail.

Exposures at default for Commercial Banking are reported for the most relevant exposure classes being Institutions, Corporate and Central Governments and Central Banks. Regulatory credit risk exposure at default is inclusive of both on balance and off balance sheet exposures, and of all risk categories.

Risk management continued

For each product or category, the cover amounts are then reported for the most relevant collateral categories being Mortgages and Eligible Financial Collateral (including cash and securities), and for the most relevant Promises category being Guarantees. The remaining collaterals and promises are included in the category Other.

In 2012, ING Bank changed the way it allocated guarantees at the request of DNB. The goal was to ensure that no guaranteed risk weight is lower than the risk weight of the guarantor on an unsecured basis. In order to ensure this calculation, ING removed two conservative cover allocation methods related to guarantees. Previously, guarantees were allocated by borrower group instead of facility and a maximum of 100% of the facility was used for guarantees. These two elements have been eliminated in 2012. In addition, ING Lease has begun classifying certain purchase obligations as guarantees. The net effect of these changes is that the amount of guarantees in 2012 is not directly comparable with the 2011 level.

Performing Assets – Cover values including guarantees received - AIRB Portfolio based**

	READ*		Total Credit Covers*****		Mortgages****		Eligible Financial Collateral		Guarantees***		Other	
	2012	2011	**2012**	2011	**2012**	2011	**2012**	2011	**2012**	2011	**2012**	2011
Retail												
Residential Mortgages	**289,044**	335,099	**445,727**	505,991	**412,926**	465,778	**n.a.**	n.a.	**32,636**	39,971	**165**	242
Retail SME	**34,764**	35,987	**31,424**	29,855	**14,604**	16,202	**764**	776	**7,338**	3,897	**8,718**	8,980
Total Retail	**323,808**	371,086	**477,151**	535,846	**427,530**	481,980	**764**	776	**39,974**	43,868	**8,883**	9,222
Commercial												
Institutions	**85,226**	99,703	**14,271**	10,183	**82**	90	**92**	406	**13,528**	9,078	**569**	609
Corporate	**243,508**	265,030	**203,263**	186,030	**79,458**	82,195	**16,518**	12,965	**36,922**	28,966	**70,365**	61,904
Central Governments and Central Banks	**84,462**	107,613	**1,731**	2,879	**135**	83	**3**	12	**1,520**	2,726	**73**	58
Total Commercial	**413,196**	472,346	**219,265**	199,092	**79,675**	82,368	**16,613**	13,383	**51,970**	40,770	**71,007**	62,571
Total	**737,004**	843,432	**696,416**	734,938	**507,205**	564,348	**17,377**	14,159	**91,944**	84,638	**79,890**	71,793

* Regulatory Exposure At Default based on Basel II Accord
** Excluding intercompany positions
*** Guarantees received can be additional to pledges and not necessarily replace covers
**** The used valuations methods for the underlying covers may vary per cover
***** Credit covers are the sum of all existing covers. Excess cover amounts on specific loans cannot be put in place for loans without covers. Therefore, the figures shown in the table should not be used for netting calculation purposes

The cover tables show a breakdown of ING Bank's retail and commercial portfolios. The Residential Mortgages portfolio relates to private individuals and small and medium sized enterprises. The growth in this portfolio was mainly driven by Germany. After the sale of ING Direct USA and ING Direct Canada, ING Bank's residential mortgage portfolio outstandings decreased to approximately 39% of ING Bank's credit outstandings.The Financial Institutions portfolio is comprised of commercial banks and non-bank financial institutions. Corporates range from large enterprises to small and medium sized companies. Central governments and central banks consist of all governmental layers, from local to national and central banks. The decrease in this portfolio was mainly driven by exposure in The Netherlands.

Loan-to-Value (LTV)

The LTV ratio relates the total loan amount to the market value of the collateral. The market value is usually the registered value as adopted from the valuation report of a qualified appraiser or valuer. ING Bank has a team of specialists for the valuation of real estate, which is supplemented with external and desk top valuation. In some countries residential mortgages are covered by governmental or commercial insurers. For example the Nationale Hypotheek Garantie (NHG) in The Netherlands, which guarantees the repayment of a loan in case of a forced property sale. The LTV in The Netherlands is relatively high, but is partially compensated by the NHG guaranteed portfolio and other secondary covers, such as life insurance policies, savings and investment products.

When available, indexation is applied to re-evaluate the collateral to the present value. In the LTV calculation the following property covers are included: residential and industrial/commercial properties, land and applicable other fixed assets. All other covers are excluded.

ING Bank's residential mortgage portfolio outstandings amount to EUR 296 billion, making up 39% of the total ING Bank credit risk outstandings. The average LTV of the total residential mortgage portfolio amounts to 79% (2011: 75%).

Risk management continued

In the cover table below the performing and nonperforming Residential Mortgages in the Retail SA portfolio are shown, together with the original cover values.

Cover values Residential Mortgages - SA Portfolio based	READ*		Mortgages**	
	2012	2011	**2012**	2011
Retail				
Residential Mortgages Performing Assets	**11,334**	10,528	**26,216**	25,342
Residential Mortgages Problems Assets	**26**	16	**93**	106
Total Residential Mortgages	**11,360**	10,544	**26,309**	25,448

* Regulatory Exposure At Default based on Basel II Accord
** Based on original cover value

Credit quality
Since the beginning of the crisis, increases in past due obligations, impaired loans, provisions and problem loans in general have occurred in the ING credit risk portfolio. Due to the continued economic pressure and low investor appetite, the restructuring of files is getting more complicated and as a result, the average turnaround time of the files at Global Credit Restructuring has increased. In the work out practice, ING faces an increasing number of situations where the traditional Plan A is not a realistic possibility. Plan A generally consists of an amicable restructuring agreement with the present owner and, sometimes, the executive management, based on debt reduction, additional collateral or external equity versus improved conditions and risk / reward profile for the bank. Other cases demand another arrangement or a Plan B – a lender led solution where the bank(s) temporarily take ownership or take the company through, pre-packaged, insolvency to find a new strategic partner, which can add value in terms of liquidity, synergies and management. Successful restructuring outcomes are more difficult to achieve.

Past-due obligations
ING Bank 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 5-7 days after an obligation becomes past due are considered to be operational in nature for retail loans and small businesses portfolios. After this period, letters are sent to the obligor reminding the obligor of its (past due) payment obligations. If the arrear still exists after 90 days, the obligation is transferred to one of the ‘problem loan’ units. In order to reduce the number of arrears, ING banking units encourage their obligors to set up automatic debits from their (current) accounts to ensure timely payments.

Credit quality: ING Bank portfolio, outstandings	**2012**	2011
Neither past due nor impaired	**712,020**	849,283
Past due but not impaired (1–90 days) (1)	**6,579**	6,649
Impaired (2)	**14,928**	13,382
Total	**733,527**	869,314

(1) Based on lending (consumer loans and residential mortgages only).
(2) Based on credit risk measurement contained in lending and investment activities.

Aging analysis (past due but not impaired): ING Bank portfolio, outstandings (1)	**2012**	2011
Past due for 1–30 days	**5,350**	5,455
Past due for 31–60 days	**1,142**	1,111
Past due for 61–90 days	**87**	83
Total	**6,579**	6,649

(1) Based on lending (consumer loans and residential mortgages only). The amount of past due but not impaired financial assets in respect of non-lending activities was not material.

ING Bank considers past due loans to be those loans where any payment of interest or principal is more than one day past due. The methodology is principally extended to loans to private individuals, such as residential mortgage loans, car loans, and other consumer loans. For business loans (governments, institutions, corporates), ING Bank has adopted a policy to classify the obligor as a problem loan as quickly as possible upon the occurrence of a payment default. This can even occur before a payment default has taken place. Therefore, the concept of past due loans does not exist for these types of obligors (and hence the reason why certain exposure classes show no figures).

As a general rule, ING Bank considers business loans as non-performing after a payment default of fourteen days. This is much stricter than required under the Basel 2.5 definition.

Forbearance

Forbearance activities are activities that are employed in order to maximise collection opportunities and, if possible, avoid default, foreclosure or repossession. Such arrangements include extended payment terms, a reduction in interest and/or principal repayments, approved external debt management plans, debt consolidations, the deferral of foreclosures and other modifications. Forbearance may be an effective measure to avoid default, foreclosure or repossession, but there remains a risk that default, foreclosure or repossession may still occur, despite forbearance being offered.

ING Bank applies forbearance activities to a limited extent in accordance with its Retail Loan Modification policy. Each ING Bank business unit that applies forbearance activities has established clear criteria to determine a client's eligibility for a loan modification, procedures to verify a client's representations and specific approval mandates. Such criteria, procedures and mandates are approved by local credit risk management. Credit risk management monitors the performance of clients with modified loans at least on a monthly basis.

Clients that are offered a loan modification, and who have accepted such modification, are assigned a specific risk rating and PD. A loan modifications is, on itself, not considered as a credit default trigger, but may be applied to loans that are in default based on other triggers. For significant loan modifications, the difference between the net present value of expected future cash flows before and after the modification is charged to the profit and loss account and added to the loan loss provision. All modified loans are flagged in the credit risk systems. Loan modifications include one or more of the following (i) tenor extension, (ii) temporary interest-only payments, (iii) loan consolidation and (iv) refinancing.

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 general, forbearance represents an impairment trigger under IFRS. 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 loan loss provisioning 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.

ING Bank does not have a wide spread forbearance practice leading to financial losses in its business units. Most of the renegotiated loans are typically not impaired – which is valid for all loans where the renegotiated terms are (still) based on current market rates and contractual agreed cash flows are expected to be collected in full during the life of the loan. Modifications of loans which do not affect payment agreements, such as restructuring in relation to loan elements including collateral, structure and (waivers of) covenant rights, are not seen as sufficient indicators of impairment in themselves.

In Corporate Banking, (potentially) problematic loans are typically assessed on an individual basis and the occurrence of an impairment (or Basel II) default trigger – including the "unlikely to pay" default trigger. This assessment is done on a quarterly basis, and will lead to the calculation of a loan loss provision whenever ING Bank estimates that not all contractual cash flows will be collected over time – in which case the loan asset is considered no longer "money good."

In Retail Banking, the (re)modified loans are segregated from the other parts of the loan portfolio for collective impairment assessment to reflect the possibility of higher losses in this segment and to recognise the financial loss that already has occurred – e.g. the contractual agreed interest rate reduction for a period of time. The applicable Model PD's and LGD's for these loan portfolios are – also on a quarterly basis - monitored whether they still reflect the historical and also latest loss observations – and will be adjusted when this is no longer the case.

ING knows three different types of loan assets in which a (definite, non-recoverable) financial loss was incurred.

- Corporate Banking: Troubled Debt Restructuring (risk rating 20)
- Corporate Banking: Fair Value Adjustment (risk rating better than 20)
- Retail Banking: (re)Modified Loans to Private Individuals (mostly Mortgages)

ING defines a loan as a Troubled Debt Restructuring (TDR) when a combination of the following is applicable (i) the loan is already impaired, (ii) ING Bank will or is likely to incur a loss by means of concessions agreed with the Borrowers and (iii) The company will not be liquidated, i.e. can be restructured and made financially healthy again. Within ING Bank, TDRs have a risk rating of 20. Impaired Borrowers that are unable to reach a consensual restructuring will either repay or will likely end up in liquidation and, in the latter case, be risk rated 21 or 22 (and are not considered to be TDR). Likewise all (potentially) problematic Borrowers, regardless of label being Watch list, Restructuring or Recovery, and where ING has not (yet) agreed to a concession leading to a financial loss, are not considered to be TDRs.

In all three cases, ING has incurred, or will incur a financial loss, which was accepted for non-commercial reasons. In the TDR case, the (loan loss) provision will be at least equal to the financial loss incurred.

Risk management continued

Corporate Banking: Troubled Debt Restructurings
The total portfolio of loans classified as TDR amounted to EUR 1.2 billion in 2012.

Corporate Banking: Troubled Debt Restructuring		
Region	**2012**	2011
UK	**533**	536
Netherlands	**479**	276
Germany	**98**	102
India	**73**	52
Poland	**53**	29
Italy	**14**	15
Austria	**4**	4
Russia	**2**	3
Czech Republic	**1**	2
Total	**1,257**	1,019

Corporate Banking: Fair Value Adjustment
There are loan situations where we have entered into a troubled debt restructuring (and have incurred a financial loss) but where we expect the Borrower to fully perform the restructured debt service. In such a case, the Borrower may be upgraded to a regular / performing Risk Rating – implying that the restructured debt is money good – while the loss is reflected in a Fair Value Adjustment to the original asset. In such a case the original loan asset will be derecognised and administered / rebooked as a new loan however with a lower carrying value than the original loan value – the difference being the fair value adjustment. As per 2012, ING Bank recognised EUR 189 million (2011: EUR 97.2 million) of Fair Value adjustments on EUR 1.3 billion of original exposure (EUR 1.1 billion in 2011) for the Corporate Lending

Corporate Banking: FVA on Corporate Loans		
Region	**2012***	2011*
UK	**730**	553
Spain	**485**	485
Total	**1,214**	1,038

* Outstandings at moment of FVA.

Retail Banking: (re)Modified Loans to Private Individuals
ING Bank applies forbearance activities to a limited amount in accordance with the Retail Loan Modification policy. Under this policy, each ING bank business units should have clear criteria to determine a client's eligibility for a loan modification, procedures to verify client's presentation and specific approval mandates. Credit Risk Management monitors the performance of clients with modified loans at least on a monthly basis. All modified loans are flagged in the credit risk systems. Clients that are offered a loan modification, and who have accepted such modification, are assigned a specific risk rating and PD.

In the Retail Banking environment the (re)modified loan will normally reflect a fair value adjustment as in the Corporate Banking environment. In most cases, the (re)modification will lead to an interest reduction during the tenor of the loan. The financial loss, expressed as Net Present Value loss (or again Fair Value Adjustment), will be calculated as the difference between the market conform interest and the actual agreed interest x the tenor of the (re)modified loan, or NPV((Market Interest - Contractual Interest) x tenor in years). The outcome of this calculation will be deducted from the original carrying value of the loan, the original loan asset will be derecognised and replaced by a new FVA asset with a lower carrying value, reflecting the financial loss incurred.

Risk management continued

As per 2012, ING Bank Retail reported EUR 291 million (EUR 1.6 billion in 2011) of Loan Modifications:

Retail Banking: Remodified Loans, outstandings and number of clients

		Outstanding		Clients	
Region	Customer Segments	**2012**	2011	**2012**	2011
Belgium	Consumer Lending & Mortgages	**139**	127	**913**	725
Australia	Mortgages	**60**	43	**265**	196
Spain	Mortgages	**52**	30	**304**	173
UK	Mortgages	**25**	12	**65**	35
Italy	Mortgages	**7**	6	**62**	54
Romania	Consumer Lending & Mortgages	**5**	12	**316**	566
Poland	Consumer Lending & Mortgages	**2**	1	**327**	173
Luxembourg	Mortgages	**1**		**3**	1
Netherlands*	Mortgages	**n.a.**		**n.a.**	
Turkey	Consumer Lending & Mortgages		1	**19**	182
US	Mortgages		1,364		3,417
Total		**291**	1,596	**2,274**	5,522

* ING Domestic Bank Netherlands has a loan modification policy where modified customers are considered in default. These loans are tracked as defaulters and not under the Retail Loan Modification policy. These clients are not included in the above table. This is a conservative approach as most of these clients are current on their obligations. ING is considering to transfer these clients from the default category to remodified loans in order to provide better comparison to other Dutch mortgage providers and other international markets. As per 31 December 2012, the number of modified loans which are tracked as defaulters at ING Domestic Bank Netherlands is around 3,000, which represents around EUR 0.6 billion in outstanding amount.

Impaired loans

The credit portfolio is under constant review. Generally, all loans with past due financial obligations of more than 90 days are automatically reclassified as impaired. For the wholesale lending portfolios and securities obligations, there are generally reasons for declaring a loan impaired prior to being 90 days past due. These include, but are not limited to, ING Bank'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. ING Bank identifies as impaired loans 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.

The table below represents the economic sector breakdown of credit risk outstandings (including impaired amounts) for loans and positions that have been classified as problem loans and for which provisions have been made.

Impaired Loans: ING Bank portfolio, outstandings by economic sector [(1)]

	2012	2011
Private Individuals	**4,370**	4,790
Real Estate	**3,723**	2,671
Builders & Contractors	**1,087**	774
Transportation & Logistics	**954**	797
Food, Beverages & Personal Care	**846**	784
General Industries	**649**	819
Services	**550**	718
Other	**2,749**	2,029
Total	**14,928**	13,382

[(1)] Economic sectors below EUR 500 million in both years are not shown separately but grouped in Other.

The largest sector remained private individuals and is a function of the large mortgage portfolio of ING Bank. The sale of ING Direct Canada and especially ING Direct US reduced the amount of private individuals in default. On the contrary, the amount of exposure to real estate customers in default increased sharply during 2012. This was largely the result of the deterioration of commercial real estate markets in many countries where ING is active.

Provisions

There are three types of provisions that have to be made and accounted for:

- Individually Significant Financial Asset (ISFA) Provisions: for those loans where specific, individualised provisions are still required. These are generally loans that exceed the threshold amount. The threshold amount varies per business unit, but generally is nil in the international units, and EUR 1 million in the 'home markets'. These provisions are made using an estimated future recovery methodology and then applying a net present value concept. The future cash flows are based on the restructuring officers' best estimate of when/if recoveries will occur. Recoveries can be from any source, such as the sale of collateral, on-going cash flows, sale of a business/subsidiary, etc. ISFA provisions are all calculated using a common tool across ING Bank.

Risk management continued

- 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, but which ING Bank has not yet determined or recognised. These provisions are based on a modified expected loss methodology. The primary modification is that the PD time horizon (12 months) is shortened to periods of 3, 6, or 9 months, depending on the type of obligor. Generally, the larger the obligor, the shorter the PD time horizon. IBNR provisions are calculated centrally using a common tool across ING Bank.

- Individually Not Significant Financial Asset (INSFA) Provisions: are made for acknowledged problem loans (ratings 20-22) that are below the threshold amount. Due to their small size, the IFRS-EU rules permit a statistical approach to measuring these provisions. Therefore, the calculation is based on the same statistical formula that is used to determine IBNR Provisions and is also calculated centrally using a common tool across ING Bank.

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 (IPC) Bank, which advises the Management Banking Board on specific provisioning levels.

ING Bank holds specific and collective provisions of EUR 3,415 million and EUR 1,336 million, respectively (2011: EUR 3,040 million and EUR 1,133 million respectively), representing the difference between the amortised cost of the portfolio and the estimated recoverable amount discounted at the effective rate of interest. In addition, there is EUR 753 million (2011: EUR 777 million) in provisions against the performing portfolio. The 2011 figures are including ING Direct USA and Canada.

Provisions: ING Bank portfolio [1]

	Commercial Banking		Retail Banking Benelux		Retail Banking International		Total ING Bank	
	2012	2011	**2012**	2011	**2012**	2011	**2012**	2011
Opening Balance	**2,039**	1,855	**1,751**	1,641	**1,160**	1,699	**4,950**	5,196
Changes in the composition of the group		–3			**–13**	–565	**–13**	–568
Write-offs	**–717**	–373	**–793**	–494	**–172**	–437	**–1,682**	–1,304
Recoveries	**41**	66	**90**	37	**11**	9	**142**	112
Increase/(decrease) in loan loss provision	**955**	479	**833**	603	**337**	588	**2,125**	1,670
Exchange or other movements	**–14**	15	**–17**	–36	**14**	–134	**–17**	–156
Closing Balance	**2,304**	2,039	**1,864**	1,751	**1,337**	1,160	**5,505**	4,950

[1] The 2011 figures are excluding ING Direct USA.
[2] The 2012 figures are excluding ING Direct UK held for sale.

The economic distress had its impact on the development of the risk costs in 2012. Since 4Q11, risk costs have remained at elevated levels.

Large parts of the Investment portfolio and real estate development exposures are not part of the loan book and thus evaluated for impairment instead of provision. The Global Impairment Meeting is a quarterly process that reviews all assets that qualify against the IFRS impairment test.

Risk management continued

Credit Covers Problem Assets

The table hereunder shows the cover values per credit risk category classified based on Retail and Commercial Banking products. In the ING Bank master scale which ranges from 1 being the best rating to 22 being the worst rating, Problem Assets are the Assets with ratings in the range 20–22. All other are called Performing Assets and are shown in the table below.

Problem Assets – Cover values including guarantees received - AIRB Portfolio based**

	READ*		Total Credit Covers*****		Mortgages****		Eligible Financial Collateral		Guarantees***		Other	
	2012	2011	**2012**	2011	**2012**	2011	**2012**	2011	**2012**	2011	**2012**	2011
Retail												
Residential Mortgages	**3,605**	4,072	**4,232**	4,206	**3,948**	3,978	**n.a.**	n.a.	**281**	223	**3**	5
Retail SME	**1,661**	1,503	**2,100**	1,199	**923**	784	**30**	8	**854**	148	**293**	259
Total Retail	**5,266**	5,575	**6,332**	5,405	**4,871**	4,762	**30**	8	**1,135**	371	**296**	264
Commercial												
Institutions	**769**	784	**4**	4					**4**	4		
Corporate	**9,142**	7,493	**8,812**	6,194	**4,628**	3,322	**353**	485	**1,127**	397	**2,704**	1,990
Central Governments and Central Banks	**1**	1										
Total Commercial	**9,912**	8,278	**8,816**	6,198	**4,628**	3,322	**353**	485	**1,131**	401	**2,704**	1,990
Total	**15,178**	13,853	**15,148**	11,603	**9,499**	8,084	**383**	493	**2,266**	772	**3,000**	2,254

* Regulatory Exposure At Default based on Basel II Accord
** Excluding intercompany positions
*** Guarantees received can be additional to pledges and not necessarily replace collaterals
**** The used valuations methods for the underlying collaterals may vary per collateral
***** Credit covers are the sum of all existing covers. Excess cover amounts on specific loans cannot be put in place for loans without covers. Therefore, the figures shown in the table should not be used for netting calculation purposes
Please see above analysis regarding collateral and other covers for analysis.

MARKET RISK

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, market value or liquidity position. Market risk either arises through positions in trading books or through the banking (non-trading) book positions. The trading positions are typically held short-term, while 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.

Governance

Within ING Bank, market risk (including liquidity risk) falls under the supervision of the ALCO function with ALCO Bank as the highest approval authority. ALCO Bank determines the overall risk appetite for market risk. The ALCO function is regionally organised. The business lines Retail Banking (both Benelux and International) and Commercial Banking are represented within the respective regional and local ALCO's. The ALCO structure within ING Bank facilitates top-down risk management, limit setting and the monitoring and control of market risk. This ensures a correct implementation of the ING Bank risk appetite.

The Market Risk Management department (MRM) is the designated independent department that is responsible for the design and execution of the bank's market risk management functions in support of the ALCO function. The MRM structure recognises that risk taking and risk management to a large extent occurs at the regional/local level. Bottom-up reporting allows each management level to fully assess the market risk relevant at the respective levels.

MRM is responsible for determining adequate policies and procedures for managing market risk and for monitoring the compliance with these guidelines. An important element of the market risk management function is the assessment of market risk in new products and businesses. Furthermore MRM maintains an adequate limit framework in line with ING Bank's risk appetite. The businesses are responsible for adhering to the limits that ultimately are approved by ALCO Bank. Limit breaches are reported to senior management on a timely basis and the business is required to take the appropriate actions to reduce the risk position.

Model Disclosure: 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. Economic Capital for market risk is calculated for exposures both in trading portfolios and non-trading portfolios and includes real estate risk, foreign exchange rate risk, equity price risk, interest rate 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, which represents extreme events and ING's target rating.

Risk management continued

For the trading and most of the non-trading portfolios (including equity investments), the actual VaR (measured at a 99% confidence interval, a one day holding period and under the assumption of an expected value of zero) 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 like the occurrence of large market movements (events) and management interventions.

Economic Capital for market risk for the mortgage portfolios within ING Retail Banking (both Benelux and International Banking) and ING Commercial Banking is calculated for embedded option risk (e.g. the prepayment option and offered rate option in mortgages). The embedded options are hedged using a delta-hedging methodology, leaving the mortgage portfolio exposed to convexity and volatility risk.

Real estate price risk includes the market risks in both the investment portfolio and the development portfolio of ING Commercial banking. The real estate price risk for the investment portfolio 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.

The nature of market risk Economic Capital, evaluating the impact of extreme stress with a 99.95% confidence level, can sometimes be difficult to evidence in a statistical sound manner with the available historical data. The Economic Capital figures disclosed by ING Bank are a best effort estimate based on available data and expert opinions.

Economic and Regulatory Capital (Bank diversified only) by risk type

	Economic Capital [1]		Regulatory Capital	
	2012	2011	**2012**	2011
Market risk	**6,326**	8,262	**772**	1,124

[1] This includes model risk.

The market risk Economic Capital is higher than the Regulatory Capital primarily due to the inclusion of the interest rate risk in banking books in Economic Capital. The main drivers for the decrease in market risk Economic Capital are the sale of ING Direct US and to a lesser extent due to divestments in the real estate portfolio. The decrease in market risk Regulatory Capital is due to position changes and more volatile scenarios dropping out of the VaR calculation.

Market Risk in Trading Books

Within the trading portfolios, positions are maintained in the professional financial markets. These positions are often the result of transactions with clients and may serve to benefit from short-term price movements. Market risk arises in the trading portfolios through the exposure to various market risk factors, including interest rates, equity prices, foreign exchange rates and credit spreads.

Governance

The Financial Markets Risk Committee (FMRC) is the market risk committee that, within the risk appetite set by ALCO Bank, sets market risk limits both on an aggregated level and on a desk level, and approves new products. MRM advises both the FMRC and ALCO Bank on the market risk appetite of trading activities.

With respect to the trading portfolios, MRM focuses on the management of market risks of Commercial Banking (mainly Financial Markets) as this is the only business line where trading activities take place. Trading activities include facilitation of client business, market making and proprietary position taking in cash and derivatives markets. MRM is responsible for the development and implementation of trading risk policies and risk measurement methodologies, the reporting and monitoring of risk exposures against approved trading limits and the validation of pricing models. MRM also reviews trading mandates and limits, and performs the gatekeeper role in the product review process. The management of trading market risk is performed at various organisational levels, from MRM overall down to specific business areas and trading offices.

Fair values of financial trading assets and liabilities

Fair values of financial assets and liabilities that are quoted in active markets are determined by using quoted market prices. Where quoted prices are not available, other pricing sources and valuation techniques are used to determine fair value.

Other pricing sources can be independent market vendors, brokers or market makers, or recent transactions. The range of prices obtained from these pricing sources can diverge. The choice of one or the other pricing source can therefore result in different estimates of fair value. Selecting the most appropriate price within this range requires expertise and judgement.

Risk management continued

Valuation techniques range from discounting of cash flows to valuation models. Such models may be based on relevant factors such as the market price of underlying reference instruments, market parameters (volatilities, correlations and credit ratings) and customer behaviour.
Some of these price factors require various assumptions which imply that valuation models are subjective by nature. According to what valuation technique is used and what assumptions are made, the obtained fair value can be different.

All valuation techniques used are subject to a model governance framework. Model governance refers to a set of policies and procedures that have to be strictly followed and that cover the complete lifecycle of a model, i.e. its development, validation, approval, implementation and maintenance. The pillars of model governance are independent validation and periodic review. Such a review aims to determine whether a model still is appropriate for its intended use. Where models are used for valuation, there can be uncertainty on the assumptions of the underlying models and/or parameters. In those cases where significant uncertainty on assumptions arises, a model risk valuation adjustment is applied.

In general, positions are valued taking the bid price for a long position and the offer price for a short position. In cases where positions are marked at mid-market prices, a fair value adjustment is calculated.

To include credit risk in the fair valuation, ING applies both credit and debit valuation adjustments. Own issued debt and structured notes that are valued at fair value are adjusted for credit risk by means of a debit valuation adjustment. Additionally, derivatives valued at fair value are adjusted for credit risk by a credit valuation adjustment. This credit valuation adjustment is of a bilateral nature; both the credit risk on the counterparty as well as the credit risk on ING are included in the adjustment. All market 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 decreases) and right way risk (when exposure to a counterparty is decreasing and the credit quality of that counterparty increases) are included in the adjustment. ING applies CVA also to for pricing credit risk into new external trades with counterparties. All credit and debit valuation adjustments and their exposures are managed centrally on a global level.

Market Risk Management Product Control has the role to identify or challenge the pricing sources as well as determining the parameters that will be used in the valuation models. When using valuation techniques, the identified sources used for the calculations are independently challenged, reviewed and validated on a regular basis, most of it daily. In order to guarantee the highest quality of the used market data, ING uses a single in house developed infrastructure. Information is received from external data vendors (e.g. Bloomberg, Reuters and others) and plausibility checks are in place to determine the correctness and consistency of the data. Price testing is performed on listed products to assess whether the process of valuation has led to an appropriate fair value of the position.

In this context, a global and local parameter committee have been set up. Finance, Market Risk Management Product Control and Front Office are represented in these committees and discuss numerous topics regarding the product valuation and decide on the outcome of price testing as well as valuation adjustments.

To secure segregation of duties between Front Office and Market Risk Management Product Control, the systems for pricing and price testing are secured in order to prevent unauthorised access.

Reference is made to Note 30 'Fair value of financial assets and liabilities' for the basis of the determination of the fair values of the financial instruments and related sensitivities.

Model Disclosure of Trading Risk Measures

Value at Risk

MRM uses the historical simulation Value at Risk (VaR) methodology as its primary 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. Next to general market movements in these risk factors, VaR also takes into account market data movements for specific moves in e.g. the underlying issuer of securities. The impact of historical market movements on today's portfolio is estimated, based on equally weighted observed market movements of the previous year. ING Bank uses VaR with a 1-day horizon for internal risk measurement, control and back testing, and VaR with a 10-day horizon for determining regulatory capital.

Limitations

VaR has some limitations. VaR uses historical data to forecast future price behaviour. Future price behaviour could differ substantially from past behaviour. Moreover, the use of a one-day holding period (or ten days for regulatory capital calculations) assumes that all positions in the portfolio can be liquidated or hedged in one day. In periods of illiquidity or market events, this assumption may not hold. Also, the use of 99% confidence level means that VaR does not take into account any losses that occur beyond this confidence level.

Risk management continued

Back testing
Back testing is a technique for the on-going monitoring of the plausibility of the VaR model in use. Although VaR models estimate potential future results, estimates are based on historical market data. In a back test, the actual daily result is compared with the 1-day VaR. In addition to using actual results for back testing, ING 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 'outlier' occurs. Based on ING Bank's one-sided confidence level of 99% an outlier is expected once in every 100 business days. In 2012, like in 2011, there was no occurrence where a daily trading loss exceeded the daily consolidated VaR of ING Commercial Banking. ING Bank reports the results of this back testing to DNB on a quarterly basis.

Basel 2.5 / CRD III
As of 31 December 2011 the Basel requirements on Stressed VaR and the Incremental Risk Charge (Basel 2.5) have come into force in European legislation (CRD III), complementing the use of VaR. ING follows this framework for its regulatory capital calculations since Q4 2011.

Stressed VaR
The Stressed VaR (SVaR) is intended to replicate a VaR calculation that would be generated on the bank's current portfolio with inputs calibrated to the historical data from a continuous 12-month period of significant financial stress relevant to the bank's portfolio. To calculate SVaR, ING Bank uses the same model that is used for VaR (historical simulation). The historical data period used includes the height of the credit crisis around the fall of Lehman brothers, and is reviewed regularly.

Incremental Risk Charge
With the Incremental Risk Charge (IRC) ING Bank calculates an estimate of default and migration risk for unsecuritised credit products in the trading book over a one-year capital horizon at a 99.9% confidence level. For the calculation of IRC ING Bank performs a Monte Carlo simulation based on a Gaussian copula model. For all issuers the rating is simulated over the different liquidity horizons (time required to liquidate the position or hedge all material risks) within one year. The financial impact is then determined based on the migration to default (based on LGD), or migration to a different rating category (based on credit spread changes).

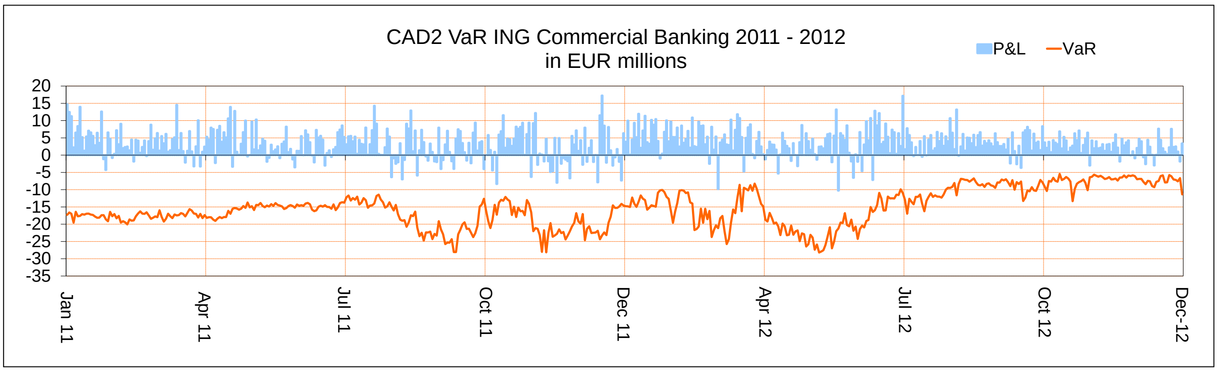
The liquidity horizon has been set to the regulatory minimum of three months for all positions in scope. Given the types of products in ING Bank's trading portfolio ING considers this horizon to be conservative. We have demonstrated that ING Bank could still actively trade its positions that are significant for IRC under stressed market circumstances, allowing ING Bank to fully redeem its positions within three months.

Stress testing
Stress testing is a valuable risk management tool. Stress testing evaluates the bank's financial stability under severe but plausible stress scenarios and assists in decision-making that assures the bank to remain a financially-healthy on-going concern after a severe event occurs. In addition to the bank-wide stress test framework as described in the ING Bank risk profile section, MRM performs separate stress tests to monitor market risks under extreme market conditions. Since VaR in general does not produce an estimate of the potential losses that can occur as a result of extreme market movements, ING Bank uses structured stress tests for monitoring the market risk under these extreme conditions. Stress scenarios are based on historical as well as hypothetical extreme events. The result of the stress test (also called event risk) is an estimate of the profit and loss caused by a potential event and its world-wide impact for ING Commercial Banking. The event risk number for the ING Commercial Banking trading activity is generated on a weekly basis. Like VaR, event risk is limited by ALCO Bank.

ING Bank's event risk policy is based on a large set of possible stress scenarios per risk type (fixed income, equity, foreign exchange, credit and related derivative markets). For example, for equity products we assume both a crisis scenario (prices decreasing) as well as a bull scenario (prices increasing). Stress parameters are set per country. Scenarios are calculated based on events happening independently, jointly by region, or in all countries simultaneously. This way, for each risk type, a large set of scenarios is calculated. The worst scenarios per market are combined across markets by assessing both independent events per market, and worst events happening in all markets at the same time.

Other trading controls
VaR and event risk limits are the most important limits to control the trading portfolios. Additionally, limits have been set on SVaR and IRC. Furthermore, ING Bank uses a variety of other controls to supplement these limits. Position and sensitivity limits are used to prevent large concentrations in specific issuers, sectors or countries. In addition to this, other risk limits are set with respect to the activities in complex derivatives trading. The market risk of these products is controlled by product specific limits and constraints.

Risk Profile
The following chart shows the development of the overnight VaR under a 99% confidence interval and a 1-day horizon versus daily trading profits and losses. The overnight VaR is presented for the ING Commercial Banking trading portfolio for 2011 and 2012.



The risk figures in the table below only relate to the CAD2 trading books for which the internal model approach is applied.

Risk Measures for Internal Model Approach Portfolios [1]

	Minimum		Maximum		Average		Year end	
	2012	2011	**2012**	2011	**2012**	2011	**2012**	2011
Interest rate	**4**	9	**21**	21	**10**	15	**4**	12
Equity	**3**	1	**9**	18	**5**	7	**4**	7
Foreign exchange	**1**	1	**6**	4	**3**	2	**2**	2
Credit spread	**2**	6	**6**	8	**4**	7	**3**	6
Diversification (1)					**–9**	–12	**–7**	–12
Total VaR	**5**	12	**28**	29	**13**	19	**7**	15
Stressed VaR (10-day, 99%)	**56**	104	**171**	182	**100**	139	**89**	117
Incremental Risk Charge (1-year, 99.9%)	**244**	363	**451**	545	**344**	445	**291**	368

[1] The total VaR for the columns Minimum and Maximum cannot be calculated by taking the sum of the individual components since the observations for both the individual markets as well as total VaR may occur on different dates.

VaR decreased during the year due to position changes and more volatile scenarios dropping out of the VaR calculation.

Regulatory Capital
According to the Dutch regulation, regulatory capital for trading portfolios can be calculated using the standardised approach or an internal model approach. ING Bank received approval from the DNB to use an internal Value-at-Risk (VAR) model to determine the regulatory capital for the market risk in most trading books of ING Bank. Market risk capital of CAD2 trading books is calculated according to the Basel 2.5 framework, using an internal Value at Risk (VaR), Stressed VaR (SVaR) and Incremental Risk Charge (IRC) model, where diversification is taken into account. On the other hand, market risk capital of CAD1 books is calculated using standardised fixed risk weights. In 2012, capital on all trading books is performed under the Internal Model Approach, except for securitisations which are calculated under the Standardised Approach. Mismatches in FX risk from the banking books are also incorporated under the Standardised Approach.

Regulatory Capital

	2012			2011
	SVaR	**VaR**	**Total**	Total
Interest rate / Credit spread	**206**	**46**	**252**	484
Equity	**54**	**10**	**64**	142
Foreign exchange	**54**	**14**	**68**	27
Incremental Risk Charge			**360**	437
Total Internal Model Approach			**744**	1,090
Standardised model [1]			**28**	34
Total Regulatory Capital			**772**	1,124
Market Risk Weighted Assets [2]			**10**	14

[1] Standardised model is applied to FX positions in trading and banking books and to securitisations in the trading books. The capital requirement for securitisations, which equals 100% of outstanding exposure amounts to EUR 3 million.
[2] Amounts are in EUR billions

Risk management continued

Movement in risk levels is mainly due to changes in trading positions and less volatile markets.

Sensitivities

The following tables show the largest trading foreign exchange positions and interest rate and credit spread sensitivities. The credit spread sensitivities are furthermore split in different risk classes and sectors.

Most important foreign exchange positions (year-end 2012)

	2012		2011
Foreign exchange		**Foreign exchange**	
US Dollar	**–302**	Chinese Yuan	355
Chinese Yuan	**178**	US Dollar	–282
Taiwan Dollar	**151**	Czech Koruna	–155
Russian Ruble	**–37**	Taiwan Dollar	–44
Czech Koruna	**33**	Bulgarian Lev	–43

(1) 2011 foreign exchange positions are restated due to the exclusion of CAD3 books formerly under the trading governance.

Most important interest rate and credit spread sensitivities (year-end 2012)

amounts in thousands of euros	2012		2011 (3)
Interest Rate (BPV (1))		**Interest Rate (BPV (1))**	
United States	**–124**	Eurozone	482
South Korea	**–122**	Mexico	–98
Russia	**–84**	South Korea	–82
Taiwan	**80**	Czech Republic	76
Eurozone	**64**	Russia	–71
Credit Spread (CSO1 (2))		**Credit Spread (CSO1 (2))**	
Finland	**–278**	Germany	–903
Korea	**–192**	Netherlands	774
Netherlands	**126**	Korea	–231
Russia	**–119**	Mexico	–226
Norway	**–100**	Finland	–125

(1) Basis Point Value (BPV) measures the impact on value of a 1 basis point increase in interest rates or credit spreads.
(2) Credit Spread Sensitivity (CS01) measures the impact on value of a 1 basis point increase in credit spreads.
(3) 2011 Interest Rate BPV figures are restated due to the exclusion of CAD3 books formerly under the trading governance

Credit spread sensitivities per risk class and sector (year-end 2011)

amounts in thousands of euros **Credit Spread (CSO1 (1))**		2012 **Corporate**	 **Financial Institutions**	2011 Corporate	 Financial Institutions
Risk classes					
1	(AAA)	**–4**	**–124**	–5	–16
2-4	(AA)	**–38**	**–65**	–12	–49
5-7	(A)	**–42**	**–247**	15	–256
8-10	(BBB)	**23**	**–68**	–50	–42
11-13	(BB)	**–40**	**–25**	–14	–24
14-16	(B)	**–12**	**–4**	–18	–8
17-22	(CCC and Problem Grade)	**–47**	**–2**	2	–21
Not rated		**–1**	**–16**	–1	0
Total		**–161**	**–551**	–82	–416

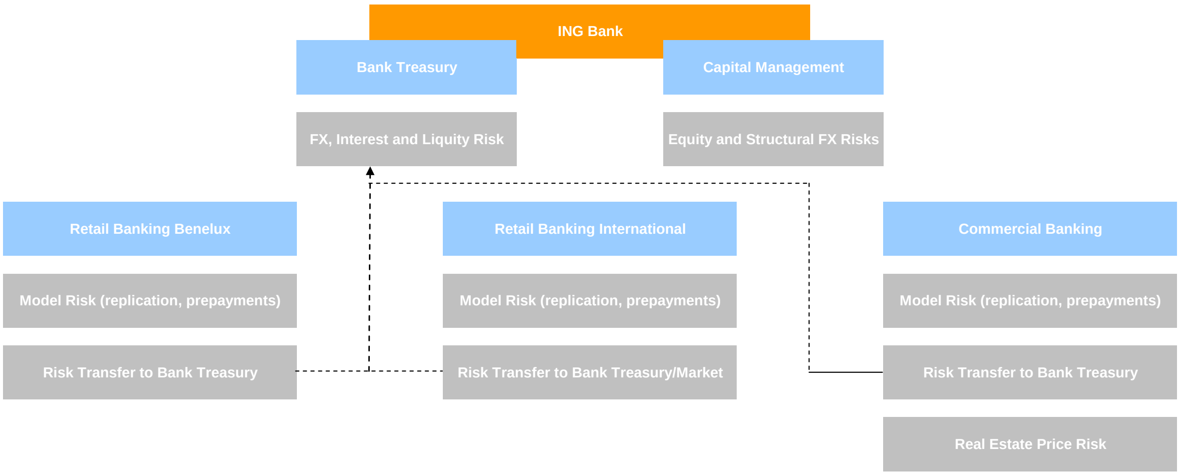
(1) Credit Spread Sensitivity (CS01) measures the impact on value of a 1 basis point increase in credit spreads.

Market risk in Banking Books

ING Bank makes a distinction between trading and banking (non-trading) books. Positions in banking books can originate from the market risks inherent in commercial products that are sold to clients. 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. ING Bank distinguishes the following types of market risk in banking books:

- Interest Rate Risk;
- Foreign Exchange (FX) Risk;
- Equity Price Risk; and
- Real Estate Price Risk.

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 and liquidity risks are transferred through matched funding to Bank Treasury, where it is centrally managed. The scheme below presents the transfer and management process of market risks in the banking books:



Interest Rate Risk in Banking Book

Interest rate risk in the banking books is defined as the exposure of a bank's financial condition to adverse movements in interest rates originated from positions in the banking books.

Governance: Interest Rate Risk framework

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 policies and procedures related to interest rate risk management are defined. Furthermore, on an overall level, a risk appetite for interest rate risk is set, which is translated into limits for interest rate risk metrics.

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 capital (by Capital Management);
Commercial business (e.g. retail business); and
The strategic interest rate position (Bank Treasury).

Below the three activities are described in more detail:

Capital Management is responsible for managing the investment of own funds (core capital), more information can be found in the Capital Management section. Capital is invested for longer periods, targeting to maximise return, while keeping it stable at the same time.

Commercial activities result in interest rate risk, as for example repricing tenors of assets differ from those of liabilities. Linear interest rate risk is transferred from the commercial business to the treasury books (Bank Treasury), based on estimations of customer behaviour. The originating commercial business is ultimately responsible for estimating customer behaviour, leaving convexity risk and (unexpected) customer behaviour risk with the commercial business.

Risk management continued

Customer behaviour risk is defined as the potential future value loss due to uncertainty in the behaviour of clients towards embedded options in commercial products customer behaviour risk is reported as part of business risk Economic Capital. The risk transfer process takes place on a monthly basis, but more often if deemed necessary, for instance in volatile markets. The customer behaviour in relation to mortgages, loans, savings and demand deposits is modelled by MRM, based on extensive research. Models and parameters are back-tested regularly and updated when deemed necessary. In the modelling of savings and current accounts different elements play a role: pricing strategies, outstanding and expected volumes and the level and shape of the yield curve. The analyses result in an investment rule for the various portfolios. With respect to mortgages and loans, prepayment behaviour and the interest sensitivity of the embedded offered rate options are modelled.

Convexity risk is defined as the sensitivity towards interest volatility and second order changes in the interest rate. Convexity risk is a result of products that contain embedded options, like mortgages. In some cases, convexity risk is transferred from the commercial books to treasury books using swaption and cap/floor contracts.

Bank Treasury manages the strategic interest rate position. The main objective is to maximise the economic value of the book and to generate adequate and stable annual earnings within the risk appetite boundaries set by ALCO Bank

Risk Profile

In the following sections, the interest rate risk exposures in the banking books are presented. Previous year figures have been adjusted to include all banking book exposures. 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.

Earnings Sensitivity (ES)

ES measures the impact of changing interest rates on (pre-tax) IFRS-EU earnings. The ES figures in the table below reflect an instantaneous shock up of 1% and a time horizon of one year. Management interventions are not incorporated in these calculations.

The ES is mainly influenced by the sensitivity of savings to interest rate movements. The investment of own funds only impacts the ES marginally, as only a relative small part has to be (re)invested within the 1-year horizon.

Earnings Sensitivity banking books (1% instantaneous upward shock to interest rates)

	2012	2011 [1]
By currency		
Euro	**47**	–1
US Dollar	**3**	–66
Pound Sterling	**1**	–11
Other	**17**	37
Total	**68**	–41

[1] Please note that 2011 figures are restated for ING Direct Canada, ING Direct USA, and banking books that were included in trading risk Section h in 2011.

In 2012 short-term interest rates remained at low levels in both the Eurozone and the US. The earnings sensitivity for an upward shock has changed from a negative to a positive impact. A positive earnings sensitivity implies that when rates increase, the positive impact on interest received on assets is larger than the negative impact of interest paid on liabilities. Earnings are per 2012 year end relatively insensitive to rate changes.

Net Present Value (NPV) at Risk

NPV-at-Risk measures the impact of changing interest rates on value. As a full valuation approach is applied, the risk figures include convexity risk that results from embedded optionalities like mortgage prepayment options. Like for ES calculations, an instantaneous shock up of 1% is applied.

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 generally not reported through the profit and loss account or through equity. The largest part, namely the value mutations of the amortised cost balances, is neither recognised in the balance sheet nor directly in the profit and loss account. 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.

The NPV-at-Risk is dominated by the interest rate sensitive long-term investments of own funds. The value of these investments is impacted significantly if interest rates move up by 1%. Convexity risk in retail portfolios as well as the strategic interest position in Bank Treasury also contributes to the overall NPV at Risk.

Risk management continued

NPV-at-Risk banking books (1% instantaneous upward shock to interest rates)		
	2012	2011 [1]
By currency		
Euro	**–2,092**	–1,885
US Dollar	**–75**	–78
Pound Sterling	**12**	–28
Other	**15**	–45
Total	**–2,140**	–2,036

[1] Please note that 2011 figures are restated for ING Direct Canada, ING Direct USA, and banking books that were included in trading risk section in 2011.

NPV-at-Risk increased during 2012. An overall increase of 104 million is shown. This results on one hand from an increase in the duration of the investment of capital as a result of a larger capital base and the lower interest rate environment. Furthermore, in the on-going Eurozone crisis, savings are expected to more closely track the development in market rates, resulting in lower liability durations and therefore lower (positive) NPV-at-Risk for savings exposures, specifically in Germany.

Basis Point Value (BPV)
BPV measures the impact of a 1 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.

In line with NPV-at-Risk, the bank's overall BPV position is dominated by the long-term investment of capital, as the present value of this position is significantly impacted if interest rates move up by 1 basis point.

BPV per currency banking books		
Amounts in thousands of euros	**2012**	2011 [1]
By currency		
Euro	**–18,824**	–16,127
US Dollar	**–656**	–848
Pound Sterling	**382**	–164
Other	**1**	–230
Total	**–19,097**	–17,369

[1] Please note that 2011 figures are restated for ING Direct Canada, ING Direct USA, and banking books that were included in trading risk Section in 2011.

In line with the increase in NPV-at-Risk, the overall bpv increased with EUR 1.7 million. As for NPV-at-Risk this results from the increase in the duration of the investment of capital and the higher tracking rate between the client savings rates and market rates

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 protect the target core Tier 1 ratio against FX rate fluctuations, whilst limiting the volatility in the profit and loss account. Protecting the core Tier 1 ratio is achieved by deliberately taking foreign currency positions equal to certain target positions, such that the target core Tier 1 capital and risk-weighted assets are equally sensitive in relative terms to changing FX rates.

Risk management continued

Risk profile – FX Translation result
The following table presents the currency exposures in the banking books for the most important currencies:

Net banking currency exposures banking books

	Foreign Investments		Hedges		Net exposures	
In EUR million	**2012**	2011	**2012**	2011	**2012**	2011
US Dollar	**2,847**	7,641	**–198**	–2,677	**2,649**	4,964
Pound Sterling	**–1,841**	–997	**1,756**	1,048	**–85**	51
Polish Zloty	**1,714**	1,404	**–818**	–628	**896**	776
Australian Dollar	**2,686**	3,165	**–1,763**	–2,459	**923**	706
Turkish Lira	**2,168**	1,830	**–574**	–425	**1,594**	1,405
Chinese Yuan	**1,511**	1,269	**–152**	–154	**1,359**	1,115
Canadian Dollar		1,230	**–2**	–919	**–2**	311
Korean Won	**1,256**	1,135	**–975**	–909	**281**	226
Indian Rupee	**287**	178	**0**	0	**287**	178
Other currency	**3,026**	3,122	**–1,794**	–2,190	**1,232**	932
Total	**13,654**	19,977	**–4,520**	–9,313	**9,134**	10,664

The US dollar Foreign Investments decreased significantly in 2012 as a result of the sale of ING Direct US and the corresponding Capital One Financial shares.

The Pound sterling Foreign Investments decreased significantly mainly due to losses occurred at ING Direct UK related to the announced sale and derisking actions in the investment portfolio, the hedges were adjusted accordingly.
The Canadian dollar position became nil due to the sale of ING Direct Canada.

In order to measure the remaining sensitivity of the target core Tier 1 ratio against FX rate fluctuations, the core Tier 1 ratio at Risk (cTaR) measure is used. It measures the drop in the core Tier 1 ratio from the target when stressing a certain FX rate. The stress scenarios for the FX rates that are used for calculating the cTaR, are presented in the last two columns. Only the scenarios that negatively impact the target core Tier 1 ratio are presented: depending on whether the actual foreign currency position is above or below the target position, the worst case scenario is either a negative or positive movement. A positive stress scenario means that the foreign currency appreciates against the Euro. For the US dollar this means that at the end of 2012 the target core Tier 1 ratio would decrease by 0.08% in absolute terms (e.g. from 10.08% to 10.00%) if the US dollar appreciates by 15%. Back testing shows that the strategy was effective in 2012; the core Tier 1 ratio was hardly affected by changing FX rates.

Core Tier-1 ratio sensitivity ING Bank

	cTaR		Stress Scenario	
Currency	**2012**	2011	**2012**	2011
US Dollar	**0.08%**	0.12%	**15%**	15%
Pound Sterling	**0.05%**	0.04%	**15%**	15%
Polish Zloty	**0.01%**	0.01%	**–15%**	–15%
Australian Dollar	**0.02%**	0.00%	**–20%**	20%
Turkish Lira	**0.01%**	0.00%	**–25%**	25%
Chinese Yuan	**0.00%**	0.00%	**15%**	15%
Canadian Dollar	**0.00%**	0.00%	**10%**	–10%
Korean Won	**0.00%**	0.00%	**–15%**	–15%
Indian Rupee	**0.02%**	0.02%	**20%**	20%

Equity price risk in banking books
Equity price risk arises from the possibility that equity security prices will fluctuate, affecting the value of equity securities and other instruments whose value reacts similarly to a particular security, a defined basket of securities, or a securities index. ING Bank maintains a strategic portfolio with substantial equity exposure in its banking books. This equity exposure mainly consists of the investments in associates of EUR 841 million (2011: EUR 827 million) and equity securities held in the available-for-sale (AFS) portfolio of EUR 2,634 million (2011: EUR 2,466 million). The value of equity securities held in the available-for-sale portfolio is directly linked to equity security prices with increases/decreases being recognised (except in the case of impairment) in the revaluation reserve. During the year ended 31 December 2012 the revaluation reserve relating to equity securities held in the Available-for-Sale portfolio fluctuated between a month-end low amount of EUR 1,082 million (2011: EUR 1,226 million) and a high amount of EUR 1,643 million (2011: EUR 1,706 million). Investments in associates are measured in accordance with the equity method of accounting and the balance sheet value and therefore not directly linked to equity security prices.

Risk management continued

Equities Unrealised Gains and Losses in the AFS portfolio		
	2012	2011
Gross unrealised gains	**1,385**	1,292
Gross unrealised losses		–45
Total	**1,385**	1,247

Total capital requirement for equity price risk under the Simple Risk Weight Approach at 31 December 2012 results in EUR 201 million (2011: EUR 207 million).

Real Estate price risk in banking books

Real estate price risk arises from the possibility that real estate prices fluctuate. This affects both the value of real estate assets and earnings related to real estate activities.

ING Bank has two main different categories of real estate exposure on its banking books: First, the own buildings ING Bank occupies, and second development assets, which is mostly consisting of former Real Estate Development and Real Estate Investment Management activities.

ING Bank's real estate exposure in the banking books (i.e. including leverage and committed purchases) is EUR 3.3 billion. For market risk management purposes, the total real estate exposure amounts to EUR 3.2 billion since property from foreclosures (EUR 0.05 billion) and third party interests (EUR 0.04 billion) is excluded.

ING Bank has EUR 0.5 billion out of EUR 3.3 billion recorded at fair value through profit and loss. The remaining EUR 2.8 billion is booked at cost or is revalued through equity (with impairments going through profit and loss).

In total, real estate market risk exposure in the banking books decreased by EUR 0.8 billion mainly as a result of divestments (EUR -0.6 billion) and negative fair value changes and impairments (EUR –0.2 billion). A split on the real estate exposures per continent and sector based on the risk management view is seen below.

Real Estate market risk exposure in banking books (by geographic area and sector type)					
	2012	2011		**2012**	2011
Continent			**Sector**		
Europe	**2,246**	2,918	Residential	**366**	582
Americas	**328**	334	Office	**1,144**	1,500
Australia	**159**	196	Retail	**1,281**	1,407
Asia	**271**	380	Industrial	**79**	157
Other	**165**	147	Other	**299**	329
Total	**3,169**	3,975	Total	**3,169**	3,975

LIQUIDITY RISK

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. Liquidity risk can materialise both through trading and non-trading positions.

Governance

As with other bank market risks, liquidity risk falls under the supervision of the ALCO function within ING Bank, with ALCO Bank as the highest approval authority. ALCO Bank determines the liquidity risk (limit) framework and appetite after which this is cascaded down in the organisation under the responsibility of the regional and local ALCOs. The main objective of ING Bank's liquidity risk framework is to ascertain – by means of proper risk appetite limits – that sufficient liquidity is maintained in order to ensure safe and sound operations under a variety of circumstances.
In line with market practice and regulatory guidance, ING Bank's liquidity risk framework is a reflection of a multi-tiered approach, whereby risk principles are implemented, monitored and controlled in conjunction with both first and second line functions within the Bank.
In line with this approach liquidity risk is measured, managed and controlled from three different angles, namely a structural, a tactical and a contingency point of view.

Liquidity position management

ING Bank manages its liquidity position by:

- Funding lending activities by longer term liabilities (including funds entrusted)
- Maintaining sufficient liquid investments and short term deposits
- Maintaining capacity to generate additional cash, amongst others by means of securitisations.

Liquidity Risk Management

MRM is responsible for determining adequate policies and procedures for managing liquidity risk and for monitoring the compliance with these guidelines.

Risk management continued

Risk framework
In 2012, in continuation of the development of an enhanced liquidity risk framework in 2011, activities were undertaken in order to further implement and embed the liquidity risk framework in the organisation, in line with CRD II and ILAAP regulatory requirements.

ING's liquidity risk framework incorporates all relevant risk principles with regard to the daily and on-going management of liquidity and funding risk. The framework contains the risk boundaries and describes the related metrics to monitor and control on- and off-balance sheet positions, across the major currencies.
The framework incorporates a holistic view on managing liquidity and funding risk, whereby the defined risk appetite statements provide guidance to the organisation with regard to size, form and content of the balance sheet.

The risk appetite statements are also directly linked to liquidity stress testing. In accordance with Dutch Central Bank guidelines, ING Bank's liquidity positions are stress tested on a monthly basis under a scenario that is a mix between a market event and an ING Bank specific event. Additional stress testing exercises are undertaken on consolidated and local level on a periodic and ad-hoc basis.
The outcome of stress tests provides input to any contingency measures and follow-up required.
In view of emerging macro-economic risks in the Eurozone, ING has increased its focus on the exposures across the Eurozone and taken additional measures to limit and manage these risks.

Next steps were made to prepare the organisation for the upcoming implementation and following observation requirements of Basel III / CRD IV.
In 2012, ING Bank established a dedicated Bank Treasury function which is responsible for the first line execution of liquidity management.

Risk profile
ING Bank has the following funding and liquidity risk management objectives:
- The structural mismatch in expected liquidity tenors of ING Bank's assets and liabilities per significant currency is capped
- A pro-active compliance with home/host regulatory liquidity limits
- The time-to-survive in a funding stress situation should extend multiple quarters
- Funding of all longer-term assets and investments by stable and longer-term liabilities
- Eliminate geographical dependencies with respect to intra-group funding
- Diversification of funding profile, across funds providers, instrument types, geographic markets, tenors and currencies

These risk appetite statements are incorporated in the manner in which liquidity risk is monitored and measured.

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.

For the purpose of managing structural liquidity risk, a specific advisory committee to ALCO Bank exists. This committee which consists of key representatives from Bank Treasury, Finance, MRM and Capital Management focuses on all liquidity risk aspects from a going concern perspective. The main objective of the committee is to maintain a sound liquidity profile through:
- Maintaining a well-diversified mix of funding sources in terms of instrument types (e.g. unsecured deposits, commercial paper, long term bonds or repurchase agreements), fund providers (e.g. professional money market players, wholesale and retail clients), geographic markets and currencies; the structural mismatch in expected liquidity tenors of ING Bank's assets and liabilities per significant currency is capped. Funding concentrations are monitored monthly by ALCO Bank.
- Actively managing access to the capital markets by regularly issuing public debt in all material markets and the maintenance of investor relations;
- Holding a broad portfolio of eligible assets that can be utilised to obtain secured funding, e.g. from the repo market or Central Bank; in this respect the total marketable/Central Bank eligible collateral position (including cash) amounts to EUR 199 billion (MtM);
- Management of liquidity gaps, taking into account the asset mix and both the secured and unsecured funding opportunities of ING Bank; and
- Maintaining a funds transfer pricing (FTP) mechanism in which ING Bank's cost of liquidity is adequately reflected both under a going concern and a contingency perspective. The FTP mechanism also serves to make the business aware of liquidity costs and that these are also properly incorporated in product evaluation and pricing.

Maintenance of the liquidity profile is also reflected in the adherence to regulatory liquidity limits, both at home and host regulatory level. As regulatory requirements on a local level increase, the objective is to reduce or eliminate dependencies on intra-group funding.

Risk management continued

With respect to funding sources, ING Bank manages its balance sheet prudently, whereby short-term funding is primarily utilised for short-term assets and we are decreasing these types of funding sources. Consequently, the bank aims to fund all longer term assets and investments by stable and longer term liabilities. In the first half of 2012, the uncertainty with regard to economic developments in Europe and possible implications for the Eurozone led to US MM Funds being more restrictive in funding European counterparties. Monitoring and control of this funding is effectuated through a dedicated USD funding and liquidity risk framework which includes limits and measures in case of contingencies. In the table below, the various funding sources are presented in the funding mix

ING Bank Funding Mix

	2012	2011
Funding type		
Retail deposits	**45%**	42%
Corporate & other deposits	**22%**	20%
Interbank (incl. central bank)	**6%**	9%
Lending/repurchase agreement	**3%**	7%
Public debt	**21%**	19%
Subordinated debt	**3%**	3%
Total	**100%**	100%

The funding mix remained well diversified and according to targets set. Deposits accounted for 67% of the total funding mix, improved from 62% per 2011 year end. Ultimo 2012 the Loan-to-Deposit ratio (excluding securities at amortised costs and IABF receivable) equals 1.13.

Tactical liquidity risk
Liquidity risk which is resulting from short-term cash and collateral positions is managed in the risk framework from a tactical liquidity risk perspective. The day-to-day management of the overall short-term liquidity risk of ING Bank is delegated to Bank Treasury Amsterdam, while regional and local Bank Treasury departments manage liquidity in their respective regions and locations. Within Bank Treasury, the focus is on the daily and intraday cash and collateral positions and the policy is to manage and sufficiently spread day-to-day funding requirements.

Contingency liquidity risk
Contingency liquidity risk specifically relates to the organisation and planning for liquidity management in time of stress. Within ING Bank, for contingency purposes, a specific crisis team – consisting of key Board Members, representatives from staff departments (e.g. Finance, Risk and Capital Management) and Bank Treasury – is responsible for liquidity management in times of crisis. Throughout the organisation adequate and up-to-date contingency funding plans are in place to enable senior management to act effectively and efficiently in times of crisis.

Stress Testing
Stress testing is a valuable risk management tool. Stress testing evaluates the bank's financial stability under severe but plausible stress scenarios and assists in decision-making that assures the bank to remain a financially-healthy on-going concern after a severe event occurs. In addition to the bank-wide stress test framework as described in the ING Bank risk profile section, ING Bank produces on a regular basis several stress test reports with respect to our funding and liquidity position. Some of these stress tests are regulatory driven, and others which are based on internal stress scenarios:
- On a weekly basis ING reports an internal liquidity stress scenario. This report shows the development of the liquidity buffer during a 3-month-stress period, on a consolidated level and for the main entities, and split in EUR and USD.
- On a monthly basis ING reports a number of stress scenarios, based on regulatory requirements:
    - 1-month DNB liquidity buffer, according to DNB regulation.
    - Liquidity Coverage Ratio (LCR), based on Basel III and draft CRD IV regulation

On ad-hoc basis ING Bank has performed additional stress tests related to the funding and liquidity position. Overall stress testing is an integral part of the liquidity and funding risk management framework and serves as input for the risk appetite statements as well as for the contingency funding plan.

Contingency funding plans address both temporary and long-term liquidity disruptions, triggered by either a general market event or an ING Bank specific event.

NON-FINANCIAL RISK
The Non-Financial Risk (NFR) department encompasses the Operational and Compliance risk management teams. It ensure s appropriate risk controls in these areas by setting clear and accessible policies and minimum standards which are embedded in ING Bank business processes in all business lines. An infrastructure is in place to enable management to track incidents and non-financial risk issues. A comprehensive system of internal controls creates an environment of continuous improvement in managing non-financial risk. ING Bank uses this knowledge (including lessons learned from incidents) to improve the control of key risks.

Risk management continued

ING Bank believes that fully embedding controls preserves and enhances the trust of its customers, staff and shareholders and so is essential to building sustainable businesses. ING Bank's Business Principles set the foundation for the high ethical standards ING Bank expects of all business activities. ING Bank's Business Principles require all staff to conduct themselves, not only within the letter of laws and regulations, but also with integrity, being open and clear, respectful, and responsible.

Governance
At all levels in the organisation Non-Financial Risk Committees (NFRCs) are established that identify, measure and monitor the operational and compliance risks of the region or business unit with appropriate quality of coverage (granularity) and to ensure that appropriate management action is taken by the responsible line managers at the appropriate level of granularity. NFRCs, chaired by the CEO of the entity, steer the risk management activities of the first and second line of defence in their entities.

The Head of Non- Financial Risk is responsible for developing the framework of policies and standards within ING Bank and for monitoring the quality of non-financial risk management in the business lines. The Bank NFRC is the primary approval and oversight committee. The Non-Financial Risk dashboard (NFRD) enables management to focus on the ten operational risk areas through the quarterly report on regional, divisional and Bank level.

The Non-Financial Risk Department uses a layered functional approach within business lines to ensure systematic and consistent implementation of the Bank framework, policies and minimum standards. To avoid potential conflicts of interests, it is imperative that the staff working in the department is impartial 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 NFR is in place. The functional reporting line has clear accountabilities with regard to objective setting, remuneration, performance management and appointment of new staff.

Framework
ING Bank has a comprehensive framework for Operational and Compliance risks. This supports and governs the process of identifying, mitigating, measuring and monitoring non-financial risks thus reflecting the stages described in the Enterprise Risk Management model of COSO (Committee of Sponsoring Organisations of the Treadway Commission).

The risk appetite (defined as the acceptable and authorised maximum level of risk) is set in each of the NFR risk areas and must be adhered to. This risk appetite is monitored quarterly through the Non-Financial Risk Dashboard which reports the key non-financial risk exposures.

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 event identification exist within ING Bank, e.g. Risk & Control Self-Assessments, scenario analysis, external events inventories, internal incident analysis (e.g. lessons learned based on information from incident reporting), key risk indicator events and threat scans.

At least once a year business units and departments perform a Risk & Control Self-Assessment with involvement of the business and their Operational Risk, Compliance, Legal and Finance departments.

Based on the results of the risk assessment, response measures must be determined for the identified risks beyond the risk appetite. Risk response actions balance the expected cost for implementing these measures with the expected benefits regarding the risk reduction. Risk response can be achieved through several combinations of mitigation strategies, for example reducing likelihood of occurrence, reducing impact, risk avoidance, risk acceptance or through the transfer of risk. Tracking takes place through ING Bank's central risk management system.

The yearly objective setting process for both business management and NFR professionals aims to keep improving the management of NFR risk throughout ING Bank to ensure that ING stays in control of its current and future NFR risks.

Operational Risk
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. It includes the related risk of reputation loss, as well as legal risk but strategic risks are not included. Effective operational risk management leads to more stable business processes (including IT systems) and lower costs.

Internal and External Fraud Risk
ING Bank continues its strong commitment to preventing any involvement in Banking Fraud. This requires ensuring sufficient allocation of resources and funds for incident investigation and incident management across all business lines. Phishing and Trojans are increasingly becoming more sophisticated but card skimming also remains an important area of focus for fraud risk.

Risk management continued

Cybercrime
There continues to be an increase in the world-wide cyber threat and more stringent regulations are being introduced regarding cyber security of e-banking (e.g. ECB's Recommendations for the security of Internet Payments). Under the auspices of the Management Board, a Cybercrime Task Force has been set up within ING Bank to ensure a coordinated and effective response to the threat of cybercrime. The Cybercrime Task Force aims to improve knowledge sharing and to structure effective prevention, detection and incident response across the ING Bank. In 2012 ING Bank further strengthened collaboration against cybercrime with the industry (e.g. national bank associations), law enforcement, government (e.g. Nationale Cyber Security Center) and Internet Service Providers (ISPs).

AMA framework and model
In the past two years, ING Bank renewed the different elements of the AMA model and framework: the risk assessment approach, use of a bank wide set of Key Risk Indicators, Risk Appetite Statement, set of Key Controls, registration of risk controls, incidents and issues in a central database and the Operational Risk Capital model. This enables ING Bank and its divisions to manage Operational Risk Capital based on a strong AMA framework and governance.

AMA Model
The AMA model of ING Bank used for regulatory capital reporting follows the Loss Distribution Approach (LDA) and is based on both external and internal loss data exceeding EUR 1 million. The model is adjusted for the specific measured quality of control in a business line. This provides an incentive to local (operational risk) management to better manage operational risk.

Transition to a new Operational Risk capital model
In 2011, ING built a new Operational Risk Capital model in which, the risk profile is more closely tailored to the internal profile of ING Bank and its divisions by using scenario data for capturing severe risks and internal loss and Risk & Control Self-Assessment data for capturing day-to-day risks. The business has a strong role in assessing scenario severities and the Operational Risk Management function in validating the results. This model will be applied from 2013 onwards.

Conceptual differences between Operational Risk model used for Regulatory Capital and Economic Capital

Regulatory Capital	Economic capital
Confidence level of 99.90%	Confidence level of 99.95%
No interrisk diversification applied	Interrisk diversification applied
Operational Risk scenarios used for validation	Operational Risk scenarios included in calculation
Assessment of severe risks mainly driven by External Loss Data	Assessment of severe risks driven by a mix of scenarios and External Loss Data
Internal loss data used for capturing day-to-day risks	Internal loss and Risk & Control Self-Assessment data use for capturing day-to-day risks
Scorecard approach to assess the level of control	Key Control Testing to assess the level of control
Confidence level of 99.90%	Confidence level of 99.95%

Risk profile
The AMA capital for the fourth quarter of 2012 amounts EUR 2,836 million. This equals the reported AMA capital of last year because of an imposed capital floor of EUR 2,836 million.

Economic and Regulatory Capital (Bank diversified only) by risk type

	Economic Capital		Regulatory Capital	
	2012	2011	**2012**	2011
Operational Risk	**1,763**	1,683	**2,836**	2,836

Compliance Risk
Compliance risk is defined as the risk of impairment of ING Bank's integrity as a result of failure (or perceived failure) to comply with relevant laws, regulations, ING Bank policies and standards and the ING Bank Business Principles. In addition to reputational damage, failure to effectively manage compliance risks could expose ING Bank to fines, civil and criminal penalties, and payment of damages, court orders and suspension or revocation of licenses, which would adversely impact customers, staff, shareholders and other shareholders of ING.
Clear and practical policies and procedures are embedded in ING Bank business processes in all Business Lines. Systems are in place to enable management to track current and emerging compliance risk issues, to communicate these to internal and external stakeholders, and to drive continuous improvement. ING Bank appreciates that good compliance risk management involves understanding and delivering on the expectations of customers, staff, shareholders and other stakeholders, thereby strengthening the quality of key relationships.

Risk management continued

Governance

Compliance Risk Management function

The Chief Compliance Officer (CCO) is the General Manager of the Compliance Risk Management department. This is an independent function responsible for developing and establishing the Bank-wide Compliance Risk Management Charter & Framework, establishing the Minimum Standards for managing compliance risks and assisting and supporting the Management Board Bank in managing ING Bank's compliance risks.

ING Bank uses a functional approach to ensure systematic and consistent implementation of the Bank-wide Charter & Framework, policies, Minimum Standards and related procedures. The Local Compliance Officer has the responsibility to assist local management in managing local Compliance Risk. The Regional or Universal Bank Compliance Officer has a management and supervisory role over all functional activities of the Compliance Officers in the respective region or Universal Bank. The CCO and the Bank Compliance Risk Management Team provide overall direction to the Regional or Universal Bank Compliance Officers.

To avoid potential conflicts of interest, it is imperative that the Compliance Officers are impartial and objective when advising business management on Compliance Risk in their business unit, region, country or entity. To facilitate this, a functional reporting line to the next higher level Compliance Officer is in place. The functional reporting line has clear accountabilities relating to objective setting, remuneration, performance management and the appointment of new Compliance Risk Management staff as well as obligations to veto and escalate.

Scope

The Compliance Risk Management function focuses on managing the risks arising from laws, regulations and standards which are specific to the financial services industry. The Compliance Risk Management function actively educates and supports the business in managing compliance risks such as, but not limited to, money laundering, terrorist financing, sanction and export control compliance, conflicts of interest, proper sales and trading conduct and protection of customer interests.

ING Bank categorises compliance risk into four conduct-related integrity risk areas: client conduct, personal conduct, organisational conduct as well as financial conduct. ING Bank has a Whistleblower Procedure which encourages staff to speak up if they know or suspect a breach of external regulations, internal policies or Business Principles

Extra-territorial regulations

Financial institutions continue to be closely scrutinised by regulatory authorities, governmental bodies, shareholders, rating agencies, customers and others to ensure they comply with the relevant laws, regulations and standards. Bank regulators and other supervisory authorities in Europe, the US and elsewhere continue to oversee the activities of financial institutions to ensure that they operate with integrity and conduct business in an efficient, orderly and transparent manner.

ING is fully committed to complying with all applicable sanction legislation and with all obligations and requirements under those applicable laws including freezing and reporting obligations with regard to transactions involving a US, EU or UN Sanction Targets. In addition ING designates specific countries as Ultra High Risk and prohibits client engagements and transactions (including payments or facilitation) involving those countries. Certain exceptions on this policy are allowed after express and case-specific consent, and provided that the applicable sanctions laws and regulations are met. At present, the specified countries are Myanmar, North Korea, Sudan (North Sudan and South Sudan), Syria, Iran and Cuba. Each of these countries is subject to a variety of EU, US and other sanctions regimes. Cuba, Iran, Sudan, and Syria are identified by the US as state sponsors of terrorism and are subject to US economic sanctions and export controls.

ING Bank has had a sanctions policy in place since 2007 and has a mandate to run down any existing commitments. As such, remaining exposure and contacts arise solely in the context of the Bank's on-going efforts to run down the legacy portfolio of commitments.

ING Bank seeks to meet the standards and expectations of regulatory authorities and other interested parties (e.g. Governments / NGO bodies) through a number of initiatives and activities, including scrutinising account holder information, payment processing and other transactions to support compliance with regulations governing money laundering, economic and trade sanctions, bribery and other corrupt practices.

ING continuously enhances its compliance risk management programme to ensure that ING complies with international standards and laws.

Furthermore ING has an on-going objective to continuously strengthen the Financial Economic Crime (FEC) controls related to: Managing Anti-Money Laundering (AML), Combat Terrorist Financing (CTF); and Export Trade and Sanction risks. Hence ING implemented Policies on Financial Economic Crime that provide a clear statement on Financial Economic Crime in order to guard against any involvement in criminal activity, and to participate in international efforts to combat money laundering and the funding of terrorist and criminal activities.

Regulatory measures and law enforcement agencies investigations

On 12 June 2012, ING Bank entered into a Settlement Agreement with U.S. Department of the Treasury's Office of Foreign Assets Control (OFAC) and Deferred Prosecution Agreements with the Department of Justice, the United States Attorney's Office for the District of Columbia and the District Attorney of the County of New York (together the "U.S. Authorities") in relation to the investigation by those agencies into compliance with U.S. economic sanctions and U.S. dollar payment practices until 2007. Under the terms of the Deferred Prosecution Agreements, no further action will be taken against ING Bank if it meets the conditions set forth in the agreements during an 18 months period. As part of the settlement, ING Bank has paid a total penalty of EUR 473 million. As announced on 9 May 2012, ING Bank recognised a provision in the first quarter of 2012 by which this issue has been sufficiently covered. ING Bank has cooperated closely and constructively with regulators and other authorities throughout this process. The U.S. Authorities have recognised ING's substantial cooperation in the resolution and ING's efforts and commitment to continuously enhance compliance within the organisation.

Enhancements implemented are designed with the aim to support the compliance culture and preventing practices of this nature occurring in the future.

Main developments in 2012

Regulator relationships

Bank Compliance Risk Management continued its policy of investing in pro-active relationship building with regulators in the jurisdictions where ING Bank operates, by striving for an open two-way approach to communication and cooperation in identifying and mitigating compliance risks for ING Bank as well as seeking to contribute to the regulatory debate going forwards.

Promoting Integrity Programme

Bank Compliance Risk Management, together with Human Resources and Corporate Communications & Affairs, continued with the roll-out of the Promoting Integrity Programme (PIP), a global employee education programme focusing on ING Bank's values (including the ING Bank Business Principles) and the role they play in the business and workplace. Short e-modules were developed on Financial Economic Crime, Information Technology, Business Continuity and Gifts, Entertainment and Anti-Bribery, and were followed by manager-led dialogue sessions, where employees discussed what integrity means for them and how the Business Principles and ING Bank Policies and standards can be applied in their daily work.

Gifts, Entertainment and Anti-Bribery Policy

ING Bank issued a revised Gifts, Entertainment and Anti-Bribery Policy to reinforce its importance, taking into account the changing regulatory landscape (e.g. recent interpretations of the US Foreign Corrupt practices Act) as well as the associated increase of focus by regulators and other interested parties on this topic. Guidance documents, briefings and training were also developed to ensure the appropriate level of understanding across the business.

Learning

Continuous global education and awareness training was provided in face to face sessions and e-learn modules and new resources on topics such as Continuity Risk (covering business continuity, crisis management and disaster recovery), Gifts, Entertainment and Anti-Bribery, FEC (Financial and Economic Crime and Customer Suitability were added to the library. Compliance Risk Management also continued its mandatory global Compliance Officer Training programme for all new compliance officers in ING Bank

BUSINESS RISK

Business Risk for ING Bank has been defined as the exposure to value loss due to fluctuations in volumes, margins and costs, as well as customer behaviour risk. It is the risk inherent to strategy decisions and internal efficiency. The calculation of Business Risk Capital is done by calculation of two components,

(i) Expense risk relates to the (in)flexibility to adjust expenses, when that is needed.

(ii) Customer behaviour risk relates to clients behaving differently than expected and the effect that this behaviour can have on customer deposits and mortgage pre-payments. The customer behaviour risk is calculated by stressing the underlying assumptions in the models for behavioural assets and liabilities.

Each of these components is calculated separately, and combined to one business risk figure via the variance-covariance methodology.

Capital management

amounts in millions of euros, unless stated otherwise

OBJECTIVES

ING Group Capital Management (Capital Management) is responsible for the sufficient capitalisation of ING Group entities at all times in order to manage the risk associated with ING's business activities. This involves the management, planning and allocation of capital within ING Group. ING's Corporate Treasury is part of Capital Management. It executes the necessary capital market transactions, term (capital) funding and risk management transactions. Capital Management monitors and plans capital adequacy on a consolidated basis at three levels: ING Group, ING Insurance and ING Bank. Capital Management takes into account the metrics and requirements of regulators (Insurance Group Directive (IGD) Solvency I, Tier 1 and BIS ratios and limits for hybrid capital), rating agencies (leverage ratios, Adjusted Equity) and internal models such as the economic capital and market value balance sheet approach for parts of ING Insurance including Available Financial Resources (AFR).

ING applies the following main capital definitions:

- Core Tier 1 capital, Tier 1 capital and total BIS capital (ING Bank) – Tier 1 capital is defined as shareholders' equity including core Tier 1 securities plus hybrid capital less certain prudential filters and deductible items. Tier 1 and BIS capital divided by risk-weighted assets equal the Tier 1 and BIS ratio respectively. Core Tier 1 capital is equal to Tier 1 capital excluding hybrid capital;

DEVELOPMENTS

In 2012 Capital Management's main focus remained the strengthening of the capital position of ING Group, ING Bank and ING Insurance. ING's capital positions are well placed to deal with the uncertain financial environment, increasing regulatory requirements and the ambition to repay the remaining outstanding Core Tier 1 securities. Capital Management continued to manage capital adequacy of separate entities in line with the restucturing program.

In November 2012, ING repaid EUR 750 million of the Core Tier 1 securities issued in November 2008 at a 50% premium. Nevertheless ING maintained a strong capital position, driven mainly by strong capital generation at ING Bank.

In 2012 ING Bank issued a total of EUR 33 billion of debt with an original tenor of more than one year, compared with EUR 18 billion of long-term debt maturing in the whole of 2012, successfully covering its 2012 funding needs and prefunding its 2013 requirements. ING Bank (including subsidiaries) has EUR 21 billion of debt with an original tenor of more than one year maturing in 2013.

POLICIES

The activities of Capital Management are executed on the basis of established policies, guidelines and procedures. The main documents that serve as guidelines for capital planning are the Capital Plan (comprising the approved targets and limits for capital), the Capital Planning Policy, the Dividend Policy and the Local Capital Management Policy. For the Corporate Treasury there are additional policies and limits that guide the management of the balance sheets and the execution of capital market transactions.

PROCESSES FOR MANAGING CAPITAL

In addition to measuring capital adequacy, Capital Management also ensures that sufficient capital is available through setting targets and limits relevant to the above mentioned metrics for ING Group, ING Bank, and ING Insurance and ensuring adherence to the set limits and targets through planning and executing capital management transactions. The ongoing assessment and monitoring of capital adequacy is embedded in Capital Management's capital planning process. Following the annual budgeting process, each year a capital plan is prepared for the Group as a whole and each of its material businesses. This plan is updated on a quarterly basis and it is assessed to what extent additional management actions are required. At all times maintaining sufficient financial flexibility should be preserved to meet important financial objectives. At the foundation of the capital plan are ING's risk appetite statements that determine target setting. These constraints are being cascaded to the different businesses in line with our risk management strategy.

Important inputs to the capital planning and management process are provided by stress testing that is being performed on a regular basis. These stress tests focus on topical issues and the sensitivity of the Group's capital position to certain risks. These analyses provide input that help to steer strategic direction. Setting policies for recovery planning and resolution are a natural extension of ING's capital management policies and follow ING's risk management framework seamlessly.

A key priority of Capital Management is to ensure that strong stand-alone companies are created for banking and insurance in preparation of the separation. All operating entities need to stay adequately capitalised based on local regulatory and rating agency requirements and interdependencies should be reduced to a minimum. The entities should also be able to access capital markets independently.

CAPITAL ADEQUACY ASSESSMENT

During 2012, ING Group, ING Bank and ING Insurance were adequately capitalised.

REGULATORY REQUIREMENTS

ING BANK

Capital adequacy and the use of regulatory required capital are based on the guidelines developed by the Basel Committee on Banking Supervision (The Basel Committee) and the European Union Directives, as implemented by the Dutch Central Bank (DNB) for supervisory purposes. The minimum Tier 1 ratio is 4% and the minimum total capital ratio (known as the BIS ratio) is 8% of all risk-weighted assets.

Basel II

As of 2008 ING Bank publishes risk-weighted assets (RWA), Tier 1 and BIS capital and the accompanying capital ratios based on Basel II data only. In addition, ING publishes the minimum required capital level according to Basel II and according to the Basel I floor. As of 2009 the Basel I floor is based on 80% of Basel I RWA. The minimum requirements according to Basel II and Basel I are both compared to total BIS available capital according to Basel II.

EBA capital exercise

An additional capital exercise was proposed by the EBA and agreed by the Council on 26 October 2011. This exercise required banks to strengthen their capital positions by building up a temporary capital buffer against sovereign debt exposures to reflect current market prices. In addition, it required them to establish a buffer such that the Core Tier 1 capital ratio reaches a level of 9% by the end of June 2012, after the removal of the prudential filters on sovereign assets in the Available-for-Sale portfolio and prudent valuation of sovereign debt in the Held-to-Maturity and Loans and receivables portfolios, reflecting current market prices. ING Bank meets the 9% Core Tier 1 ratio requirement since September 2011.

Capital position of ING Bank

	2012	2011
Shareholders' equity (parent)	**36,669**	34,367
Minority interests [(1)]	**959**	817
Subordinated loans qualifying as Tier 1 capital [(2)]	**6,774**	6,850
Goodwill and intangibles deductible from Tier 1 [(1)]	**–1,242**	–1,390
Deductions Tier 1 [(3)]	**–991**	–1,014
Revaluation reserve [(4)]	**–2,195**	–1,008
Available capital – Tier 1	**39,975**	38,622
Supplementary capital – Tier 2 [(5)]	**8,132**	9,516
Deductions [(3)]	**–991**	–1,014
BIS capital	**47,116**	47,124
Risk-weighted assets	**278,656**	330,421
Core Tier 1 ratio	**11.91%**	9.62%
Tier 1 ratio	**14.35%**	11.69%
BIS ratio	**16.91%**	14.26%
Required capital based on Basel I floor [(6)]	**28,767**	31,107
BIS ratio based on Basel I floor [(6)]	**13.10%**	12.12%

(1) According to the regulatory definition
(2) Subordinated loans qualifying as Tier 1 capital have been placed by ING Groep N.V. with ING Bank N.V.
(3) For further details, see table below.
(4) Includes revaluation debt securities, revaluation reserve cash flow hedge and revaluation reserves equity and real estate
(5) Includes eligible lower Tier 2 loans and revaluation reserves equity and real estate revaluations removed from Tier 1 capital.
(6) Using 80% of Basel I Risk-Weighted Assets.

Capital management continued

Deductions Basel II	2012	2011
- Shortfall provisions	**1,335**	1,445
- Tax on shortfall	**–250**	–300
Net shortfall provisions	**1,085**	1,145
Insurance entities >10%	**28**	24
Financial institutions >10%	**868**	854
Securitisation first loss		6
Total deductions Basel II	**1,981**	2,029
50% deductions Basel II	**991**	1,014

Capital adequacy and ratios

Quantitative disclosures on capital measurement and ratios		Bank
	2012	2011
Core Tier 1 ratio		
Year-end actual Tier 1 ratio	**11.91%**	9.62%
Regulatory minimum Tier 1 ratio	**2.00%**	2.00%
Target minimum Tier 1 ratio	**10.00%**	10.00%
Tier 1		
Year-end actual Tier 1 ratio	**14.35%**	11.69%
Regulatory minimum Tier 1 ratio	**4.00%**	4.00%
Target minimum Tier 1 ratio	**10.00%**	10.00%
BIS ratio		
Year-end actual BIS ratio	**16.91%**	14.26%
Regulatory minimum BIS ratio	**8.00%**	8.00%
Target minimum BIS ratio	**10.00%**	10.00%

The Tier 1 ratio and the BIS ratio are regulatory requirements. Internally ING manages on the Core Tier 1 ratio, for which the target was raised from 8.0% to 8.5% in 2011 and to 10% in 2012. The actual ratios were 9.62% at the end of 2011 and 11.91% at the end of 2012. As investor focus has shifted from BIS capital to CT1 capital, ING expects the BIS ratio to lose its meaning.

Main credit ratings of ING at 31 December 2011	Standard & Poor's		Moody's		Fitch	
	Rating	Outlook	Rating	Outlook	Rating	Outlook
ING Groep N.V.						
– long term	**A**	**negative**	**A3**	**negative**	**A**	**stable**
ING Bank N.V.						
– short term	**A-1**		**P-1**		**F1+**	
– long term	**A+**	**negative**	**A2**	**negative**	**A+**	**stable**
– financial strength			**C-**			
ING Verzekeringen N.V.						
– short term	**A-2**		**P-2**		**F2**	
– long term	**A-**	**negative**	**Baa2**	**developing**	**A-**	**negative**

ING's key credit ratings and outlook are shown in the table above. Each of these ratings reflects only the view of the applicable rating agency at the time the rating was issued, and any explanation of the significance of a rating may be obtained only from the rating agency.

Capital Management continued

A security rating is not a recommendation to buy, sell or hold securities and each rating should be evaluated independently of any other rating. There is no assurance that any credit rating will remain in effect for any given period of time or that a rating will not be lowered, suspended or withdrawn entirely by the rating agency if, in the rating agency's judgment, circumstances so warrant. ING accepts no responsibility for the accuracy or reliability of the ratings.

AUTHORISATION OF ANNUAL ACCOUNTS

Amsterdam, 18 March 2013

THE SUPERVISORY BOARD
J. van der Veer, *chairman*
P.A.F.W. Elverding, *vice-chairman*
J.P. Bahlmann
H.W. Breukink
J.H. Holsboer
S. van Keulen
P.C. Klaver
J.Ch.L. Kuiper
R.W.P. Reibestein
Y.C.M.T van Rooy
L.A.C.P. Vandewalle
L.J. de Waal

THE MANAGEMENT BOARD
J.H.M. Hommen, *chairman*
J.V. Timmermans, *vice-chairman*
P.G. Flynn, *CFO*
W.F. Nagel, *CRO*
W.L. Connelly, *CEO Commercial Banking*
C.P.A.J. Leenaars, *CEO Retail Banking Direct and International*
H. van der Noordaa, *CEO Retail Banking Benelux*

Parent company balance sheet of ING Bank N.V.

as at 31 December before appropriation of result

amounts in millions of euros	2012	2011
ASSETS		
Cash and balances with central banks 1	10,093	20,097
Short-dated government paper 2	1,945	1,932
Amounts due from banks 3	50,160	67,424
Loans and advances to customers 4	318,965	331,633
Debt securities 5		
– available-for-sale	12,065	14,383
– trading	16,289	13,923
Equity securities 6		
– available-for-sale	2,068	1,862
– trading	1,695	2,474
Investments in group companies 7	31,086	29,153
Investments in associates 8	517	503
Intangible assets 9	1,129	1,096
Equipment 10	498	531
Other assets 11	79,902	74,375
Total assets	526,412	559,386
LIABILITIES		
Amounts due to banks 12	49,892	101,807
Customer deposits and other funds on deposit 13	205,521	207,761
Debt securities in issue	129,907	110,077
Other liabilities 14	86,320	85,551
General provisions 15	1,034	968
Subordinated loans 16	17,069	18,855
Total liabilities	489,743	525,019
EQUITY		
Share capital	525	525
Share premium	16,542	16,542
Legal reserves [1]	2,328	1,116
Other reserves	16,359	12,266
Unappropriated result	915	3,918
Total equity 17	36,669	34,367
Total liabilities and equity	526,412	559,386

[1] Legal reserves includes Share of associates reserve of EUR 363 million (2011:EUR 339 million), Currency translation reserve of EUR –263 million (2011:EUR 209 million) and Revaluation reserve of EUR 2,228 million (2011: EUR 568 million).

References relate to the notes starting on page 178. These form an integral part of the parent annual accounts.

Parent company profit and loss account of ING Bank N.V.

for the years ended 31 December

amounts in millions of euros	2012	2011
Result of group companies after taxation	**2,772**	2,617
Other results after taxation	**343**	1,388
Net result	**3,115**	4,005

Parent company statement of changes in equity of ING Bank N.V.

amounts in millions of euros	Share capital	Share premium	Share of associates reserve	Currency translation reserve	Revaluation reserve	Other reserves[1]	Total
Balance as at 1 January 2011	525	16,542	26	500	1,489	15,370	34,452
Unrealised revaluations after taxation				186	–1,145		–959
Realised gains/losses transferred to profit and loss					406		406
Changes in cash flow hedge reserve					–182		–182
Exchange rate differences				–477			–477
Other			313			–310	3
Total amount recognised directly in equity			313	–291	–921	–310	–1,209
Net result						4,005	4,005
			313	–291	–921	3,695	2,796
Employee stock options and share plans						119	119
Dividend						–3,000	–3,000
Balance as at 31 December 2011	525	16,542	339	209	568	16,184	34,367
Unrealised revaluations after taxation				**–116**	**2,073**		**1,957**
Realised gains/losses transferred to profit and loss					**–473**		**–473**
Changes in cash flow hedge reserve					**60**		**60**
Exchange rate differences				**–356**			**–356**
Other			**24**			**–6**	**18**
Total amount recognised directly in equity			**24**	**–472**	**1,660**	**–6**	**1,206**
Net result						**3,115**	**3,115**
			24	**–472**	**1,660**	**3,109**	**4,321**
Employee stock options and share plans						**106**	**106**
Dividend						**–2,125**	**–2,125**
Balance as at 31 December 2012	**525**	**16,542**	**363**	**–263**	**2,228**	**17,274**	**36,669**

[1] Other reserves include Retained earnings and Unappropriated result.

Accounting policies for the parent company annual accounts of ING Bank N.V.

BASIS OF PRESENTATION

The parent company accounts of ING Bank N.V. are prepared in accordance with the financial reporting requirements included in Part 9 of Book 2, of the Dutch Civil Code. The accounting policies applicable to presentation and disclosures are in accordance with the financial reporting requirements included in Part 9 of Book 2 of the Dutch Civil Code. The principles of valuation and determination of results stated in connection with the consolidated balance sheet and profit and loss account are also applicable to the parent company balance sheet and profit and loss account. Investments in group companies and investments in associates are recognised at net asset value with goodwill, if any, recorded under intangible assets.

The profit and loss account is drawn up in accordance with Section 402, Book 2 of the Dutch Civil Code.

A list containing the information referred to in Section 379 (1), Book 2, of the Dutch Civil Code has been filed with the Commercial Register of Amsterdam, in accordance with Section 379 (5), Book 2 of the Dutch Civil Code.

Changes in balance sheet values due to changes in the Revaluation reserve of the associates are reflected in the Share of associates reserve, which forms part of Shareholder's equity. Changes in balance sheet values due to the results of these associates, accounted for in accordance with ING Bank accounting policies, are included in the profit and loss account. Other changes in the balance sheet value of these associates, other than those due to changes in share capital, are included in Other reserves, which forms part of Shareholder's equity.

A legal reserve is carried at an amount equal to the share in the results of associates since their first inclusion at net asset value less the amount of profit distributions to which rights have accrued in the interim. Profit distributions which can be repatriated to the Netherlands without restriction are likewise deducted from the Share of associates reserve.

Notes to the parent company annual accounts of ING Bank N.V.

amounts in millions of euros, unless stated otherwise

ASSETS

1 CASH AND BALANCES WITH CENTRAL BANKS

Amounts held at central banks amount to EUR 9,583 million (2011: EUR 19,358 million). In the last quarter of 2012 excess cash was used to redeem short-term professional funding.

2 SHORT-DATED GOVERNMENT PAPER

Short-dated government paper includes international government paper amounting to EUR 1,378 million (2011: EUR 1,831 million) for the company.

3 AMOUNTS DUE FROM BANKS

Amounts due from banks	2012	2011
Non-subordinated receivables from:		
Group companies	14,992	19,694
Third parties	29,798	45,518
	44,790	65,212
Subordinated receivables from:		
Group companies	5,147	2,057
Third parties	223	155
	50,160	67,424

As at 31 December 2012, amounts due from banks included receivables with regard to securities, which have been acquired in reverse repurchase transactions amounting to EUR 11,997 million (2011: EUR 24,843 million).

4 LOANS AND ADVANCES TO CUSTOMERS

Loans and advances to customers – subordinated and non-subordinated	2012	2011
Non-subordinated receivables from:		
ING Groep N.V.	2,250	2,250
Group companies	80,595	88,268
Third parties	231,957	239,270
	314,802	329,788
Subordinated receivables from:		
Group companies	4,163	1,845
Third parties		
	318,965	331,633

As at 31 December 2012, assets held under finance lease contracts amounted to EUR 17 million (2011: EUR 33 million).

As at 31 December 2012, the receivables included in Loans and advances to customers that are part of the trading portfolio amounted to EUR 15,031 million (2011: EUR 12,952 million).

Loans and advances to customers includes receivables with regard to securities which have been acquired in reverse repurchase transactions amounting to EUR 15,078 million (2011: EUR 12,868 million) for the company.

5 DEBT SECURITIES

Debt securities by issuer	2012	2011
Public sector	20,801	22,084
Other	7,553	6,222
	28,354	28,306

Notes to the parent company annual accounts of ING Bank N.V. continued

Debt securities analysed by listing		
	2012	2011
Listed	**27,014**	26,436
Unlisted	**1,340**	1,870
	28,354	28,306

Debt securities – subordinated and non-subordinated		
	2012	2011
Non-subordinated debt securities issued by		
Associates	**74**	721
Third parties	**28,280**	27,585
	28,354	28,306
Subordinated debt securities issued by		
Third parties		
	28,354	28,306

Changes in debt securities (available-for-sale)		
	2012	2011
Opening balance	**14,383**	16,106
Additions	**12,457**	12,630
Amortisation	**–6**	
Changes in the composition of the group	**33**	–282
Gains/(losses) from change in fair value	**452**	–75
Provision for impairment		23
Disposals and redemptions	**–15,303**	–14,031
Exchange rate differences	**49**	12
Closing balance	**12,065**	14,383

As at 31 December 2012, the cost of the trading debt securities amounted to EUR 16,289 million (2011: EUR 13,923 million).

As at 31 December 2012, an amount of EUR 8,273 million (2011: EUR 9,394 million) was expected to be settled after more than one year from the balance sheet date.

Debt securities temporarily sold in repurchase transactions amounts to EUR 8,193 million as at 31 December 2012 (2011: EUR 10,845 million).

Borrowed debt securities are not recognised in the balance sheet and amount to nil (2011: nil) as at 31 December 2012.

6 EQUITY SECURITIES

Equity securities analysed by listing		
	2012	2011
Listed	**3,598**	4,138
Unlisted	**165**	198
	3,763	4,336

Changes in equity securities (available-for-sale)		
	2012	2011
Opening balance	**1,862**	2,297
Additions	**2,040**	42
Changes in the composition of the group	**8**	
Gains/(losses) from change in fair value	**575**	–451
Provision for impairments	**–11**	–14
Disposals	**–2,401**	–12
Exchange rate differences	**–2**	
Other changes	**–3**	
Closing balance	**2,068**	1,862

Notes to the parent company annual accounts of ING Bank N.V. continued

In 2012, ING Bank N.V. acquired shares in Capital One Financial Corporation, as part of the divestment transaction of ING Direct USA, for EUR 2.0 billion and sold these shares in the second half of 2012 for EUR 2.3 billion; resulting in a gain of EUR 323 million (before and after tax).

The cost or purchase price of the shares in the trading portfolio approximates their fair value. As at 31 December 2012 the cost or purchase price of shares in the available-for-sale portfolio was EUR 1,316 million lower (2011: EUR 1,175 million lower) than the carrying amount.

7 INVESTMENTS IN GROUP COMPANIES

Investments in group companies

	Interest held (%)	Balance sheet value	Interest held (%)	Balance sheet value
		2012		2011
ING België N.V.	100	10,967	100	9,848
ING Direct N.V.	100	8,876	100	7,935
ING Financial Holdings Corporation	100	1,739	100	1,469
ING Vastgoed Management Holding B.V.	100	1,251	100	1,350
ING Lease Holding N.V.	100	735	100	1,191
ING Bank A.S.	100	1,411	100	1,110
WestlandUtrecht Bank N.V.	100	1,190	100	1,089
ING Bank Slaski S.A.	75	1,449	75	1,064
ING Corporate Investments B.V.	100	432	100	446
Other (including financing companies)		3,036		3,651
		31,086		29,153

As at 31 December 2012, Investments in group companies included credit institutions of EUR 25,210 million (2011: EUR 22,210 million). As at 31 December 2012 listed investments in group companies amounts to EUR 1,449 million (2011: EUR 1,064 million).

Changes in investments in group companies

	2012	2011
Opening balance	29,153	28,252
Additions	135	
Repayment of capital injection	–897	
Revaluations	1,486	–280
Results from group companies	2,772	2,617
Dividends received	–1,200	–1,430
Capital contribution	106	574
Disposals		–15
Mergers and liquidations	–9	–279
Exchange rate differences	–485	–340
Other changes	25	54
Closing balance	31,086	29,153

8 INVESTMENTS IN ASSOCIATES

Investments in associates

	Interest held (%)	Balance sheet value	Interest held (%)	Balance sheet value
		2012		2011
TMB Public Company Limited	25	499	25	485
Other		18		18
		517		503
Receivables from associates				
		517		503

Notes to the parent company annual accounts of ING Bank N.V. continued

Changes in investments in associates	2012	2011
Opening balance	503	561
Additions	2	2
Share of results	13	45
Dividends received	–8	
Disposals		–98
Exchange rate differences	7	–8
Other changes		1
Closing balance	517	503

9 INTANGIBLE ASSETS

Changes in intangible assets		Goodwill		Software		Other		Total
	2012	2011	2012	2011	2012	2011	2012	2011
Opening balance	758	890	281	391	57	94	1,096	1,375
Additions			161	138			161	138
Depreciation			–134	–249	–24	–24	–158	–273
Impairments					–2		–2	
Exchange rate differences	26	–132			2	–13	28	–145
Other changes				1	4		4	1
Closing balance	784	758	308	281	37	57	1,129	1,096

10 EQUIPMENT

Changes in equipment	2012	2011
Opening balance	531	597
Additions	109	98
Changes in the composition of the group		–2
Depreciation	–130	–139
Disposals	–4	–12
Other changes	–8	–11
Closing balance	498	531
Gross carrying amount as at 31 December	1,676	1,605
Accumulated depreciation as at 31 December	–1,178	–1,074
Net carrying value	498	531

11 OTHER ASSETS

Other assets by type	2012	2011
Derivatives	62,818	61,334
Deferred tax assets	257	126
Income tax receivable	64	63
Accrued interests and rents	8,407	8,829
Other accrued assets	183	165
Pension asset	449	443
Other receivables	7,724	3,415
	79,902	74,375

Derivatives includes transactions with group companies of EUR 23,586 million (2011: EUR 20,973 million).

As at 31 December 2012, an amount of EUR 708 million (2011: EUR 367 million) is expected to be settled after more than one year from the balance sheet date.

Notes to the parent company annual accounts of ING Bank N.V. continued

LIABILITIES AND EQUITY
12 AMOUNTS DUE TO BANKS

Amounts due to banks by group companies and third parties

	2012	2011
Group companies	25,971	36,402
Third parties	23,921	65,405
	49,892	101,807

13 CUSTOMER DEPOSITS AND OTHER FUNDS ON DEPOSIT

Customer deposits and other funds on deposit by group companies and third parties

	2012	2011
Group companies	31,887	32,232
Third parties	173,634	175,529
	205,521	207,761

Customer deposits and other funds on deposit by type

	2012	2011
Savings accounts	67,047	61,656
Credit balances on customer accounts	58,519	55,437
Corporate deposits	76,236	77,404
Other	3,719	13,264
	205,521	207,761

14 OTHER LIABILITIES

Other liabilities

	2012	2011
Derivatives	60,604	60,512
Trading liabilities	10,032	10,002
Accrued interest	9,382	9,794
Costs payable	492	425
Income tax payable	439	345
Other taxation and social security contribution	56	14
Other amounts payable	5,315	4,459
	86,320	85,551

Derivatives includes transactions with group companies of EUR 20,109 million (2011: EUR 17,559 million).

As at 31 December 2012, an amount of EUR 1,186 million (2011: EUR 1,181 million) is expected to be settled after more than one year from the balance sheet date.

15 GENERAL PROVISIONS

General provisions

	2012	2011
Deferred tax payable	212	221
Pension liabilities and other staff-related liabilities	12	11
Reorganisations and relocations	475	363
Other	335	373
	1,034	968

As at 31 December 2012, an amount of EUR 848 million (2011: EUR 862 million) was expected to be settled after more than one year from the balance sheet date.

Notes to the parent company annual accounts of ING Bank N.V. continued

16 SUBORDINATED LOANS

Subordinated loans by group companies and third parties

	2012	2011
Group companies	6,956	7,065
Third parties	10,113	11,790
	17,069	18,855

Subordinated loans by type

	2012	2011
Capital debentures	8,992	10,669
Private loans	8,077	8,186
	17,069	18,855

The subordinated loans rank subordinated to the other liabilities in a winding-up of ING Bank.

17 EQUITY

Capital and reserves

	2012	2011
Share capital	525	525
Share premium	16,542	16,542
Share of associates reserve	363	339
Currency translation reserve	–263	209
Revaluation reserve	2,228	568
Other reserves	16,359	12,266
Unappropriated result	915	3,918
	36,669	34,367

Other reserves includes Retained earnings of EUR 15,206 million (2011: EUR 11,210 million). Other reserves includes non-distributable reserves of EUR 911 million (2011: EUR 836 million) related to the former Stichting Regio Bank and the former Stichting Vakbondsspaarbank SPN and EUR 242 million (2011: EUR 220 million) related to legal reserves that cannot be freely distributed.

Share capital

			Ordinary shares (par value EUR 1.13)	
	Number x1,000	Amount	Number x1,000	Amount
		2012		2011
Authorised share capital	1,600,000	1,808	1,600,000	1,808
Unissued share capital	1,134,965	1,283	1,134,965	1,283
Issued share capital	465,035	525	465,035	525

No changes occurred in the issued share capital and share premium in 2012 and 2011.

Changes in revaluation reserve

2012	Available-for-sale reserve	Cash flow hedge reserve	Property in own use reserve	Real estate invest-ments reserve	Total
Opening balance	1,035	–821	336	18	568
Unrealised revaluations after taxation	2,088		–9	–6	2,073
Realised gains/losses transferred to profit and loss	–473				–473
Changes in cash flow hedge reserve		60			60
Closing balance	2,650	–761	327	12	2,228

Notes to the parent company annual accounts of ING Bank N.V. continued

Changes in revaluation reserve

2011	Available-for-sale reserve	Cash flow hedge reserve	Property in own use reserve	Real estate invest-ments reserve	Total
Opening balance	1,746	–639	350	32	1,489
Unrealised revaluations after taxation	–1,117		–14	–14	–1,145
Realised gains/losses transferred to profit and loss	406				406
Changes in cash flow hedge reserve		–182			–182
Closing balance	1,035	–821	336	18	568

Retained earnings and Unappropriated result

	Retained earnings		Unappropriated result		Total	
	2012	2011	**2012**	2011	**2012**	2011
Opening balance	**11,210**	10,334	**3,918**	4,295	**15,128**	14,629
Transfer to retained earnings	**3,918**	4,295	**–3,918**	–4,295		
Employee stock options and share plans	**106**	119			**106**	119
Other changes	**–28**	–538			**–28**	–538
Result for the period			**3,040**	3,918	**3,040**	3,918
Dividend		–3,000	**–2,125**		**–2,125**	–3,000
Closing balance	**15,206**	11,210	**915**	3,918	**16,121**	15,128

Positive components of the Revaluation reserve, the Share of associates reserve and Currency translation reserve cannot be freely distributed. The reserve for cash flow hedges is included in the revaluation reserve on a net basis. Retained earnings can be freely distributed except for an amount equal to the negative balance in the Currency translation reserve and the Revaluation reserve. Unrealised gains and losses on derivatives, other than cash flow hedges, are presented in the profit and loss account and are therefore part of Retained earnings.

In consolidated annual accounts the revaluations on real estate investments are included in the profit and loss account. For the parent company accounts however, Dutch law requires these revaluations to be included in a Revaluation reserve.

The total amount of non-distributable reserves is EUR 4,007 million (2011: EUR 2,172 million).

Notes to the parent company annual accounts of ING Bank N.V. continued

ADDITIONAL INFORMATION
18 MATURITY OF CERTAIN ASSETS AND LIABILITIES

Analysis of certain assets and liabilities by maturity

2012	Less than 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Maturity not applicable	Total
Assets							
Amounts due from banks	18,840	2,974	3,797	6,074	4,042	14,433	50,160
Loans and advances to customers	35,198	6,843	22,898	72,479	166,515	15,031	318,964
Liabilities							
Amounts due to banks	18,214	4,176	3,913	7,605	8,256	7,728	49,892
Customer deposits and other funds on deposit	149,468	14,207	12,764	11,552	14,147	3,383	205,521
Debt securities in issue	10,819	20,762	18,422	39,567	28,383	11,953	129,906
Subordinated loans	650			4,357	10,544	1,518	17,069

Analysis of certain assets and liabilities by maturity

2011	Less than 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Maturity not applicable	Total
Assets							
Amounts due from banks	15,283	4,008	4,914	7,397	6,464	29,358	67,424
Loans and advances to customers	39,924	11,511	22,734	73,295	171,217	12,952	331,633
Liabilities							
Amounts due to banks	42,890	11,042	7,372	6,907	15,043	18,553	101,807
Customer deposits and other funds on deposit	146,366	16,346	15,558	9,075	11,356	9,060	207,761
Debt securities in issue	19,719	20,676	9,739	31,333	18,591	10,019	110,077
Subordinated loans	1,634		23	3,605	12,115	1,478	18,855

19 ASSETS NOT FREELY DISPOSABLE

Assets not freely disposable

	2012	2011
Investments	118	3
Lending	9,210	7,704
Banks	7,659	7,573
Other assets	1,056	917
	18,043	16,197

20 CONTINGENT LIABILITIES

Contingent liabilities by type

	2012	2011
Discounted bills	1	1
Guarantees	43,568	38,254
Irrevocable letters of credit	5,423	6,282
Other	282	381
Contingent debts	49,274	44,918
Irrevocable facilities	32,027	35,612
	81,301	80,530

Contingent debts

	2012	2011
Group companies	29,467	22,770
Third parties	19,807	22,148
	49,274	44,918

Notes to the parent company annual accounts of ING Bank N.V. continued

Irrevocable facilities		
	2012	2011
Group companies	27	66
Third parties	32,000	35,546
	32,027	35,612

21 OTHER

Guarantees

ING Bank N.V. has issued statements of liabilities in connection with Section 403 Book 2 of the Dutch Civil Code and other guarantees for a number of group companies.

Fiscal unity

ING Bank N.V. forms a fiscal unity with ING Groep N.V. and several Dutch banking entities for corporation tax purposes. ING Bank N.V. and ING Groep N.V. and its banking subsidiaries that form part of the fiscal unity are jointly and severally liable for taxation payable by the fiscal unity.

REMUNERATION OF SENIOR MANAGEMENT, MANAGEMENT BOARD AND SUPERVISORY BOARD

See Note 30 ‘Related parties’ to the Consolidated annual accounts.

AUTHORISATION OF PARENT COMPANY ANNUAL ACCOUNTS

Amsterdam, 18 March 2013

THE SUPERVISORY BOARD

J. van der Veer, *chairman*
P.A.F.W. Elverding, *vice-chairman*
J.P. Bahlmann
H.W. Breukink
J.H. Holsboer
S. van Keulen
P.C. Klaver
J.Ch.L. Kuiper
R.W.P. Reibestein
Y.C.M.T. van Rooy
L.A.C.P. Vandewalle
L.J. de Waal

THE MANAGEMENT BOARD

J.H.M. Hommen, *chairman*
J.V. Timmermans, *vice-chairman*
P.G. Flynn, *CFO*
W.F. Nagel, *CRO*
W.L. Connelly, *CEO Commercial Banking*
C.P.A.J. Leenaars, *CEO Retail Banking Direct and International*
H. van der Noordaa, *CEO Retail Banking Benelux*

Independent auditor’s report

To: the Shareholders, Supervisory Board and the Management Board of ING Bank N.V.

REPORT ON THE ANNUAL ACCOUNTS

We have audited the accompanying annual accounts 2012 of ING Bank N.V., Amsterdam (as set out on pages 18 to 187). The annual accounts include the consolidated annual accounts and the parent company annual accounts. The consolidated annual accounts comprise the consolidated balance sheet as at 31 December 2012, the profit and loss account, statement of comprehensive income, statement of cash flows and statement of changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory notes. The parent company annual accounts comprise the parent company balance sheet as at 31 December 2012, the parent company profit and loss account for the year then ended and the notes, comprising a summary of significant accounting policies and other explanatory notes.

Management's responsibility

Management is responsible for the preparation and fair presentation of these annual accounts in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Dutch Civil Code, and for the preparation of the report of the Management Board in accordance with Part 9 of Book 2 of the Dutch Civil Code. Furthermore management is responsible for such internal control as it determines is necessary to enable the preparation of the annual accounts that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these annual accounts based on our audit. We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. This requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the annual accounts are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual accounts. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the annual accounts, whether due to fraud or error.

In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the annual accounts 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the annual accounts.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion with respect to the consolidated annual accounts

In our opinion, the consolidated annual accounts give a true and fair view of the financial position of ING Bank N.V. as at 31 December 2012 and of its result and its cash flow for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Dutch Civil Code.

Opinion with respect to the parent company annual accounts

In our opinion, the parent company annual accounts give a true and fair view of the financial position of ING Bank N.V. as at 31 December 2012 and of its result for the year then ended in accordance with Part 9 of Book 2 of the Dutch Civil Code.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Pursuant to the legal requirement under Section 2:393 sub 5 at e and f of the Dutch Civil Code, we have no deficiencies to report as a result of our examination of whether the Report of the Management Board, to the extent we can assess, has been prepared in accordance with Part 9 of Book 2 of this Code, and whether the information as required under Section 2:392 sub 1 at b-h has been annexed. Further we report that the Report of the Management Board, to the extent we can assess, is consistent with the annual accounts as required by Section 2:391 sub 4 of the Dutch Civil Code.

Amsterdam, 18 March 2013

Ernst & Young Accountants LLP

signed by M.A. van Loo

Proposed appropriation of result

amounts in millions of euros, unless stated otherwise

PROPOSED APPROPRIATION OF RESULT

The result is appropriated pursuant to Article 24 of the Articles of Association of ING Bank N.V., the relevant stipulations of which state that the result shall firstly be appropriated to the Stichting Regio Bank Reserve, respectively the Reserve Stichting Vakbondsspaarbank SPN or charged to that reserves in proportion to the ratio between the Stichting Regio Bank Reserve, respectively the Reserve Stichting Vakbondsspaarbank SPN and the company's equity at the end of the relevant financial year and that the remainder shall be at the disposal of the General Meeting.

For 2012, it is proposed that the result, insofar at the disposal of the General Meeting, will be appropriated as follows. The dividend will be equal to the interim dividend already paid and the remainder of the result will be appropriated to the Other Reserves, so that no final dividend will be paid.

Proposed appropriation of result

Net result	**3,115**
Interim dividend paid	**–2,125**
Addition to reserves pursuant to Article 24 of the Articles of Association	**–75**
Proposed to be added to the Other Reserves pursuant to Article 24 of the Articles of Association	**915**

Additional Pillar 3 information

amounts in millions of euros, unless stated otherwise

INTRODUCTION

This section relates to Pillar 3, market discipline, and as such provides information on several topics. Some of the required information has already been provided elsewhere in the Annual Report, e.g. in the Risk Management section and in the Capital Management paragraph. This section provides additional information, as well as references to the relevant sections. The information relates to ING Bank N.V. and all of its subsidiaries (hereafter ING Bank). There are no significant differences between the scope of consolidation for prudential purposes compared to the accounting scope of consolidation as reported in the annual report in the note “Principal subsidiaries”. The information in this section has not been audited by ING Bank’s external auditors.

European Disclosure Task Force recommendations on financial disclosure

In the course of 2012, the European Disclosure Task Force (EDTF) was formed to provide more comprehensive and consistent disclosure for Financial Institutions. The EDTF is an industry work group that together with the Financial Stability Board made several recommendations on financial disclosure. ING Bank is a member of the EDTF and supporter of both the principles and final paper. Since the final paper was only delivered in November 2012, ING Bank is unable to immediately implement all of the recommendations. Nonetheless, the key elements of the EDTF have been included in this Pillar 3 document using the same templates as outlined in the final recommendations. The glossary can be used as guidance to find the new tables implemented as part of the EDTF recommendations. Below an overview is given on how ING Bank has dealt with all EDTF recommendations.

Overview of EDTF recommendations on financial disclosure

EDTF Recommendation	Brief Description	Comments
1	Consolidate all risk related information in either Risk Management paragraph or Pillar 3. If not possible, provide an index to aid navigation.	Table of contents implemented in both Risk Management section and Pillar 3.
2	Define the bank’s risk terminology and risk measures and present key parameter values used.	Implemented in the Risk Management sections: Business Model and Risk Profile, Economic Capital, and the risk terminology and risk measures described in the Credit Risk, Market Risk, Liquidity Risk and Non-Financial Risk sections.
3	Describe and discuss top and emerging risks for the bank.	Implemented in the Risk Management section: Risk developments in 2012.
4	Once the applicable rules are finalised, outline plans to meet each new key regulatory ratio.	To be included when CRR/CRD IV is approved by EU Parliament.
5	Summarise prominently the bank’s risk management organisation, processes and key functions.	Implemented in the Risk Management section Risk Governance and the corresponding descriptions in the Credit Risk, Market Risk, Liquidity Risk and Non-Financial Risk sections.
6	Describe bank's risk culture, related procedures and strategies.	Implemented in the Risk Management sections: Risk Governance, Business Model and Risk Profile and the corresponding descriptions in the Credit Risk, Market Risk, Liquidity Risk and Non-Financial Risk sections.
7	Describe key risks arising from bank's business model and activities, the bank's risk appetite and how it manages these risks.	Implemented in the Risk Management section: Risk Governance, Business Model and Risk Profile and the corresponding descriptions in the Credit Risk, Market Risk, Liquidity Risk and Non-Financial Risk sections.
8	Describe the use of stress testing within the bank’s risk governance and capital frameworks.	Implemented in the Risk Management section: Stress Testing and the corresponding descriptions in the Credit Risk, Market Risk and Liquidity Risk sections.
9	Provide minimum Pillar 1 capital requirements, including surcharges and buffers, or the minimum internal ratio.	Implemented in the Capital Management section and in the Ongoing Changes in the Regulatory environment section of the Risk Management section.
10	Summarise composition of capital based on Basel Committee templates.	To be addressed in future disclosures.
11	Present a flow statement of movements since the prior reporting date in regulatory capital, including changes in common equity tier 1, tier 1 and tier 2 capital.	Flow statement of movements is incorporated in the Credit Risk and Market Risk section of the Risk Management section. Changes in available capital are disclosed in Pillar 3.
12	Qualitatively and quantitatively discuss capital planning within a more general discussion of management’s strategic planning.	Implemented in the Capital Management section and in the Ongoing Changes in the Regulatory environment section of the Risk Management section.
13	Provide granular information to explain how risk-weighted assets (RWAs) relate to business activities and related risks.	Implemented in Pillar 3 in the RWA migration table.
14	Present a table showing the capital requirements for each method used for calculating RWAs for credit risk per Basel asset class as well as for major portfolios within those classes.	Template 11 of the EDTF is added to the SA and AIRB section of Pillar 3; it shows the READ and RWA for the AIRB and SA portfolio per exposure class.

Additional Pillar 3 information continued

Overview of EDTF recommendations on financial disclosure (continued)

EDTF Recommendation	Brief Description	Comments
15	Tabulate credit risk in the banking book showing average probability of default (PD) and LGD as well as exposure at default (EAD), total RWAs and RWA density for Basel asset classes and major portfolios within the Basel asset classes.	Templates 3, 12, 13 and 14 of the EDTF added in the AIRB section of Pillar 3.
16	Present a flow statement that reconciles movements in RWAs for the period for each RWA risk type.	For Credit Risk this is implemented in Pillar 3 in the RWA migration table. The Market Risk flow statement is included in the Risk Management section.
17	Provide a narrative putting Basel Pillar 3 back-testing requirements into context, including how the bank has assessed model performance and validated its models against default and loss.	Implemented in Pillar 3 in the PD back-test table that is added to the AIRB section where the predicted PD is compared with the actual default rate per Exposure Class. Model Validation process and results included in RMP and Pillar 3.
18	Describe how the bank manages its potential liquidity needs and provide a quantitative analysis of the components of the liquidity reserve held to meet these needs.	Qualitative description included in the Liquidity Risk section of the Risk Management section. Quantitative component to be addressed in future disclosures.
19	Summarise encumbered and unencumbered assets in a tabular format by balance sheet categories.	To be addressed in future disclosures.
20	Tabulate consolidated total assets, liabilities and off-balance sheet commitments by remaining contractual maturity at the balance sheet date.	Implemented in the maturity tables in Notes 22 and 23 of the Annual Accounts.
21	Discuss the bank's funding strategy, including key sources and any funding concentrations, to enable effective insight into available funding sources, reliance on wholesale funding, any geographical or currency risks and changes in those sources over time.	Included in the Liquidity Risk section of the Risk Management Section.
22	Link balance sheet items and income statement with positions included in the traded and non-traded market risk disclosures such as risk factor sensitivities, economic value and earnings scenarios and/or sensitivities.	Risk factor sensitivities are presented in the Market Risk section of the Risk Management Section. Exact linkage with balance sheet items is to be addressed in future disclosures.
23	Provide further qualitative and quantitative breakdowns of significant trading and non-trading market risk factors.	Implemented in the Market Risk section of the Risk Management Section.
24	Provide qualitative and quantitative disclosures that describe significant market risk measurement model limitations through time and descriptions of the reasons for back-testing exceptions.	Qualitative description included in the Market Risk section of the Risk Management section. Quantitative component to be addressed in future disclosures.
25	Provide a description of the primary risk management techniques employed by the bank to measure and assess the risk of loss beyond reported risk measures and parameters, such as VaR, earnings or economic value scenario results.	Implemented in the Market Risk section of the Risk Management paragraph.
26	Provide information that facilitates users' understanding of the bank's credit risk profile, including any significant credit risk concentrations.	Implemented in Pillar 3 by adding the EDTF templates 18, 19, 20 and 21 which tabulate the portfolio per exposure class segmented by relevant factors.
27	Describe the policies for identifying impaired or non-performing loans, including how the bank defines impaired or non-performing, restructured and returned-to-performing loans as well as explanations of loan forbearance policies.	Implemented in the Risk Management paragraph in the Credit Risk Mitigation section.
28	Provide a reconciliation of the opening and closing balances of non-performing or impaired loans in the period and the allowance for loan losses.	Implemented in Pillar 3 by adding the recommended EDTF template to the Loan Loss Provisions section.
29	Provide a quantitative and qualitative analysis of the bank's counterparty credit risk that arises from its derivatives transactions.	Implemented in Pillar 3 by adding the recommended EDTF template to the Derivatives section.
30	Provide qualitative information on credit risk mitigation, including collateral held for all sources of credit risk and quantitative information where meaningful.	Implemented in Pillar 3 by adding the recommended EDTF template to the Credit Risk Mitigation section.
31	Describe 'other risk' types based on management's classifications and discuss how each one is identified, governed, measured and managed.	Implemented in the Risk Management paragraph.
32	Discuss publicly known risk events related to other risks, including operational, regulatory compliance and legal risks, where material or potentially material loss events have occurred.	Implemented in the Risk Management Section.

Additional Pillar 3 information continued

Capital Adequacy Rules – Basel II Accord
The rules on capital adequacy, also referred to as Regulatory Capital (RC), express the regulators' and legislators' opinions of how much capital a bank and other regulated credit institutions must retain in relation to the size and the type of risk taking expressed in the form of risk-weighted assets. The most important part of the capital base is the shareholders' equity. In addition to equity, the institution may issue certain liabilities such as certain hybrid instruments to be included in the capital base. The legal minimum requirement stipulates that the capital base must correspond to at least 8% of the Risk-Weighted Assets (RWA).

The Dutch government adopted the Capital Requirements Directive (CRD), the European reflection of the Basel II capital accord in December 2006. CRD IV will be the reflection of the Basel III accord but is not yet in force. Preparations by ING Bank for the implementation of CRD IV are described in the Risk Management section.

This section relates to Pillar 3, market discipline, and as such provides information on several topics. Some of the required information has already been given elsewhere in the annual report, e.g. in the Risk Management section and in the capital management section. This section provides additional information, as well as references to the relevant sections.

The Pillar 3 information mostly relates to Credit Risk, but also to securitisations and Other Non-Credit Obligation Assets (ONCOA). The requirements are mainly for underlying exposure, risk weighted assets and regulatory capital. As such it relates primarily to the first Basel II pillar, the minimum capital requirement. These regulatory requirements are provided in the next section, including those for market risk and operational risk. The second pillar concerns the banks internally used Economic Capital, and the supervisors review of that capital and the underlying models. Economic Capital, and consequently Pillar 2, is disclosed extensively in the Risk Management section. As such, the text of this Pillar 3 section should be read in conjunction with statements made in the Risk Management section and capital management section of the annual accounts, where there is a comprehensive discussion of Risk Management and Capital Management.

Approaches applied by ING Bank
On 1 January 2008, ING Bank 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 DNB (Dutch Central Bank), and various local regulators, as required. However, there remains a small portion of the portfolio that is subject to the Standardised Approach (SA). Unlike many regulators, DNB requires institutions to have at least 85% (RWA weighted) of their portfolio on AIRB to qualify for AIRB status. The majority of SA portfolios at ING Bank relate to subsidiaries where the home regulator does not have a robust AIRB framework or requirement. ING continues to explore opportunities to transition additional portfolios from SA to AIRB. ING Bank does not have any portfolios that use the Foundation IRB Approach.

During 2012 ING Bank decreased its SA portfolio in terms of Regulatory Exposure at Default (READ) by 1% as a result of the sale of ING Direct US and ING Direct Canada which both had a relatively small SA portfolio and the migration of the Commercial Finance Netherlands portfolio and a part of the Poland portfolio from SA to AIRB. ING Bank continues to work towards reducing the portion of its portfolio which falls under the Standardised Approach. At the moment the largest portfolio's under SA are the Turkey, India (Vysya) and Poland (Slaski) portfolios. ING continues to work with local regulators especially in Poland and India to bring more portfolios to AIRB.

The AIRB and SA approaches are explained in more detail in the Credit Risk Measurement section of the Risk Management paragraph. An analysis on the AIRB and SA portfolios with their accompanying tables is provided in ' "The SA and AIRB Approach" section of Pillar 3.

ING Bank uses the AIRB and the Internal Assessment Approach (IAA) for liquidity lines provided to Asset Backed Commercial Paper programs.

Additional Pillar 3 information continued

REGULATORY CAPITAL REQUIREMENTS FOR ALL RISK TYPES

Regulatory capital requirements (amounts in EUR million)	2012	2011
Credit risk		
Portfolios subject to standardised approach	**2,415**	2,455
Portfolios subject to AIRB approach		
– Sovereigns	**217**	234
– Institutions	**1,121**	1,277
– Corporate	**7,773**	8,664
– Residential mortgages	**3,524**	4,798
– Other retail	**1,286**	1,303
Total portfolios subject to AIRB approach	**13,920**	16,276
Securitisation exposures	**442**	1,489
Equity portfolios in the banking book under the simple risk weight approach	**201**	207
Other Non-Credit Obligation Assets	**1,708**	2,046
Total Credit Risk	**18,685**	22,473
Market risk		
Standardised approach	**28**	34
Internal models approach - trading book	**744**	1,091
Total Market risk	**772**	1,125
Operational risk		
Advanced measurement approach	**2,836**	2,836
Total Basel II required Regulatory Capital	**22,292**	26,434
Basel I floor*	**28,767**	31,107
Additional capital requirement	**6,475**	4,673

This table includes securitisation benefits of the SA, AIRB and securitisation portfolios, amounting to EUR 21 million for 2012.
* The floor is 80% of Basel I required Regulatory Capital.

Other Non-Credit Obligation Assets (ONCOA) represents assets of non-credit obligation character that are not included in the SA or AIRB calculations. Capital requirement for ONCOA as of 31 December 2012 is EUR 1,708 million (2011: EUR 2,046 million).

ING Bank is in the process of updating its AMA Operational Risk model in conjunction with DNB. Until finalisation of this project which is expected in 2013, DNB has put a floor on the Operational Risk Capital of ING Bank. Since the internally calculated Operational Risk Capital of ING Bank is below the imposed floor, the Operational Risk Capital did not change over 2012.

In order to prevent large short-term effects on capital requirements, the regulators introduced transition rules (the ‘capital floor’) for institutions implementing the Basel II capital adequacy reporting. For 2012 and 2011 the capital requirement was not allowed to fall below 80% of the capital requirements calculated under Basel I regulations. The additional capital requirements according to the transition rules are EUR 6,475 million for 2012 (EUR 4,673 million in 2011).

The decrease in Basel II required regulatory capital can be explained by the divestment of ING Direct US and ING Direct Canada in addition to de-risking of the Bank’s balance sheet. The required regulatory capital shown in this section should be compared to the available regulatory capital for which details can be found in the Capital Management paragraph, section ‘Regulatory Capital’. The table below provides an overview of the changes in the available regulatory capital.

Additional Pillar 3 information continued

ING Bank Regulatory Capital flow statement (amounts in EUR million)		
In EUR million	**2012**	2011
Core Tier 1 capital		
Opening amount	**31,772**	30,894
Profit	**3,116**	4,005
Adjustment prudential filters own credit risk	**468**	–334
Change in goodwill	**130**	226
Dividend	**–2,125**	–3,000
Change in revaluation reserves	**–471**	–290
Change in third party interest	**148**	77
Change in deductions from tier 1	**25**	54
Other	**137**	140
Closing amount	**33,200**	31,772
Additional Tier 1 capital		
Opening amount	**6,850**	8,438
Issued capital		571
Redeemed capital		–2,349
Exchange rate differences	**–75**	190
Closing amount	**6,774**	6,850
Tier 2 capital		
Opening amount	**8,502**	9,813
Change in Tier 2 capital instruments	**–1,384**	–1,364
Change in deductions	**24**	53
Closing amount	**7,142**	8,502
Total regulatory capital	**47,116**	47,123

Unless stated otherwise, the tables in Pillar 3 are focused on credit risk only and therefore exclude ONCOA, equities, market risk and operational risk.

BASIS AND SCOPE OF CREDIT RISK PRESENTATION

For credit risk, data included in these tables are related to ING Bank's core credit risk activities in the areas of: Lending (both on- and off-balance sheet); 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.
The amounts presented in this section relate to amounts used for Credit Risk Management purposes, which follow ING Bank's interpretation of the definitions as prescribed under the Basel II accords. Therefore, the numbers can be different from the accounting numbers as reported in the annual accounts under IFRS-EU.

Unless stated otherwise, the tables included in this section focus on the measurement of Regulatory Exposure at Default (READ) and Risk Weighted Assets (RWA) under the Basel II definitions. READ is generally the sum of the on-balance and off-balance sheet: Lending, Investment and Money Market 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) is included. 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 mark-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 ISDAs, CSAs, GMLAs).

Off-balance sheet exposures include the letters of credits 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 shown separately. These amounts also relate to the amount invested prior to any impairment activity or mark-to-market adjustments. These amounts are also considered to be ”Credit Risk outstandings”.

Additional Pillar 3 information continued

RISK WEIGHTED ASSETS MIGRATION ANALYSIS

In line with the EDTF recommendations the table below explains the changes in RWA during the reporting period and provides additional information by linking the impact on RWA of changes in portfolio composition, model changes and shifts in the risk environment. The table reconciles movements in RWA for the period for each RWA risk type of ING Bank for the SA and AIRB portfolio including securitisations.

Flow statement for RWA

RWA movement by key driver (amounts in EUR billion)

RWA as at 31 December 2011	**252.7**
Book size [(1)]	**–5.1**
Book quality [(2)]	**3.3**
De-risking	**–3.5**
Model updates [(3)]	**0.3**
Methodology and policy [(4)]	**–3.3**
Acquisitions and divestments	**–32.4**
Foreign exchange movements	**0.0**
Other	**–2.4**
Total movement	**–43.0**
RWA as at 31 December 2012	**209.7**

Excluding equities and ONCOA.
[(1)] Book size: organic changes in book size and composition (including new business and maturing loans).
[(2)] Book quality: quality of book changes caused by experience such as underlying customer behaviour or demographics.
[(3)] Model updates: model implementation, change in model scope or any change to address model malfunctions including changes through model calibrations / realignments.
[(4)] Methodology and policy: methodology changes to the calculations driven by internal changes in policy and regulatory policy changes.

Key changes

Over the year, RWA decreased by EUR 43.0 billion to EUR 209.7 billion:

- The decreasing book size, excluding disinvestments and de-risking of the portfolio, reduced RWA by EUR 5.1 billion. The book size decrease is mainly seen in the Real Estate and in the Corporate Lending portfolio.

- The deterioration of the book quality increased RWA by EUR 3.3 billion and was mainly seen in the Spanish Corporates and Financial Institutions portfolio and in the Dutch mortgages portfolio due to higher LGD's as a result of the deteriorated market circumstances, which led to a decline in the cover values. Several smaller movements, both positive and negative, occurred in various portfolios throughout the year.

- De-risking in 2012 includes the sale of securitisations and the sale of other debt securities like covered bonds and unsecured bonds. This reduced RWA by EUR 3.5 billion.

- There were several model updates through the year but their impacts on capital were relatively insignificant. A key change was the LGD model for Financial Institutions which was revised to reflect the current deteriorating market circumstances, causing RWA to increase. As part of the Financial Institution model refinement, several changes were made to maturities including removing the 1 year floor for certain exposures, in line with the regulatory exemption. In addition, ING shifted from limit maturity to outstanding maturity per trade as a calculation method. These changes shortened the maturities in the capital calculations causing an RWA decrease. Although the individual impacts from these changes were significant, they almost completely offset each other. Combined, all these changes and multiple smaller movements resulted in an increase in RWA of EUR 0.3 billion over the year.

- The decrease caused by methodology and policy changes was mainly due to a more granular classification for ING Turkey's credit replacement portfolio which lowers the risk weight under the SA approach as ING Turkey largely uses the SA Approach. Next to that, a regulatory maturity floor exemption for trade related products have been refined and the Commercial Finance NL portfolio migrated from SA to AIRB. These RWA decreases were partly offset by the implementation of an allocated calculation method that ensures that no guaranteed facility has less RWA allocated than if this facility would be granted to the guarantor directly, on an unsecured base. Previously this calculation was done centrally and added in ONCOA. An additional methodology change was a shift from a rating hierarchy to the second best rating methodology for securitisations which increased RWA as well. The combined impact of the above mentioned items, together with other smaller changes with relatively insignificant impacts, decreased RWA by EUR 3.3 billion.

- The divestments in 2012 were related to the sale of ING Direct US to Capital One N.A., which decreased RWA by EUR 29.7 billion and the sale of ING Direct Canada to Scotiabank which reduced RWA by EUR 2.7 billion.

- Although between the quarters large FX movements were observed, the FX impact over the year is negligible.

Additional Pillar 3 information continued

Overall, RWA management has a very high priority throughout ING 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.

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 Approach, most of the exposure classes have subcategories. ING Bank has applied the following definitions to determine Exposure Classes:

- **Central Governments & Central Banks** (hereafter **Sovereigns**) include Sovereign Government entities, Central Banks and Basel II recognised Local / Regional Authorities as well as Supranational Organisations;
- **Institutions** include all Commercial Banks, non-Bank Financial Institutions, such as Leasing Companies, Funds and Fund Managers, and Insurance Companies, as well as local and regional government entities not classified as governments;
- **Corporates** include all legal entities, that are not considered to be Governments, Institutions or Retail;
- **Retail** includes the following classes:
  - **Residential Mortgages** include all mortgage loans for residential properties that are not part of a securitisation; and
  - **Retail Other** includes all other credit obligations related to Retail SMEs, such as partnerships, 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. For other types of counterparties or issuers, there is no potential overlap. In the tables below an overall picture is given of the ING Bank portfolio per exposure class, after which a breakdown per exposure class is given segmented by relevant factors. Securitisations segmentation is given in the Securitisation chapter.

Credit risk per exposure type and exposure class

In line with the EDTF recommendations the table below shows the total READ and RWA for ING Bank by Basel defined exposure types for both the SA and AIRB portfolio per exposure class.

Model approaches per exposure class (amounts in EUR million)

	Sovereigns		Institutions		Corporate		Retail		Total 2012		Total 2011	
	READ	**RWA**	**READ**	**RWA**	**READ**	**RWA**	**READ**	**RWA**	**READ**	**RWA**	READ	RWA
SA approach												
On-balance	4,056	3,096	1,344	678	9,890	9,736	20,794	11,252	36,085	24,762	33,942	23,411
Off-balance	7	7	339	191	2,707	2,636	3,137	2,350	6,190	5,183	8,442	6,928
Securities Financing											62	62
Derivatives			337	156	87	88	1	1	425	245	481	279
Total	4,062	3,103	2,020	1,024	12,684	12,460	23,933	13,603	42,699	30,190	42,927	30,682
AIRB approach												
On-balance	73,006	2,333	57,432	8,302	161,016	64,528	314,700	57,115	606,155	132,278	701,725	153,897
Off-balance	8,213	180	6,911	2,345	72,779	24,671	14,293	2,964	102,195	30,160	104,779	34,125
Securities Financing	1,424	74	3,463	300	5,665	853			10,552	1,227	14,738	2,350
Derivatives	1,819	122	18,189	3,066	13,191	7,104	81	48	33,280	10,340	36,060	13,073
Total	84,463	2,710	85,995	14,014	252,650	97,157	329,074	60,126	752,182	174,006	857,302	203,444
SEC AIRB												
On-balance									9,118	3,391	33,397	18,112
Off balance									2,983	2,134	2,572	495
Total									12,101	5,525	35,970	18,607
Total Bank	88,525	5,813	88,015	15,038	265,335	109,617	353,007	73,729	806,982	209,722	936,199	252,733

Includes both AIRB and SA portfolios; excludes equities and ONCOA.

The ING bank portfolio falls for 85.6% under the AIRB approach and for 14.4% under SA in terms of RWA. The total portfolio decreased in 2012 by EUR 129.2 billion in READ to EUR 807.0 billion RWA declined by EUR 43.0 billion to EUR 209.7 billion.

The divestments of ING Direct US and ING Direct Canada had a material reduction on the ING Bank portfolio especially in the mortgage category. These two divestments also had a large impact on the investment portfolio. Although not closed yet, the UK sale has also already led to significant reduction in the investment portfolio of which mainly securitisations. In addition to absolute levels, these divestments also reduced the risk profile leading to large reductions in RWA as explained in the RWA migration analysis section. Especially the sale of the relatively high risk weight US portfolio led to almost EUR 30 billion reduction in RWA.

Additional Pillar 3 information continued

Next to the large divestments, the de-risking in the investment portfolio over 2012 contributed to an improved risk profile of the Bank. More than EUR 10 billion of investments were sold which reduced RWA significantly. Other areas of de-risking came from run-off portfolios like Real Estate and Lease which declined in absolute amounts but showed deterioration in risk metrics. Part of this deterioration is a function of cyclicality and geographic markets and a portion is the natural decline expected as better quality clients leave the run-off portfolio quicker than weaker ones. Although not a large impact on the risk profile, significant reductions especially at year-end occurred in the money market and financial markets products. This was a conscious decision resulting from the reduction in short-term funding. Many of the de-risking exercises achieved their effect of reducing capital.

Sovereign credit risk disclosure
In line with the EDTF recommendations, the table on the next page presents the READ, segmented by relevant factors, and the analysis for exposure class "Sovereigns".

The figures per geography for each exposure class are based on the country of residence of the obligor. As such, these figures do not represent the risk associated with a country transfer risk event, such as a restriction on the convertibility of local currency into internationally tradable currencies, as local and foreign currencies are combined and converted into Euro equivalent for presentation. The definitions associated with ING Bank's transfer risk positions and economic country risk exposure can be found in the Risk Management paragraph.

Sovereigns - credit risk disclosure in READ (amounts in EUR million)

		2012	2011	Delta %
Sovereigns	**Rating**	**88,525**	111,145	–20.3%
	Performing	**88,524**	111,144	–20.3%
	Impaired/Non-performing	**1**	1	–8.5%
Sovereigns	**Geography/business units**	**88,525**	111,145	–20.3%
	Africa	**313**	344	–8.9%
	America	**487**	10,429	–95.3%
	Asia	**5,677**	5,480	3.6%
	Australia	**261**	60	333.8%
	Europe	**81,787**	94,832	–13.7%
	Europe	**81,787**	94,832	–13.7%
	Netherlands	**19,393**	36,922	–47.5%
	Belgium	**16,372**	13,589	20.5%
	Germany	**16,174**	16,095	0.5%
	Other Europe	**29,847**	28,227	5.8%
Sovereigns	**Product Type**	**88,525**	111,145	–20.3%
	Bond Investments	**53,491**	55,016	–2.7%
	Revolving	**13,833**	12,716	8.8%
	Money Market	**10,445**	27,278	–61.7%
	Term Loans	**4,743**	13,276	–64.3%
	Lending	**2,500**		–
	Other	**3,512**	2,859	22.9%
Sovereigns	**PD Bands**	**88,525**	111,145	–20.3%
	<0.05%	**70,958**	93,797	–24.3%
	0.05% to 0.5%	**14,422**	13,670	5.5%
	0.5% to 5%	**2,971**	3,356	–11.4%
	5% to 10%	**126**	142	–11.8%
	10% to 20%	**45**	21	109.1%
	20% to 50%	**2**	157	–98.4%
	>50%	**1**	1	–8.5%

Includes both AIRB and SA portfolios; excludes equities and ONCOA.

The divestments of ING Direct US and ING Direct Canada declined READ by EUR 16.0 billion and EUR 3.8 billion, respectively.

Money market declines (EUR 16.8 billion) were predominantly seen in the Netherlands (EUR 13.8 billion - less deposit given to the Dutch Central Bank) and the US (EUR 4.8 billion - less deposit given to the US Central Bank), while Germany saw an increase of EUR 1.8 billion.

Additional Pillar 3 information continued

The decline in term loans was mainly due to the restructuring of the IABF with the Dutch State, which was previously classified as term loans and now partly as bonds. The IABF needed to be restructured because of the sale of ING Direct US. The IABF is an agreement between ING and the Dutch government on an Illiquid Assets Back-up Facility covering 80% of ING's Alt-A mortgage securities.

The bond investments decreased slightly, as the increase in bond investments due to the restructuring of the IABF is offset by the decrease in sovereign exposure in the USA and Canada due to the sales of ING Direct US and ING Direct Canada. A significant reduction in France also contributes to this effect.

The rise of EUR 2.5 billion in Lending was mainly due to increased exposure to the Central Bank of Belgium.

Financial institutions credit risk disclosure
In line with the EDTF recommendations, this table presents the READ, segmented by relevant factors, and the analysis for exposure class 'Institutions'.

Institutions - credit risk disclosure in READ (amounts in EUR million)

		2012	2011	Delta %
Institutions	**Rating**	**88,015**	102,422	–14.0%
	Performing	**87,245**	101,637	–14.1%
	Impaired/Non-performing	**769**	784	–1.9%
Institutions	**Geography/business units**	**88,015**	102,422	–14.0%
	Africa	**439**	585	–25.0%
	America	**4,659**	10,149	–54.1%
	Asia	**11,547**	12,728	–9.3%
	Australia	**6,116**	6,295	–2.8%
	Europe	**65,253**	72,664	–10.2%
	Europe	**65,253**	72,664	–10.2%
	Netherlands	**2,982**	2,862	4.2%
	Belgium	**6,266**	5,929	5.7%
	Germany	**13,908**	12,000	15.9%
	Rest of Europe	**42,097**	51,873	–18.8%
Institutions	**Product Type**	**88,015**	102,422	–14.0%
	Bond Investments	**30,892**	43,068	–28.3%
	Derivatives	**18,527**	18,747	–1.2%
	Money Market	**11,922**	8,906	33.9%
	Term Loans	**9,473**	10,752	–11.9%
	Revolving	**9,075**	9,888	–8.2%
	Other	**8,126**	11,061	–26.5%
Institutions	**PD Bands**	**88,015**	102,422	–14.0%
	<0.05%	**19,953**	20,404	–2.2%
	0.05% to 0.5%	**53,074**	73,579	–27.9%
	0.5% to 5%	**13,698**	7,103	92.9%
	5% to 10%	**371**	239	55.7%
	10% to 20%	**111**	194	–42.7%
	20% to 50%	**38**	119	–68.3%
	more than >50%	**769**	784	–1.9%

Includes both AIRB and SA portfolios; excludes equities and ONCOA.

The divestments of ING Direct US and ING Direct Canada declined READ by EUR 3.6 billion and EUR 0.6 billion, respectively.

Overall, there was a shift to better risk categories across the Institutions portfolio. Bond investments especially in Southern Europe were actively de-risked. Growth was experienced in Money-Market exposure which tends to have a shorter tenor.

Additional Pillar 3 information continued

Corporate credit risk disclosure

In line with the EDTF recommendations, this table presents READ, segmented by various factors, analysis for exposure class 'Corporates'. The Industry breakdown for this table is based on the NAICS system (North American Industry Classification System).

Corporate credit risk disclosure in READ (amounts in EUR million)		2012	2011	Delta %
Corporate	**Rating**	**265,335**	286,599	–7.4%
	Performing	**255,715**	278,807	–8.2%
	Impaired/Non-performing	**9,620**	7,792	23.5%
Corporate	**Geography/business units**	**265,335**	286,599	–7.4%
	Africa	**731**	1,017	–28.1%
	America	**37,065**	45,841	–19.1%
	Asia	**23,194**	23,314	–0.5%
	Australia	**3,334**	4,348	–23.3%
	Europe	**201,010**	212,078	–5.2%
	Europe	**201,010**	212,078	–5.2%
	Netherlands	**71,454**	74,639	–4.2%
	Belgium	**32,429**	32,232	0.7%
	Germany	**6,173**	6,471	–4.6%
	Rest of Europe	**90,953**	98,736	–7.8%
Corporate	**Industry**	**265,335**	286,599	–7.4%
	Real Estate	**51,374**	53,920	–4.7%
	Natural Resources	**41,665**	40,955	1.8%
	Non-Bank Financial Institutions (NBFI)	**33,292**	44,985	–26.0%
	Transportation & Logistics	**22,060**	23,763	–7.1%
	Food, Beverages & Personal Care	**18,084**	17,351	4.3%
	Other	**98,860**	105,625	–6.4%
Corporate	**PD Bands**	**265,335**	286,599	–7.4%
	<0.05%	**13,989**	14,345	–2.4%
	0.05% to 0.5%	**114,214**	132,720	–13.9%
	0.5% to 5%	**104,606**	107,906	–3.0%
	5% to 10%	**9,059**	10,530	–13.9%
	10% to 20%	**7,026**	7,989	–12.0%
	20% to 50%	**6,820**	5,317	28.3%
	more than >50%	**9,620**	7,792	23.5%

Includes both AIRB and SA portfolios; excludes equities and ONCOA.

The divestments of ING Direct US and ING Direct Canada caused a decline of EUR 2.0 billion and EUR 0.7 billion respectively.

The NBFI decline of EUR 11.7 billion was mainly seen in the UK portfolio where the READ decreased by EUR 4.3 billion. The decline to NBFI's was also seen in US (EUR 3.0 billion), and Netherlands (EUR 1.6 billion).

Real Estate decline of EUR 2.5 billion was mainly spread over Australia (EUR 0.9 billion), US (EUR 0.8 billion). Since the industry classifications are based on NAICS codes, the real estate definition is much broader than the Commercial Real Estate exposure which accounts for approximately two-thirds of the portfolio. The remainder consists of real estate development and real estate related exposure primarily from our retail business (SMEs, Private Banking and Lease).

Netherlands decline of EUR 3.2 billion was seen in Revolving (EUR 1.7 billion) and Term Loans (EUR 2.1 billion) whereas Rest of Europe decline of EUR 7.8 billion was mainly seen in UK (EUR 4.6 billion) and Spain (EUR 1.6 billion).
Increases in non-performing loans were seen in The Netherlands 34%, Romania 111%, Italy 48%, UK 131%, and Belgium 21%.

Additional Pillar 3 information continued

Retail credit risk disclosure

In line with the EDTF recommendations, this table presents READ for exposure class 'Retail'.

Retail credit risk disclosure in READ (amounts in EUR million)		2012	2011	Delta %
Retail	**Rating**	**353,007**	400,064	–11.7%
	Performing	**347,508**	394,262	–11.8%
	Impaired/Non-performing	**5,499**	5,802	–5.2%
Retail	**Customer Segment**	**353,007**	400,064	–11.7%
	Private Persons	**321,384**	366,529	–12.3%
	Small Mid-sized Enterprises	**22,281**	24,539	–9.2%
	Private Banking	**3,553**	2,514	41.4%
	Other	**5,790**	6,483	–10.7%
Retail	**Geography/business units**	**353,007**	400,064	–11.7%
	Africa	**57**	53	7.6%
	America	**146**	55,279	–99.7%
	Asia	**1,684**	1,528	10.2%
	Australia	**34,438**	34,243	0.6%
	Other	**30**	925	–96.8%
	Europe	**316,652**	308,035	2.8%
	Europe	**316,652**	308,035	2.8%
	Netherlands	**164,777**	165,534	-0.4%
	Belgium	**39,703**	38,051	4.4%
	Germany	**68,457**	64,292	6.5%
	Rest of Europe	**43,715**	40,158	8.9%
Retail	**PD Bands**	**353,007**	400,064	–11.7%
	<0.05%	**22,009**	11,556	90.5%
	0.05% to 0.5%	**192,850**	217,225	–11.2%
	0.5% to 5%	**113,563**	133,863	–15.1%
	5% to 10%	**8,525**	18,010	–52.7%
	10% to 20%	**6,792**	7,824	–13.2%
	20% to 50%	**3,769**	5,784	–34.8%
	more than >50%	**5,499**	5,802	–5.2%

Includes both AIRB and SA portfolios; excludes equities and ONCOA.

The divestment of ING Direct US and ING Direct Canada caused declines of EUR 32.7 billion and EUR 22.7 billion, respectively (mainly related to Residential Mortgages), while in Germany the increase of EUR 4.2 billion was mostly due to an increase in the Residential Mortgages portfolio.

A re-segmentation exercise in The Netherlands of small and Medium Size Enterprises from the internal classification of Mid-Sized Corporate to Retail Companies was executed in 2012 as a part of a continuing redesign of the customer approach. Non-performing loans declined by 5.2% due to the sale of ING Direct US which reduced the total non-performing loans portfolio by EUR 912 million. Excluding ING Direct US, non-performing loans would have increased by 12%.

Additional Pillar 3 information continued

LTV Residential Mortgages per country

The table below shows the weighted average Loan to Value (LTV) ratio of the ING Bank Residential Mortgage portfolio per country. All LTV figures are based on market values. In most portfolio's, ING uses house price development to index these market values. In several markets, customers provide additional collaterals or (government sponsored) mortgage insurance programs are used. None of these additional covers are included in the LTV figures.

Loan-to-Value Residential Mortgages per country (amounts in EUR million)

	2012		2011	
	LTV	**READ**	LTV	READ
Netherlands [1]	**89%**	**149,965**	81%	148,451
Germany	**71%**	**61,754**	71%	58,649
Australia	**69%**	**34,507**	67%	34,288
Belgium, Luxembourg	**76%**	**30,420**	75%	29,017
United States of America	**na**	**-**	75%	31,964
Canada	**na**	**-**	73%	22,198
Spain	**66%**	**9,077**	61%	8,682
Italy	**53%**	**7,440**	52%	6,960
United Kingdom	**59%**	**6,652**	60%	5,846
Poland [2]	**59%**	**3,037**	61%	2,546
Turkey	**48%**	**1,065**	48%	927
Romania	**54%**	**587**	55%	559
India	**59%**	**710**	67%	710
Total	**79%**	**305,214**	75%	350,795

Includes both AIRB and SA portfolios; excludes equities and ONCOA.
[1] Netherlands includes Domestic Bank NL and Westland Utrecht.
[2] The LTV for Poland in 2011 was restated for consistency purpose.

After the sale of ING Direct US and ING Direct Canada, ING Bank's Residential Mortgage portfolio outstandings decreased to EUR 296 billion which is about 39% of ING Bank's credit outstandings. The overall LTV of ING Bank's mortgages increased, which was mainly driven by Dutch and Spanish mortgages, despite stricter underwriting policies. For both portfolios the decline in house prices caused LTV to rise). The LTV in the Netherlands is relatively high, but is partially compensated by the NHG guaranteed portfolio and other secondary covers, such as life insurance policies, savings and investment products.

The small size of the Vysya portfolio in India can cause high volatility in the LTV due to its relatively small mortgage portfolio. Poland's LTV improved due to stricter underwriting policy loans with an LTV of over 80% which were no longer granted.

STANDARDISED AND ADVANCED IRB APPROACH

ING 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 Bank 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 sections on: Risk Appetite Framework, Credit Risk Measurement, Monitoring and Reporting within ING Bank.

Additional Pillar 3 information continued

Corporate credit risk disclosure in READ (amounts in EUR million)

		Sovereigns	Institutions	Corporate	Residential mortgages	Other retail	Total	Total
							2012	2011
Under SA approach	READ	**4,062**	**2,020**	**12,684**	**12,564**	**11,368**	**42,699**	42,927
	RWA	**3,103**	**1,024**	**12,460**	**5,004**	**8,599**	**30,190**	30,682
Under AIRB approach	READ	**84,463**	**85,995**	**252,650**	**292,650**	**36,424**	**752,182**	857,302
	RWA	**2,710**	**14,014**	**97,157**	**44,047**	**16,079**	**174,006**	203,444
Totals	READ	**88,525**	**88,015**	**265,335**	**305,214**	**47,793**	**794,881**	900,229
	RWA	**5,813**	**15,038**	**109,617**	**49,051**	**24,678**	**204,197**	234,126
	RWA density	**6.6%**	**17.1%**	**41.3%**	**16.1%**	**51.6%**	**25.7%**	26.0%
Securitisations	READ						**12,101**	35,970
	RWA						**5,525**	18,607
Totals	READ	**88,525**	**88,015**	**265,335**	**305,214**	**47,793**	**806,982**	936,199
	RWA	**5,813**	**15,038**	**109,617**	**49,051**	**24,678**	**209,722**	252,733
	RWA density	**6.6%**	**17.1%**	**41.3%**	**16.1%**	**51.6%**	**26.0%**	27.0%

Includes both AIRB and SA portfolios; excludes equities and ONCOA.
* Securitisations are shown for completeness purposes.

The SA to AIRB migration of the Commercial Finance Netherlands portfolio and a part of the Polish portfolio, together with the sale of ING Direct US and ING Direct Canada decreased the READ and RWA in the SA portfolio. The RWA density or risk weights remained relatively stable as the sale of higher risk portfolios especially ING Direct US was partially compensated by risk migration.

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). Because the underlying obligors are relatively small, the underlying obligors tend not to have external ratings. As such, the SA Approach is the least sophisticated of the Basel II 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 in the SA portfolio is distributed over the risk weight buckets. There are two principal methods for reducing or mitigating Credit Risk: by reduction of Credit Risk through the acceptance of pledged financial assets as collateral (such as marketable securities or cash) or mitigation or shifting of credit risks to a lower risk weighting group by accepting guarantees from unrelated third parties.

Exposure before and after risk mitigation and after conversion factors in READ (amounts in EUR million)

			2012			2011
Risk Weight Buckets	**Exposure before risk mitigation**	**Exposure after risk mitigation**	**Exposure after conversion factors ***	Exposure before risk mitigation	Exposure after risk mitigation	Exposure after conversion factors *
0%				497	497	494
10%						
20%	**107**	**107**	**55**	148	148	92
35%	**11,671**	**11,671**	**11,629**	11,090	11,090	10,820
50%	**5,513**	**5,513**	**4,430**	6,370	6,369	3,825
75%	**16,788**	**16,548**	**11,173**	16,608	16,390	11,494
100%	**27,251**	**27,091**	**15,206**	23,672	23,502	15,904
150%	**371**	**371**	**205**	565	565	298
200%						
1250%						
Total	**61,700**	**61,301**	**42,699**	58,951	58,562	42,927

Includes the SA portfolio only; excludes securitisations, equities and ONCOA.
* Exposure after conversion factors is the net exposure or READ as commonly referenced. It is lower than the other exposures in the table mainly because it does not take into account uncommitted limits. This column is provided for reference purposes only.

The biggest movements within the risk buckets are the decrease in the 0% risk weight bucket which held mostly ING Direct Canada securities, the decrease in the 50% risk weight bucket due to a reduction in the uncommitted money market limits and the increase in the 100% risk weight bucket which is driven by increased exposure to Turkish Corporates.

Additional Pillar 3 information continued

AIRB APPROACH

The AIRB approach has five elements that drive the Basel II "risk-based approach" for the determination of RWA. RWA times the BIS ratio of 8% leads to Regulatory Capital. The elements are: the Basel II exposure class, Probability of Default (PD), Exposure at Default (EAD), Loss Given Default (LGD) and Maturity. Within ING Bank internal Basel models are used to determine the PD, EAD and LGD for regulatory and economic capital. Bank wide, ING Bank has implemented more than 100 models, including various sub models that may be applicable for a specific portfolio. This section has to be read in conjunction with the Risk Management paragraph.

AIRB credit exposures by internal rating grade

In line with the EDTF recommendations, the table below shows the AIRB portfolio per internal rating grade. Under Basel II 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 risks 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 Bank

Exposures (READ) per internal rating grade and corresponding PD, LGD and RWA (amounts in EUR million)

Internal rating grade	PD range for each grade	READ in each grade	Average RPD	Average RLGD	RWAs in each grade (or band)	Total RRW	External Rating Equivalent
Performing							
1	0.00-0.01	25,532	0.03*	23.97	733	0.03	AAA
2	0.01-0.02	43,385	0.02	20.83	789	0.02	AA+
3	0.02-0.04	41,726	0.04	19.77	904	0.02	AA
4	0.04-0.05	15,328	0.04	25.81	1,375	0.09	AA-
5	0.05-0.06	26,274	0.05	30.14	2,461	0.09	A+
6	0.06-0.08	45,981	0.07	22.72	4,031	0.09	A
7	0.08-0.11	44,129	0.11	29.01	6,505	0.15	A-
8	0.11-0.17	50,381	0.15	22.55	7,282	0.14	BBB+
9	0.17-0.29	89,193	0.22	21.9	13,314	0.15	BBB
10	0.29-0.51	106,880	0.37	20.27	20,625	0.19	BBB-
11	0.51-0.89	101,638	0.64	19.91	25,313	0.25	BB+
12	0.89-1.54	49,123	1.14	18.94	16,754	0.34	BB
13	1.54-2.67	36,461	1.92	20.37	16,751	0.46	BB-
14	2.67-4.62	22,753	3.34	20.33	12,449	0.55	B+
15	4.62-8.01	15,811	6.55	19.8	10,464	0.66	B
16	8.01-13.88	6,127	10.88	21.07	4,997	0.82	B-
17	13.88-20.00	6,162	18.58	20.45	6,154	1	CCC
18	20.00-30.00	5,820	25.02	16.29	5,157	0.89	CC
19	>30%	4,301	40.48	21.68	4,453	1.04	C
Non-Performing							
20	100%	10,352	100	25.63	9,523	0.92	Default
21	100%	2,667	100	18.11	2,625	0.98	Default
22	100%	2,158	100	25.01	1,347	0.62	Default
Total		752,182	3.28	21.79	174,006	0.23	

Includes the AIRB portfolio only; excludes securitisations, equities and ONCOA.

* For non-sovereign exposures there is a RPD floor of 3 BPS, hence the RPD in the first three grades might look counterintuitive, due to the mixture of sovereign and non-sovereign exposures.

ING Bank'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 Bank with regulatory approved models. Risk Ratings for non-performing loans (20-22) are set on the basis of an approved subjective methodology by the Global or Regional Restructuring unit. For securitisation portfolios, the external ratings of the tranche in which ING Bank has invested are leading. Overall the risk weights of the ING portfolio are a mixture of low risk weights for Sovereigns and Residential Mortgages combined with higher risk weights for Corporates and Securitisations.

Many central governments exposure receives a zero risk weight due to the financing in local currency and the high quality rating (permanent partial use of the SA rules). Mortgages generally benefit from large levels of (over)collateralisation.

Disclosures of model outcomes

In line with the EDTF recommendations the table below shows the PD, LGD READ, RWA and RWA density per exposure class. This should be read in conjunction with the table 'changes in risk parameters since last reporting date'.

Additional Pillar 3 information continued

Model approaches per exposure class (amounts in EUR million)

	Sovereigns	Institutions	Corporate	Residential mortgages	Other retail	Total 2012	Total 2011
Average PD	0.08%	1.24%	5.55%	2.35%	7.32%	3.28%	2.89%
Average LGD	20.67%	23.22%	23.88%	17.04%	44.34%	21.79%	20.83%
EAD	84,463	85,995	252,650	292,650	36,424	752,182	857,302
RWA	2,710	14,014	97,157	44,047	16,079	174,006	203,444
RWA density	3.2%	16.3%	38.5%	15.1%	44.1%	23.1%	23.7%

Includes the AIRB portfolio only and non-performing loans; excludes securitisations, equities and ONCOA.

The relatively low RWA density for Sovereigns and central banks is because of sovereign entities, which are rated between 1-4 and whose exposures are denominated in local currencies, and therefore receive a regulatory risk weight of 0%.

Changes in risk parameters since last reporting date

In line with the EDTF recommendations the table below shows the changes in risk parameters since last reporting date in percentages. This should be read in conjunction with the table 'disclosure of model outcomes'.

AIRB changes (amounts in %)

	Sovereigns	Institutions	Corporate	Residential mortgages	Other retail	Total 2012
Average PD	–16%	23%	23%	–10%	7%	14%
Average LGD	1%	21%	–2%	6%	2%	5%
READ	–22%	–14%	–7%	–14%	–3%	–12%
RWA	–7%	–12%	–10%	–27%	–1%	–14%
RWA density	18%	3%	–3%	–15%	2%	–3%

Includes the AIRB portfolio only; excludes securitisations, equities and ONCOA.

Over the course of 2012, both average PD and average LGD increased. This was due to general decrease in credit quality and mostly house prices as several markets experienced economic difficulties. Nonetheless, credit quality remained stable for Belgium and ING Vysya and improved for the Australian Residential mortgages portfolio. Next to that, the relative shift in portfolio composition from higher risk weight exposure classes to lower risk weight exposure classes led to a slight decrease in the overall AIRB risk weight. The low risk density decrease combined with a significant reduction in READ led to a reduction in RWA over 2012.

Disclosure of estimated and actual loss parameters

In line with the EDTF recommendations the table below provides a back-testing of the PD models per exposure class. ING has dedicated AIRB credit risk models per business unit, segment and country. An independent Model Validation department periodically reviews all AIRB models for compliance including back testing when possible. If a model is considered not to be robust or the back testing indicates insufficient conservatism, than the model is either re-calibrated or re-developed. All model recommendations from Model Validation department are tracked in the same internal database as the Internal Audit Department. All significant model changes are submitted to the Home Regulator and implemented after regulatory approval. On average, 91% of the AIRB credit risk models in the validation cycle have a "No" to "Remote" (58%) and "Minor" (33%) model deficiencies.

In order to better quantify the back-testing, ING has analysed the December 31, 2011 portfolio. The sold ING Direct US and ING Direct Canada units are excluded from both the average PD as the default rate, for comparison reasons. The average PD of December 31, 2011 per portfolio is split per Basel II exposure class. The December 31, 2011 portfolio is followed through 2012 to determine the observed default rate. The models are based on long series of historical data. In the back-test the model based PD values are compared against the defaults observed in 2012. This back-test is only representative of the year end 2011 portfolio and can be influenced by small sample sizes or incidents. Nonetheless, the back-test gives a comparison of the predicted PD versus the observed default rate. In the table below, the default rate is based on the weighted average READ of the defaulted portfolio whereas the models are developed on an obligor basis.

Additional Pillar 3 information continued

Average estimated PD under the Advanced AIRB approach versus the actual default rate per exposure class						
	Sovereigns	Institutions	Corporate	Residential mortgages	Other retail	Total
						2012
Average PD 2011*	0.11%	0.23%	1.81%	1.20%	2.87%	1.24%
Observed Default Rate	0.17%	0.10%	1.33%	1.09%	2.69%	1.02%

Includes the AIRB portfolio only; excludes securitisations, equities and ONCOA.
* Average PD includes performing loans only.

The back-test shows a conservative pattern; the predicted PD exceeds the observed default rate. For the exposure class Retail Other high defaults rates are observed in the small business portfolios due to challenging economic circumstances in Italy, Belgium and the Netherlands. The majority of the defaults in the exposure class Corporate originates from the pressured Real Estate segment and the SME portfolios in Belgium and the Netherlands. The higher observed default rate compared to the average PD for Sovereigns is due to the default of the Government of Greece.

CREDIT QUALITY

This section focusses on non-performing loans, which are loans where there is a reasonable probability that ING Bank may end up with a loss, unless ING Bank intervenes with specific and significant actions. In other words, in this category, an account or portfolio requires a more intensified approach, which may include renegotiations of terms and conditions and/or business/financial restructuring. This section should be read in conjunction with the Risk Management paragraph sections on: Risk Appetite Framework, and Credit Quality.

Reconciliation of non-performing loans disclosures

In line with the EDTF recommendations the table below shows the reconciliation of non-performing loans segmented by the lines of businesses used internally by ING. A narrative explanation on these business lines are given in the Risk Management paragraph.

Reconciliation of non-performing loans disclosures (amounts in EUR million)				
	Commercial Banking	Retail Banking Benelux	Retail Banking International	Total ING Bank
Impaired loan book movements				
Impaired loans at 1 January 2012	5,245	5,362	2,763	13,370
Classified as impaired during the year [(1)]	2,896	3,154	1,085	7,135
Transferred to not impaired during the period	–947	–1,571	–424	–2,942
Amounts written off	–717	–772	–185	–1,675
Changes in the composition of the Bank [(2)]			–1,007	–1,007
Exchange and other movements [(3)]		–2	13	10
Other	–21	–68	21	–68
Impaired loans at 31 December 2012	6,476	6,172	2,278	14,925
Impairment allowances - movements				
Impairment allowances at 1 January 2012	2,039	1,751	1,743	5,533
Changes in the composition of the Bank			–582	–582
Amounts written off	–717	–772	–185	–1,675
Recoveries of amounts written off in previous years	21	69	11	101
Addition to loan loss provisions (from income statement)	955	833	337	2,125
Exchange or other movements	5	–17	14	2
Impaired allowances at 31 December 2012	2,303	1,864	1,338	5,505

(1) Unadjusted for exchange rate fluctuations.
(2) Sale of ING Direct US and ING Direct Canada.
(3) Based on start and end date of the outstanding positions, unadjusted for inflow and outflow.

Following the economic distress, the risk costs (additions to LLP) increased from EUR 1.7 billion in 2011 to EUR 2.1 billion in 2012. The increase was mainly visible in the Corporate (mainly real estate) and in the Retail portfolio. The risk costs in Retail International decreased materially after the sale of ING Direct US in Q1 2012. Despite the sale of ING Direct US, the total non-performing loans increased by 11% from EUR 13.4 billion to EUR 14.9 billion. While additions to risk costs rose in 2012, continued write offs diminished the provisioning stock. The provisions were still more than 2 times the risk costs and more than 3 times the amounts written off.

Cumulative provisions by industry

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 only extended to private individuals. The Cumulative Provision table should be read in conjunction with the corresponding tables below related to “Past due loans by Industry” as well as information and statements made in the Risk Management section.

Cumulative provisions by industry (amounts in EUR million)

	Sovereigns	Institutions	Corporate	Residential mortgages	Other retail	Total 2012	Total 2011
Real Estate			1,121		49	1,170	764
Private Individuals			2	753	394	1,150	1,605
Builders & Contractors			421		96	517	394
Food, Beverages & Personal Care			366		119	485	424
General Industries			297		68	365	459
Services			243		100	344	368
Transportation & Logistics			253		48	301	442
Media			176		62	238	74
Retail			149		66	215	182
Natural Resources			172		10	182	152
Chemicals, Health & Pharmaceutical			112		17	129	116
Automotive			77		35	112	125
Non-Bank Financial Institutions		9	86		17	112	244
Telecom			59		4	63	87
Other (1)	3	26	50		43	122	98
Total	3	35	3,586	753	1,128	5,505	5,533

* Includes both AIRB and SA portfolios; excludes securitisations, equities and ONCOA.
* Excludes revaluations made directly through the equity account.
(1) Sectors with cumulative provisions of less than EUR 50 million are grouped under ‘Other’.

Past due loans by economic sector

ING Bank considers past due loans to be those loans where any payment of interest of principal is more than one day past due. The methodology is principally extended to loans to private individuals, such as Residential Mortgage loans, Car loans and other consumer loans. For business loans (Sovereigns, Institutions, Corporates), ING Bank has adopted a policy to classify the obligor as a non-performing loan as quickly as possible upon the occurrence of a payment default. Therefore, the concept of past due loans does not exist for these types of obligors and hence the reason why the business exposure classes are not included.

	Residential mortgages	Other retail	Total 2012	Total 2011
Private Individuals	5,788	290	6,078	6,368
Other (1)		461	461	281
Total	5,788	750	6,539	6,649

* Includes both AIRB and SA portfolios; excludes securitisations, equities and ONCOA.
* Excludes revaluations made directly through the equity account.
(1) Economic sectors not shown in table have past due loans of less than EUR 150 million, and are grouped under ‘Other’.

Overall the provision stock remained stable in 2012 but the composition changed significant. Increases in commercial real estate especially in Spain, Netherlands and UK were balanced by decreases in private individuals after the sale of ING Direct US and ING Direct Canada. Weaknesses in small and medium enterprises in the Netherlands continued. While additions to loan loss provisions increased in 2012, continued write-offs marginally decreased the provisioning stock.

Cumulative provisions by geographic area

The table below is based on the country of residence of the obligor. The Cumulative Provision table should be read in conjunction with the corresponding tables below related to “past due loans by geographic area” as well as information and statements made in the Risk Management paragraph.

Additional Pillar 3 information continued

Cumulative provisions by geographic area (amounts in EUR million)

	Sovereigns	Institutions	Corporate	Residential mortgages	Other retail	Total 2012	Total 2011
Netherlands		1	1,264	236	387	1,889	1,509
Belgium		1	393	54	197	646	558
Germany			81	380	139	600	582
Other Europe	1	15	1,315	66	381	1,779	1,491
Americas			212			213	940
Asia / Pacific	1	16	319	17	22	375	448
ROW	1	1	1			3	6
Total	3	35	3,586	753	1,128	5,505	5,533

The level of provisions is a function of many elements including the default definition, the amount and quality of collateral and the legal structure per jurisdiction. For instance, mortgages in Germany have a relatively higher proportion of provisions than in the Netherlands due largely to the level of (secondary) collateral and enforcement regime, which has an impact on the recovery rate and in turn drives the LGDs higher. The Corporate segment is largely influenced by real estate companies, larger SME companies, and several run-off portfolios which are experiencing economic stress.

Past due loans by geographic area

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 loans by geographic area (based on outstandings) (amounts in EUR million)

	Residential mortgages	Other Retail	Total 2012	Total 2011
Netherlands	2,653	8	2,661	2,055
Belgium	1,217	393	1,610	1,500
Germany	200	10	210	197
Other Europe	289	311	600	478
Americas	6		6	465
Asia / Pacific	1,421	29	1,450	1,930
ROW	3	1	4	23
Total	5,788	751	6,539	6,649

* Includes both AIRB and SA portfolios; excludes securitisations, equities and ONCOA.
* Excludes revaluations made directly through the equity account.

The 29% increase in past due loans in the Dutch mortgage portfolio is due to the deteriorating risk profile of the Residential Mortgage market in the Netherlands. Belgium also saw an increase in past due loans nevertheless the provisions did not increase as significant as in the Netherlands due to the better LTV's and LGD's for the Belgium Residential Mortgage portfolio. The declined levels of past due loans in Americas to almost zero is due to the sale of ING Direct US and ING Direct Canada.

Loan loss provision shortfall

The Loan loss provision shortfall is the difference between the expected loss (EL) and the loan loss provisions for AIRB exposures. This difference is caused by the different PD time horizons that exist for IAS 39 Loan Provisioning (3, 6, and 9 months) and the 12 month time horizon used for EL and regulatory capital calculation. Basel II requires that the shortfall is deducted from the regulatory capital, 50% from Tier 1 and 50% from Tier 2 capital.

Exposure before and after risk mitigation and after conversion factors in READ (amounts in EUR million)

	2012			2011		
	AIRB	SA	Total	AIRB	SA	Total
REL	5,972	n.a.	5,972	6,299	n.a.	6,299
Provisions	4,774	731	5,505	4,968	565	5,533
Shortfall	1,199	n.a.	n.a.	1,367	n.a.	n.a.
Shortfall %	20%	n.a.	n.a.	23%	n.a.	n.a.

Includes both AIRB and SA portfolios; excludes securitisations, equities and ONCOA.

Additional Pillar 3 information continued

Over the year, Regulatory Expected Loss (REL) for the AIRB portfolio declined from EUR 6.3 billion to EUR 6.0 billion in line with the reduced portfolio size. Provisions reported in the SA portfolio increased by EUR 0.1 billion while overall provisions remained stable at EUR 5.5 billion.

The shortfall amount slightly decreased to EUR 1.2 billion. The shortfall as a percentage of the REL is now 20% and should be deducted evenly from Tier-1 and Tier-2 capital.

OFF-BALANCE ITEMS

Undrawn commitments

These figures below represent the potential exposure that may be drawn by ING Bank's obligors under committed facilities. In most cases, the obligors have the right to make use of these facilities unless an event of default has occurred, or another defined event within the associated credit risk agreement has occurred. In most cases, the obligor pays a commitment fee to ING Bank on the unused portion of these facilities. Pre-Settlement, Money Market and Investment limits are generally not committed.

Undrawn commitments (amounts in EUR million)

	Sovereigns	Institutions	Corporate	Residential mortgages	Other retail	Total 2012	Total 2011
Under SA approach	13	82	719	147	4,581	5,541	7,425
Under AIRB Approach	310	1,517	60,619	9,888	11,902	84,235	83,514
Total	322	1,599	61,338	10,035	16,483	89,776	90,939

* Includes both AIRB and SA portfolios; excludes securitisations, equities and ONCOA.
* Excludes revaluations made directly through the equity account.

The overall decrease in undrawn commitments comes mainly from the Retail Other and Residential Mortgages within the SA portfolios. For Retail Other, the limits were lowered while outstandings increased and for Residential Mortgages the rise in drawn limits caused outstandings to climb. These decreases were slightly offset by the increase in the AIRB portfolio which comes mainly from corporates where outstandings reduced much more than the limits.

ING Bank has seen many of its Large Corporate customers obtain funding from capital markets in the course of 2012. This often leads to large undrawn commitments. These stand-by commitments are usually for top rated Corporates which have historically shown a reluctance to draw these facilities. Much of the undrawn commitments in the mortgage area relate to forward commitments of clients to lock in interest rates.

If all of the unused commitments were called upon at the same time, ING Bank's credit risks (in terms of outstandings) would increase by 11%. As part of its READ models, ING Bank makes an estimate of how much of these unused commitments would be drawn under normal circumstances. The effect is included in the calculation of RWA, together with a similar effect applied to uncommitted facilities, albeit at a lower rate.

DERIVATIVES AND SECURITIES FINANCING

As part of its normal securities financing and derivatives trading activities, ING Bank enters into master agreements such as ISDAs, GMRAs, etc. Under the terms contained in sections related to Minimum Threshold Amounts and Minimum Transfer Amounts of Collateral Support Annexes (CSA) or other similar clauses, both ING Bank and it 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 Bank 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 Bank would be required to pledge under these agreements. However, the actual amount that ING Bank may be required to pledge in the future may vary based on ING Bank'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.

Derivatives by product type

The table below is based on the mark-to-market plus (Regulatory) add-on methodology used for calculating Basel II RWA for determining the gross exposures. The Current Exposure Method (the methodology to calculate the READ) together with the other building blocks (PD, LGD and Maturity), allow ING Bank to classify a large part of its derivatives exposures under the AIRB approach. This means that the READ figure listed hereunder is significantly below the notional amount. The mark-to-market plus (regulatory) add-on is recalculated daily to reflect both changes in the markets as well as portfolio composition.

Additional Pillar 3 information continued

Derivatives by product type in READ (amounts in EUR million)	Sovereigns	Institutions	Corporate	Residential mortgages	Other retail	Total	Total
						2012	2011
Credit Derivatives	**8**	**404**	**395**			**808**	801
Derivatives		**30**	**211**			**241**	240
Equity Derivatives		**1,190**	**670**		**7**	**1,867**	2,197
Foreign Exchange Derivatives	**398**	**2,346**	**1,464**		**12**	**4,219**	5,155
Interest Rate Derivatives	**1,413**	**14,508**	**10,137**		**64**	**26,121**	25,024
Commodity derivative		**48**	**206**			**254**	272
Exchange Traded Products			**194**			**194**	2,852
Total	**1,819**	**18,526**	**13,278**		**83**	**33,705**	36,541

* Includes both AIRB and SA portfolios; excludes securitisations, equities and ONCOA.
* Excludes revaluations made directly through the equity account.

The Derivatives portfolio is largely represented by Interest Rate Derivatives provided to Institutions and is mainly seen in the UK, Germany, France and in the Netherlands portfolio. Derivatives which are exchange traded have seen a significant decline in the derivatives traded in the Eurozone exchange market. However, this figure can be volatile as it is based on a single balance sheet date.

Over the counter and exchange traded derivatives
In line with the EDTF recommendations this section provides a quantitative and qualitative analysis of ING's Credit Risk that arises from its derivatives transactions. This quantifies notional derivatives exposure, including whether derivatives are over-the-counter (OTC) or traded on recognised exchanges (ETD). Where the derivatives are OTC, the table shows how much is settled by central counterparties and how much is not, and provides a description of the collateral agreements in place.

Credit risk derivatives (amounts in EUR million)	2012	2012
	Notional	**MtM**
OTC derivatives		
CCP	**1,417,454**	**–4,430**
Non-CCP	**2,020,068**	**–3,154**
ETD derivatives	**24,000**	**n/a***
Total	**3,461,522**	**–7,584**

Includes both AIRB and SA portfolios; excludes securitisations, equities and ONCOA.
* ETD Derivatives settle price movements daily. Therefore there is no MTM build-up that generates exposure.

From the total notional value of OTC derivatives transactions that are not cleared by a CCP, 88% has been documented under bilateral (96%) and unilateral (4%) Collateral Support Annex ('CSA') agreement.

- The notional value of transactions that are done under bilateral CSA agreements relates for 79% to Interest Rate derivatives, for 17% to FX derivatives and for 4% to Credit, Equity and Commodity Derivatives.
- Unilateral CSA agreements relate mainly to agreements that are unilateral against ING and mainly consist of Interest Rate Derivatives.

The remaining 12% of the total notional value of OTC derivatives transactions that are not cleared by a CCP, is not supported by a CSA agreement or a Clearing Agreement and mainly relates to Corporates with small credit limits and mainly consists of Interest Rate Derivatives (58%).

Additional Pillar 3 information continued

Securities financing by product type

The table below is based on the mark-to-market plus (regulatory) add-on methodology used for calculating Basel II RWA for determining the gross exposures. The methodology to calculate the READ is called the Current Exposure Method (CEM) and together with the other building blocks (PD, LGD and Maturity) it allows ING Bank to classify virtually all of its Securities Financing exposures under the AIRB approach.

Securities financing by product type in READ (amounts in EUR million)

	Sovereigns	Institutions	Corporate	Residential mortgages	Other retail	Total 2012	Total 2011
Bond Financing Given	1,292	1,023	1,150			3,466	6,176
Equity Financing Given	101	1,598	3,577			5,276	4,866
Bond Financing Taken	31	120	592			743	2,147
Equity Financing Taken		721	346			1,067	1,610
Total	1,424	3,463	5,665			10,552	14,799

* Includes both AIRB and SA portfolios; excludes securitisations, equities and ONCOA.
* Excludes revaluations made directly through the equity account.

The decrease of EUR 2.5 billion in Bond Financing Given is mainly seen in the Institutions portfolio where the READ to mainly UK banks decreased. The remainder of the Securities Financing portfolio remained relatively stable. In terms of READ, the Equity Financing portfolio seems to be larger, but in terms of notional amounts the Equity Financing portfolio is relatively small. This is due to the conservative regulatory haircuts applied for the Equity Financing portfolio.

CREDIT RISK MITIGATION

For the determination of the Credit Risk applicable amount for Pre-Settlement deals, ING Bank first matches the trades with similar characteristics to determine their eligibility for offsetting. This offsetting effect is called ‘compensation’. Subsequently, ING Bank reduces the amount by any legal netting that may be permitted under various types of Master Agreements, such as ISDAs, GMRAs, GMSLAs, etc. Lastly, the amount is further reduced by any collateral that is held by ING Bank under CSAs or other similar agreements.

For the other risk types and especially lending, covers are received which is intended to reduce the losses incurred subsequent to an event of default on an obligation a customer may have towards ING Bank. These are subdivided into four groups, called collateral values mortgages, cover values cash, cover value guarantees and other physical covers.

Additional Pillar 3 information continued

Maximum exposure to credit risk

In line with the EDTF recommendations the following table present our maximum exposure to Credit Risk in the AIRB portfolio and associated collateral held and other credit enhancements (netting and collateral) that do not qualify for offsetting in our financial statements for the periods specified. The netting credit enhancement component includes the effects of legally enforceable netting agreement as well as the offset of negative mark-to-markets from derivatives against pledged cash collateral. The collateral credit enhancement component which is referred to as Cover Values mainly includes real estate, guarantees and collateral in the form of cash. ING records collateral value per facility. For the AIRB portfolio those figures are based on original cover values although some business units attempt to update to current market values. This is inherently difficult in volatile markets. Some facilities will have multiple levels of collateral while others have no collateral. The total figures may not reflect the collateral value per facility.

Maximum Exposure to Credit Risk per 31 December 2012 (amount in EUR million)

					Cover Values*	Cover Values	Cover Values	Cover Values
	Gross MtM before netting and collateral	MtM after netting	MtM after netting and collateral	READ	Mortages	Eligible Financial Collate-ral*	Guaran-tees*	Other*
AIRB Portfolio								
Sovereigns				84,463	135	3	1,520	73
of which Pre Settlement	4,406	1,138	1,130	1,138				
Institutions				85,995	82	92	13,533	569
of which Pre Settlement	140,132	36,213	24,967	32,532				
Corporates				252,650	84,085	16,870	38,049	73,070
of which Pre Settlement	10,032	9,030	8,868	9,041				
Residential Mortgages				292,650	416,874	n.a.	32,917	169
of which Pre Settlement								
Other Retail				36,424	15,527	794	8,193	9,010
of which Pre Settlement	327	327	327	327				
Securitisations				12,101				
of which Pre Settlement								
Total AIRB				764,283	516,703	17,759	94,211	82,890
of which Pre Settlement	154,897	46,708	35,291	43,038				

Includes AIRB portfolio only; excludes securitisations, equities and ONCOA.

The ING Bank portfolio is characterised by significant amounts of secured lending especially in the key areas of residential and commercial mortgages, structured finance and leasing. Amount of collateral often has a significant impact on provisioning and LGD which directly affects risk density.

In 2012, ING Bank changed the way it allocated guarantees by implementing a calculation method that ensures that no guaranteed facility has less RWA allocated than if this facility would be granted to the guarantor directly, on an unsecured base. Previously this calculation was done centrally and allocated by borrower group instead of facility and a maximum of 100% of the facility was used for guarantees. These factors led to a significant increase in guarantees recorded especially for exposure class Corporates. In addition, ING Lease has begun classifying certain purchase obligations as guarantees. For the Residential Mortgages portfolio the guarantees relate to mortgages covered by governmental insurers under the Nationale Hypotheek Garantie (NHG) in the Netherlands.

Credit default swaps

ING Bank participates in the credit risk derivative (CDS) trading market, as a net purchaser of credit risk protection from other counterparties. ING Bank has purchased a small amount of credit risk protection for hedging purposes, usually in order to reduce concentration on certain ‘legal one obligor groups’ without having to reduce ING Bank’s relationship banking activities. ING Bank does not actively sell credit default swaps for hedging or investment purposes. Although Basel II rules permit a reduction of credit risk capital under certain circumstances where ING Bank has purchased CDS protection, ING Bank does not currently make use of this provision in determining its Basel II capital base.

Credit risks from credit risk derivatives (amounts in EUR million)

	2012	2011
Credit derivatives used for hedging purposes		
- credit protection bought	**884**	897
- credit protection sold		

* Includes both AIRB and SA portfolios; excludes securitisations, equities and ONCOA.
* Excludes revaluations made directly through the equity account.

Additional Pillar 3 information continued

The figures above represent the notional amount of credit risk default swaps that ING Bank has entered into for the purpose of hedging. The credit risk on the counterparties associated with credit default swap protection bought is included in the Pre-Settlement risk calculations for the given counterparty, and not in the figures above. In addition, ING engages in CDS trading both in credit protection bought and credit protection sold. These figures essentially cancel each other. However as they are part of the trading book, these figures are provided in the Market Risk section. For credit default protection sold, ING Bank incurs synthetic issuer risk, on which capital is calculated, depending on its purpose, either hedging under the banking book or trading.

Exposures secured by guarantees received

From time to time, ING Bank extends loans for which it receives a specific financial guarantee from a non-related counterparty or obligor. The figures in the table below represent the READ that has been guaranteed by these non-related parties. It does not include non-guaranteed amounts. For example, if a given credit risk is only partially guaranteed by a third party then only the portion of the amount which is guaranteed is included in the figures below. For the Residential Mortgages portfolio the guarantees relate to mortgages covered by governmental insurers under the Nationale Hypotheek Garantie (NHG) in the Netherlands. The NHG guarantees the repayment of a loan in case of a forced property sale.

Exposures READ secured by guarantees received (amounts in EUR million)

	Sovereigns	Institutions	Corporate	Residential mortgages	Other retail	Total	Total
						2012	2011
Under AIRB Approach	**1,520**	**13,533**	**38,049**	**32,917**	**8,193**	**94,211**	85,409

* Includes AIRB portfolio only; excludes securitisations, equities and ONCOA.
* Excludes revaluations made directly through the equity account.

These figures exclude any guarantees which are received from a party related to the obligor, such as a parent or sister company. The figures also exclude any guarantees that may be implied as a result of credit default swap activities. The figures above do include amounts that are guaranteed through an unfunded risk participation construction.

MATURITY PROFILE

Outstandings by tenor bucket

The table below shows the outstanding of ING Bank by tenor. The figures assume that no new credit risks are introduced into the portfolio and that there are no delays in repayments associated with non-performing loans, nor are there write offs associated with provisions. The portfolio runoff is implied by the difference in the figures between two periods.

The assumption is that loans, money market and investments in fixed income securities are fully repaid at their maturity dates and that limits are reduced in conjunction with repayment schedules contained in the associated loan documentation, without regard for potential renewal or extension, or portfolio sales or acquisitions. Pre-Settlement risks are assumed to reduce over the legal maturity of the underlying transactions. However, under mark-to-market plus add-on methodology, it is possible for exposures to increase in time, rather than decrease. This is a function of ING Bank's estimates of future interest rates and foreign exchange rates, as well as potential changes in future obligations that may be triggered by such events. Generally, credit risk outstandings are lower than READ.

Outstandings by tenor bucket (credit risk outstandings) (amounts in EUR million)

	Sovereigns	Institutions	Corporate	Residential mortgages	Other retail	Total	Total
						2012	2011
Current Outstandings	**81,047**	**77,712**	**224,317**	**294,116**	**36,389**	**713,582**	828,569
1 month	**72,077**	**60,192**	**206,932**	**293,750**	**35,869**	**668,820**	819,358
3 month	**42,427**	**51,359**	**199,257**	**293,284**	**35,149**	**621,476**	765,521
6 month	**40,340**	**47,376**	**189,691**	**292,496**	**33,975**	**603,879**	711,378
1 year	**36,157**	**38,866**	**150,410**	**289,796**	**26,340**	**541,570**	648,046
2 years	**33,937**	**29,568**	**114,043**	**286,276**	**21,381**	**485,206**	590,686
3 years	**32,741**	**23,784**	**90,930**	**281,548**	**18,321**	**447,324**	540,416
5 years	**26,131**	**13,468**	**49,709**	**270,638**	**12,707**	**372,654**	450,378
7 years	**22,089**	**8,915**	**36,077**	**257,704**	**9,264**	**334,049**	399,969
10 years	**10,529**	**5,339**	**24,179**	**226,904**	**6,187**	**273,138**	323,845

Includes both AIRB and SA portfolios; excludes securitisations, equities and ONCOA.
Non-performing Loans (rating 20-22) are excluded in the figures above.

The large decrease in current outstandings compared to last year is mainly related to the sale of ING Direct US and ING Direct Canada. As these were mainly mortgages portfolios, the long term tenor buckets were impacted the most. As an outcome of a methodology change, certain Pre-Settlement and trade related products are now based on the outstandings maturity instead of the limit maturity. This resulted in shorter maturities for these products.

Additional Pillar 3 information continued

SECURITISATIONS

The following information is prepared taking into account the “Industry Good Practice Guidelines on Pillar 3 disclosure requirements for securitisations” (the Guidelines) issued by the European Banking Federation and other industry associations on 31 January 2010. It includes qualitative and quantitative disclosures addressing both the exposure securitised as well as securitisations positions held. While quantitative disclosures are limited to those securitisations that are used for the purpose of calculating the regulatory capital requirements under the CRD, qualitative information have a broader scope and give a view on ING Bank’s entire securitisation activity.

Securitisations - credit risk disclosure (amounts in EUR million)

		2012	2011	Delta %
Securitisations	**Geography**			
	America	**5,521**	22,308	–75.3%
	Asia	**172**	76	127.0%
	Australia	**228**	451	–49.4%
	Europe	**6,179**	13,134	–53.0%
		12,101	35,970	–66.4%
	Europe			
	Spain	**2,530**	3,800	–33.4%
	United Kingdom	**1,428**	4,408	–67.6%
	Italy	**815**	1,196	–31.8%
	Netherlands	**532**	1,057	–49.7%
	Rest of Europe	**873**	2,674	–67.4%
		6,179	13,134	–53.0%
Securitisations	**Product Type**			
	Residential Mortgage Backed Securities	**5,874**	12,416	–52.7%
	Asset Backed Securities	**2,399**	3,242	–26.0%
	Synthetic Investment Bonds (1)	**1,439**		-
	Securitisation Liquidity (2)	**1,345**	2,041	–34.1%
	Commercial Mortgage Backed Securities	**315**	2,040	–84.5%
	Other	**729**	16,231	–95.5%
		12,101	35,970	–66.4%
Securitisations	**Exposure Class (3)**			
	Securitisation Investor	**10,078**	33,719	–70.1%
	Securitisation Sponsor	**2,022**	2,251	–10.2%
	Total	**12,101**	35,970	–66.4%

Excludes equities and ONCOA.
(1) This represents the guarantee granted by ING for the sold ALT-A bonds under the Alignment Transaction with the Dutch State.
(2) These are structured financing transactions by ING for clients by assisting them in obtaining sources of liquidity by selling the clients’ receivables or other financial assets to an SPV.
(3) Securitisation benefits are excluded. Own originated securitisations explained in separate section.

ING’s exposure to securitisations has declined compared to last year, targeted efforts to reduce securitisation exposures have been executed and will continue so in 2013 in order to decrease impairment risk, credit migration and concentration risk on ING’s non-trading books. The main decreases arise from the sale of ING Direct US, ING Direct Canada and although not closed yet, the UK sale has also already led to a significant reduction in the securitisations portfolio. More details can be found in the following specific securitisation sections.

Investor securitisations

The following table provides the breakdown of current exposures by risk weight bands. The amount of securitisation positions is based on the regulatory exposure values calculated according to the CRD after consideration of credit conversion factors (CCFs) where applicable as used for the purpose of Pillar 1, but prior to the application of credit risk mitigants on securitisation positions.

ING has a strict policy on securitisations and no new investments in securitisations are allowed for ING’s Investment portfolio. ING’s goal is to maintain a portfolio of high quality liquid assets that meets the regulatory requirements of Basel III liquidity framework.

Additional Pillar 3 information continued

Purchased exposures per risk weight band (amounts in EUR million)				
		2012		2011
	READ	**RWA**	READ	RWA
Risk weight band 1 <= 10%	**4,917**	**394**	11,888	938
Risk weight band 2 >10% and <= 18%	**346**	**45**	16,680	2,646
Risk weight band 3 >18% and <= 35%	**2,639**	**665**	2,053	644
Risk weight band 4 >35% and <= 75%	**158**	**99**	143	165
Risk weight band 5 >75% and <1250%	**1,917**	**2,810**	2,408	7,192
Risk weight 1250%	**101**	**1,165**	547	6,554
Total	**10,078**	**5,179**	33,719	18,139

Excludes equities and ONCOA.

The investment positions in securitisation are mainly in North American and European ABS', almost all positions are of the highest seniority and the majority of vintages are between 2004-2007, the majority of the exposure falls within the better risk weight bands. All securitisations are subject to rigorous testing using various stress scenarios, positions with underperforming collateral have been sold in order to mitigate RWA increases. Impaired positions have shown signs of improvement compared to last year, over the year ING's impairment charges due to underperforming securitisation have declined significantly, impairment charges for 2012 were minimal and mainly driven by legacy positions in US RMBS/CMBS.

Sponsor securitisations

In the normal course of business, ING Bank structures financing transactions for its clients by assisting them in obtaining sources of liquidity by selling the clients' receivables or other financial assets to an SPV. The transactions are funded by the ING Bank administered multi seller Asset Backed Commercial Paper (ABCP) conduit Mont Blanc Capital Corp. (rated A-1/P-1). Despite the conditions in the international money markets Mont Blanc Capital Corp. continues to fund itself externally in the ABCP markets.

In its role as administrative agent, ING Bank facilitates these transactions by providing structuring, accounting, funding and operations services. ING Bank also provides support facilities (liquidity and program wide enhancement) backing the transactions funded by the conduit.

The types of asset currently in the Mont Blanc Conduit include trade receivables, consumer finance receivables, credit card receivables, auto loans and RMBS.

The total liquidity facilities, including programme wide enhancements, provided to the Mont Blanc conduit are EUR 2,528 million which represents the limit. The total drawn liquidity amount as of 31 December 2012 is EUR 229 million.

Originator securitisations

ING Bank originates own securitisation transactions for economic and regulatory capital purposes, as well as liquidity and funding purposes.

Economic and regulatory capital

Seven synthetic securitisations of mortgages, small and medium enterprise (SME) and corporate exposures have been issued since ING Bank began actively undertaking the securitisation of its own assets in 2003. Upon the closer alignment of transfer and regulatory capital solvency rules at year end 2007, the most senior tranches of ING Bank's own securitisations have been called and are now retained by ING Bank. Except for Memphis 2005, ING Bank has also hedged the first loss tranches in 2009. The mezzanine tranches are still transferred to third parties.

The first transactions (Moon and Memphis 2003) were repaid in 2008 with no loss for the investors. The following transactions were also repaid, still with no loss for the investors: Mars 2004 in 2009, Memphis 2005 and Mars 2006 in 2012. As of 31 December 2012, two transactions totalling approximately EUR 4.6 billion (BEL SME 2006 on SME exposures and Memphis 2006 on Residential Mortgages) remain outstanding, as further detailed below. Memphis 2006 transfers risk on high Loan to Value (LTV) Dutch mortgages.

Retained exposures on securitisation of ING Bank's own assets include the most senior tranches. Economically, on a total of about EUR 4.6 billion underlying exposures in the two transactions mentioned above, ING Bank has transferred approximately EUR 481 million of mezzanine and equity tranches (first and second loss) to third parties.
Securitisations originated by a company may only be considered for balance sheet derecognition when the requirements for significant credit risk transfer have been fulfilled. However, for a securitisation transaction to be recognised for RWA reduction, risk transfer alone may be insufficient due to the increasing impact of the maturity mismatch formula. As a consequence, the RWA of the retained tranches for one of the transactions in the table below would be higher than the total RWA of the underlying pool before securitisation, and therefore that transaction is treated for RWA purposes as if it was not securitised.

Additional Pillar 3 information continued

Exposures securitised (amounts in EUR million)

2012	Cut-off Date	Initial Pool	Outstan-dings	Credit Events	Past due Assets	Losses
Residential Mortgages						
Memphis 2005*						
Memphis 2006	31-Oct-12	**4,000**	**3,914**	**18**	**212**	**10**
SME						
Mars 2006*						
BEL SME 2006	30-Nov-12	**2,500**	**684**	**15**	**4**	**3**
Total						

* Both Memphis 2005 and Mars 2006 have been unwound in 2012, respectively on May 21 and August 28.

Exposures securitised (amounts in EUR million)

2011	Cut-off Date	Initial Pool	Outstan-dings	Credit Events	Past due Assets	Losses
Residential Mortgages						
Memphis 2005	31-Oct-11	3,000	2,403	2	50	1
Memphis 2006	31-Oct-11	4,000	3,904	12	196	7
		7,000	6,307			
SME						
Mars 2006	30-Sep-11	4,500	4,354	25	301	13
BEL SME 2006	30-Nov-11	2,500	1,043	15	5	3
Total		7,000	5,397			

All securitisations reported in this section are synthetic securitisations used to transfer risk to third parties. Transactions for liquidity/funding purpose are not included.
The determination of impairments and losses occurs at least every quarter at the cut-off date applicable to each specific transaction.

Cut-Off Date	Most recent date in respect of which determination and allocation of losses have been made pursuant to the legal documentation of the transaction. Information on the performance of ING's securitised exposures is published regularly.
Outstandings	EAD on 31 December of assets that were performing on the Cut-off date.
Credit Events	Aggregate outstandings of assets subject to a credit event reported in the 12 months period ending on the Cut-off date.
Past Due Assets	Outstandings on the Cut-off date of assets that are past due, but not in credit event on that date, as more fully detailed in the quarterly reports. Past due for Residential Mortgage transactions means ‘more than 1 monthly payment in arrears’. Past due for SME deals means ‘reference entities that are rated 20-22’.
Losses	Aggregate losses on securitised assets; reported in the 12 months period ending on the cut-off date.

Liquidity and funding
Although the most senior tranches in securitisations are no longer efficient to release regulatory capital under Basel II, they are used to obtain funding and improve liquidity. To be eligible as collateral for central banks securitised exposures must be sold to a Special Purpose Vehicle (SPV) which, in turn, issues securitisation notes (‘traditional securitisations’) in two tranches, one subordinated tranche and one senior tranche, rated AAA by a rating agency. The AAA tranche can then be used by ING Bank as (stand-by) collateral in the money market for secured borrowings.

ING Bank has created a number of these securitisations with a 31 December 2012 position of approximately EUR 90.3 billion of AAA rated notes and unrated subordinated notes. The underlying exposures are residential mortgages in the Netherlands, Germany, Belgium, Spain, Italy and Australia and SME Loans in the Netherlands and Belgium.
As long as the securitisation exposures created are not transferred to third parties, the regulatory capital remains unchanged. These are not detailed hereunder. Apart from the structuring and administration costs of these securitisations, these securitisations are profit / loss neutral.

Additional Pillar 3 information continued

Securitisation in the trading book

Per 31 December 2012, securitisation positions in trading books are reported under the Standardised Capital Framework in the Market Risk section.