

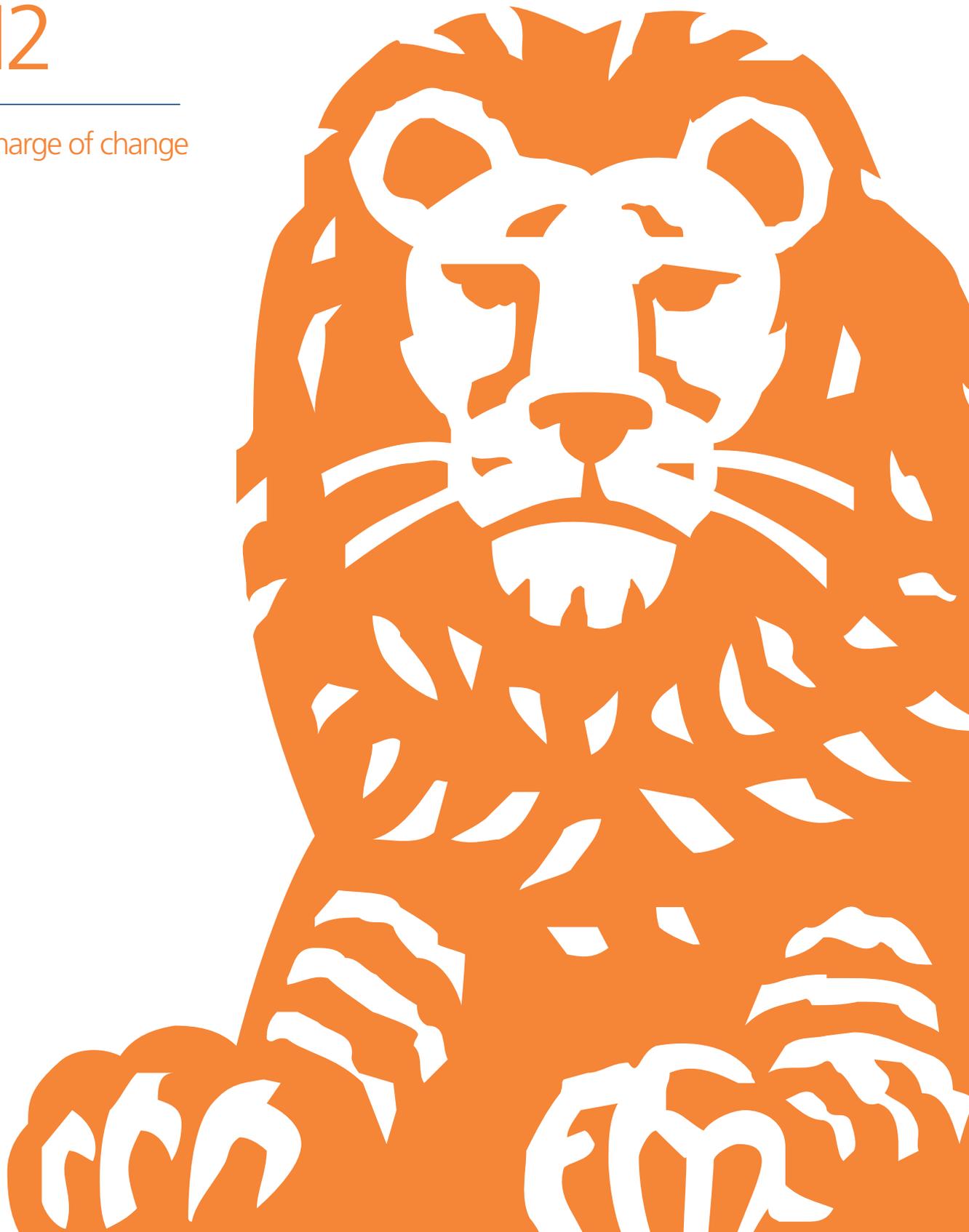


ING Group  
Annual Report

2012

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Taking charge of change







- > We continued our focus on customer centricity and sustainability
- > ING posted 2012 underlying net profit of EUR 2,603 million in a challenging environment
- > Capital, funding and liquidity positions improved
- > ING continued to de-risk, streamline its portfolio and strengthen its businesses
- > Agreement reached with European Commission on amended Restructuring Plan
- > Further progress made towards State repayment and reduction in double leverage

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# Chairman's message

## Dear reader,

Thanks to loyal customers, prudent balance sheet management and the determination of our staff to provide the best possible service to our customers, ING strengthened its position. 2012 was a year marked by major change. In challenging times, ING has become a financially stronger company. Through divestments, ING has sharpened its focus and became smaller. The foundations for further changes are in place.



'Taking charge of change', the theme of this Annual Report, was the common thread across our operations: managing change to prepare for a new future as a fully independent bank and fully independent insurance businesses.

The drive towards that future began four years ago, in 2009, when I became chairman of the Executive Board and was faced with the challenge of steering ING through the financial crisis. This required robust measures. We needed to change course. It was evident that we had to restructure our organisation drastically, not only because of the crisis and the lessons we drew from it, but because of the increasing call for sustainable financial services, for a change of culture. In brief, we needed to find a different way of working and so we rolled up our sleeves and we set changes in motion.

In 2012, we further simplified our organisation, and we took significant further steps to reduce our risk profile, but at a cost. We also streamlined our product range and anticipated and implemented new regulations. On the banking side, we refined the strategy, and although our results were under pressure, we managed to strengthen the balance sheet and improve our capital and funding position. Moreover, our liquidity position remained strong.

These steps were necessary in order to remain competitive and to be able to face the challenging external environment. The economic and financial market conditions in which we operated in 2012 were difficult, especially in the eurozone, a key geographical area for our company. Financial markets were influenced by the European sovereign debt crisis, with an interbank market that had virtually stopped functioning. Unemployment grew and consumer confidence in Europe declined.

Specifically in the Netherlands, current levels of debt are still too high, which is hampering economic growth. The need for companies and households to deleverage further is bound to have negative effects on business banking in the Netherlands. For Europe as a whole, the demand for lending remained weak in 2012. The 2013

economic outlook remains uncertain despite efforts by the ECB.

Added to this, for both banking and insurance there is ongoing uncertainty about the exact nature and timing of the implementation of many of the new regulatory measures, which are putting considerable pressure on costs. This is an area of concern, because if the financial sector is to facilitate sustainable economic growth, one needs to be careful about the timing and extent of the measures.

An important priority remains to win back trust, the cornerstone of financial services; and it starts by being a strong and financially sustainable company that puts its customers first. Product development, for example, is something we are increasingly doing in cooperation with our customers, collecting feedback using tools such as focus groups and social media. We are also making every effort to ensure that we have excellent processes and services in place, so that customers can organise their financial affairs simply and easily.

We are responding to the signals society is sending us. In this context, we have amended and tightened up our remuneration policy in 2012. In the Netherlands, we agreed on a new Collective Labour Agreement for Bank staff with the trade unions. Employees under the CLA will in principle no longer receive variable remuneration. In addition, we have taken further steps to tighten up the remuneration policy for senior management.

We are maintaining an active dialogue with our stakeholders to explain our strategy, and to find out what they think and feel about ING. Personally, I have spoken to large numbers of customers this year at home and abroad on company visits, as well as at special customer seminars organised by ING. By actively engaging with customers, we can find out what really matters to them and get a better idea of what we can do to improve our services.

There are two milestones I would like to mention. First, with the tranche repaid on 26 November 2012,

ING brought the total repaid above the EUR 10 billion of capital support provided by the Dutch State in October 2008. The total repaid so far of EUR 10.2 billion consists of a principal amount of EUR 7.8 billion and EUR 2.4 billion in premiums and interest. Second, ING and the Dutch State reached an agreement with the European Commission on amendments to the Restructuring Plan we had to submit to obtain approval for the state aid we received. The amended Restructuring Plan gives us more time and greater flexibility to shape our future.

Both the bank and the insurance businesses are on track. In January 2012, ING Bank updated its strategy and financial ambitions around three pillars: customer centricity, operational excellence and balance sheet optimisation. ING Bank wants to be the preferred bank of customers, the bank that customers recommend to others. To achieve this and as part of strengthening our customer-centric culture we are therefore converging to one model: easy and fair, and at low cost. In 2012, we have made progress towards operational excellence by improving our service and streamlining our organisation and systems. And we aim to optimise our balance sheet to enhance returns and to allow us to continue to support our customers and grow our loan portfolio without growing the balance sheet. We realise that having engaged and motivated employees is key to making our strategy a success. Therefore being a top employer is also a key priority for ING.

The strategy is clear; it is now about the execution. In line with our strategic objectives of sharpening the Bank's focus and further strengthening its capital position, ING made a few divestments as a result of the continuous evaluation of its portfolio of businesses. In 2012, we sold ING Direct Canada and our stake in Capital One. In the first quarter of 2013, we sold ING Direct UK.

The insurance businesses have made progress towards independent futures. The sale of a large part of the Asian insurance and investment management business was announced, and ING U.S. has made great strides in preparing for its initial public offering (IPO), bringing it one step closer to becoming an independent business. Preparations have been stepped up for the basic scenario of an IPO for the European insurance and investment management business.

The streamlining and the sale of parts of the business adversely impact jobs at the bank and the insurance and investment management businesses. This is something we regret, but these measures are necessary and keep our organisation flexible in the current uncertain climate.

I would like to thank our staff for their resilience. We have asked a lot of them and they have continued to step up to the plate.

All these developments propel us further along the road towards a successful, independent future for our businesses. We are not there yet, but we can be proud of what we have achieved.

“An important priority is to win back trust because trust is the cornerstone of financial services. Restoring trust starts by being a strong and financially sustainable company that puts its customers first.”

We have also made progress this year in the area of sustainability. As you might expect from a reliable financial partner, sustainability is anchored in our strategic policy, particularly when it comes to our social, environmental and ethical performance. For example, ING is one of the co-signatories of the United Nation's sustainable insurance principles. I would also like to mention the establishment of the Sustainable Lending Team which initiates and encourages sustainability opportunities successfully.

Through a range of activities, we contribute to society. One example is our renewed partnership with UNICEF to give children all over the world the chance of a better future via education. We engage with all our stakeholders; actively observing and listening to their needs and comments and responding accordingly. That is what financial services are all about, and we are determined to deliver on that in a sustainable way. This is a challenge we are embracing with full conviction. I am convinced that we can build on the foundations we have laid.

As of 1 October 2013, I will step down as CEO. The Supervisory Board intends to propose Ralph Hamers to be appointed as a member of the Executive Board at the annual General Meeting on 13 May 2013 and to succeed me as the next CEO as of 1 October 2013. I am sure that Ralph Hamers will continue to execute ING's strategic course.

Until that date, I remain fully dedicated to leading ING as it shapes its future. There are still many tasks ahead as we work towards completing our restructuring programme.

**Jan Hommen**  
Chairman of the Executive Board

# ING at a glance

## 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.

## 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.

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.

On the insurance side, the focus will be to optimise returns and value for the business as we prepare for separation. We will focus on earning our customers' trust through transparent products, value for money and superior service. This reflects our universal customer ideal: saving and investing for the future should be easier.

ING Insurance/Investment Management (IM) is preparing its businesses for standalone futures. ING Insurance/IM Europe and ING Insurance/IM US are preparing for base case initial public offerings (IPOs) and the sale of ING Insurance/IM Asia is in full progress. ING Insurance/IM will continue to focus on its customers and distributors by providing exemplary products and service.

## 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.

### 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 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.

# ING GROUP

## BANKING

### UNDERLYING INCOME

€14,241m

2011: €14,289m

### UNDERLYING NET RESULT

€2,147m

2011: €2,977m

### BANKING

ING's banking operations are divided into two main activities: Retail Banking and Commercial 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 offers services such as lending, payments and cash management in more than 40 countries to corporations, governments and other financial institutions.

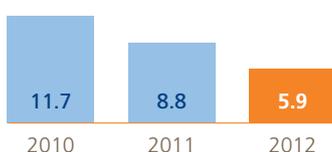
### Underlying result before tax (EUR billion)



### Underlying cost/income ratio (%)



### Underlying return on equity (%)\*\*\*



## INSURANCE\*

### UNDERLYING INCOME

€26,688m

2011: €29,045m

### UNDERLYING NET RESULT

€456m

2011: €-230m

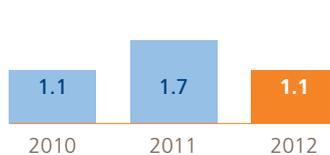
### INSURANCE/INVESTMENT MANAGEMENT

ING's insurance and investment management businesses include its life and non-life insurance, pension and asset management activities.

These activities are divided into five business lines: Insurance Benelux, Insurance Central and Rest of Europe, Insurance US (excluding US Closed Block VA), US Closed Block VA and ING Investment Management.

ING Investment Management provides a broad range of investment strategies and advisory services in Europe, the Americas and the Middle East.

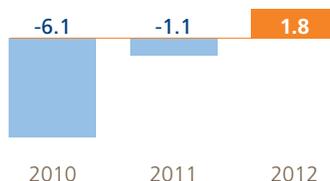
### Operating result (EUR billion)\*\*



### Life & ING IM administrative expenses / Life & ING IM operating income (%)



### Underlying return on equity (%)\*\*\*



\* Excluding discontinued operations. The results of the Asia insurance and investment businesses are classified as 'net result from discontinued operations'.

\*\* Operating result is underlying result before tax excluding gains/losses and impairments, revaluations and market and other impacts.

\*\*\* Full-year underlying net result divided by average equity.

# Key figures

ING Group					
in accordance with IFRS-EU in EUR million unless otherwise indicated	2012	2011	2010	2009	2008
<b>Income</b>					
Banking operations	16,102	17,908	17,734	12,293	11,662
Insurance operations <sup>(1)</sup>	26,689	29,133	28,035	26,644	39,142
Intercompany eliminations	-147	-350	-336	-336	-291
<b>Total</b>	<b>42,644</b>	<b>46,691</b>	<b>45,433</b>	<b>38,601</b>	<b>50,513</b>
<b>Staff expenses and operating expenses</b>					
Banking operations	9,632	9,889	9,649	9,665	10,122
Insurance operations <sup>(1)</sup>	3,752	3,447	3,463	3,469	4,103
<b>Total</b>	<b>13,384</b>	<b>13,336</b>	<b>13,112</b>	<b>13,134</b>	<b>14,225</b>
<b>Addition to loan loss provision Banking operations</b>	<b>2,125</b>	<b>1,670</b>	<b>1,751</b>	<b>2,973</b>	<b>1,280</b>
<b>Result</b>					
Banking result before taxation	4,134	6,028	5,830	-838	106
Insurance result before taxation <sup>(1)</sup>	-238	-608	-2,182	-1,537	-1,282
<b>Result before taxation</b>	<b>3,896</b>	<b>5,420</b>	<b>3,648</b>	<b>-2,375</b>	<b>-1,176</b>
Taxation	799	1,246	1,146	-677	-662
<b>Net result from continuing operations</b>	<b>3,097</b>	<b>4,174</b>	<b>2,502</b>	<b>-1,698</b>	<b>-514</b>
Net result from discontinued operations <sup>(1)</sup>	908	1,673	405	572	-406
Minority interests	111	81	97	-121	-52
<b>Net result</b>	<b>3,894</b>	<b>5,766</b>	<b>2,810</b>	<b>-1,006</b>	<b>-868</b>
<b>Figures per ordinary share (in EUR)</b>					
Basic earnings <sup>(2)</sup>	0.86	1.12	0.63	-0.60	-0.33
Shareholders' equity (in parent)	14.30	12.33	10.81	8.89	8.55
<b>Balance sheet (year-end, in EUR billion)</b>					
Total assets	1,169	1,279	1,247	1,164	1,332
Shareholders' equity (in parent)	54	47	41	34	17
Core Tier 1 securities (in EUR million)	2,250	3,000	5,000	5,000	10,000

<sup>(1)</sup> The results of Insurance/IM Asia and Insurance Latin America are shown in 'net result from discontinued operations'.

<sup>(2)</sup> See note 50 in the Annual Accounts.

Capital ratios and other data				
	2012	2011	2010	
Debt/equity ratio <sup>(1)</sup>	11.1%	12.7%	13.4%	
Core Tier 1 ratio	11.9%	9.6%	9.6%	
Insurance IGD Solvency I ratio	245%	225%	230%	
Underlying return on equity based on IFRS-EU equity	5.2%	6.5%	6.3%	
Employees (FTEs, year-end, excluding FTEs in discontinued operations) <sup>(2)</sup>	84,718	87,866	88,203	
Market capitalisation (in EUR billion)	27	21	28	

<sup>(1)</sup> ING Group evaluates its debt/equity ratio on the basis of 'core debt' and 'adjusted equity'. Further information is provided in the section 'Capital management' in the consolidated annual accounts.

<sup>(2)</sup> Comparatives are excluding FTEs in entities divested in the years thereafter.

ING Group evaluates the results of its businesses using a non-GAAP financial performance measure called underlying result. Underlying result is derived from the result in accordance with IFRS-EU by excluding the impact of divestments, discontinued operations and special items. Historic underlying results have been restated for divestments in order to create a comparable sequence (i.e. 2012, 2011 and 2010 underlying results exclude the results of a divestment which was completed in 2012). See note 52 in the consolidated annual accounts for a reconciliation between IFRS and underlying result.

Underlying net result				
in EUR million	2012	2011	% change	2010
Banking operations	2,147	2,977	-27.9%	3,836
Insurance operations	456	-230		-1,252
<b>Underlying net result</b>	<b>2,603</b>	<b>2,746</b>	<b>-5.2%</b>	<b>2,584</b>
Divestments, discontinued operations and special items	1,291	3,020		226
<b>Net result</b>	<b>3,894</b>	<b>5,766</b>	<b>-32.5%</b>	<b>2,810</b>

## Non-financial key figures

		2012	2011	2010
Better customer experience	% of business units that offer services or products for groups of people with special needs <sup>(1)</sup>	29.4%	n.a.	n.a.
Better business	Sustainable assets allocated (in EUR billion) <sup>(2)</sup>	5.7	2.9	3.0
Better environment	CO <sub>2</sub> emissions per FTE (in tonnes) <sup>(3)</sup>	2.4	2.1	2.3
Better workplace	– Employee engagement score ING Bank – Employee engagement score ING Insurance/IM <sup>(4)</sup>	68% 70%	66% 67%	69% 68%
Better community	Donations to UNICEF (in EUR million) <sup>(5)</sup>	2.8	3.5	3.8

- <sup>(1)</sup> We aim to offer our financial products and services to all segments of society, including young people, the physically challenged and the economically disadvantaged. Our branches therefore have barrier free access, ATMs are adapted for the visibly challenged and we develop products such as savings accounts for children and insurance products for cancer patients.
- <sup>(2)</sup> As a bank and asset manager, ING allocates assets to a wide range of companies, projects and funds. Increasingly, we include sustainability criteria in our capital allocation choices. For reporting purposes, we combine all the assets from our financing and investment activities under the heading Sustainable assets allocated. Sustainability criteria have been applied to these assets. During 2012 we nearly doubled the amount of Sustainable assets allocated, which is mainly attributable to an increase in sustainability mandates managed by ING Investment Management.
- <sup>(3)</sup> Our absolute carbon emissions decreased by 7% from 225 to 209 kilotonnes. However, due to divestments and restructuring of our organisation, the total number of employees decreased, resulting in a relative increase of carbon emissions per FTE.
- <sup>(4)</sup> Annually, we survey the level of employee engagement. We define employee engagement as the extent to which our employees are committed to contributing to our business performance and are willing to walk the extra mile to achieve ING's success. Given the operational split of ING Bank and ING Insurance, employee engagement surveys have been held at both companies.
- <sup>(5)</sup> Targets have been set to raise adequate funds between 2005-2015 to facilitate access to education by one million children through our partnership with UNICEF. At year-end, more than 780,000 children had access to education. We are well on track to meet our target.

## Composition of the Boards\* on 31 December 2012

### EXECUTIVE BOARD

Jan H.M. Hommen (69), CEO  
and chairman  
Patrick G. Flynn (52), CFO  
Wilfred Nagel (56), CRO

### SUPERVISORY BOARD

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 <sup>(1)</sup> (66)  
Piet C. Klaver (67)  
Joost Ch.L. Kuiper (65)  
Robert W.P. Reibestein <sup>(2)</sup> (56)  
Yvonne C.M.T. van Rooy (61)  
Luc A.C.P. Vandewalle (68)  
Lodewijk J. de Waal (62)

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

### COMMITTEES OF THE SUPERVISORY BOARD <sup>(3)</sup> 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

#### Corporate Governance Committee

Henk Breukink, chairman  
Jeroen van der Veer  
Lodewijk de Waal

<sup>(3)</sup> The current composition of the Supervisory Board Committees can be found on the Company's website ([www.ing.com](http://www.ing.com)).

\* You can find more information on the members of the Executive Board on pages 66–67 and on the members of the Supervisory Board on pages 70–71.

# ING share

## PROFIT RETENTION AND DISTRIBUTION POLICY

ING Group's profit retention and distribution policy is determined by internal and external capital requirements and profitable business opportunities on the one hand and the capital providers' dividend expectations on the other. ING Group's internal needs are determined by statutory solvency requirements and capital ratios, in excess of which ING Group needs to maintain healthy buffers. An important determinant are the credit ratings which are of high importance to ING Group, because they directly affect the company's financing costs and hence profitability. For their part, the capital providers expect a dividend which reflects ING Group's financial results and is relatively predictable.

ING's policy is to pay dividends in relation to the long-term underlying development of cash earnings. Dividends will only be paid when the Executive Board considers such a dividend appropriate. Given the uncertain financial environment, increasing regulatory requirements and ING's priority to repay the remaining outstanding core Tier 1 securities, the Executive Board will not propose to pay a dividend over 2012 at the annual General Meeting. ING intends to resume dividend payments on common shares when all remaining core Tier 1 securities have been repaid to the Dutch State and regulatory capital requirements have been met.

## CORE TIER 1 SECURITIES

In October 2008, to support its capital position, ING Group made use of capital support facilities by the Dutch Government by issuing EUR 10 billion of core Tier 1 securities to the Dutch State with a coupon of 8.5%. The core Tier 1 securities rank *pari passu* with common equity.

In December 2009, ING repaid half of the core Tier 1 securities of EUR 5 billion plus a total premium of EUR 605 million. Furthermore, at the coupon reset date, 13 May 2011, ING exercised its option for early repayment of EUR 2 billion of the remaining core Tier 1 securities. The total repayment in May 2011 amounted to EUR 3 billion and included a 50% repayment premium. ING has funded this repayment from retained earnings.

On 19 November 2012, ING announced that, together with the Dutch State, it reached an agreement with the European Commission on significant amendments to the 2009 Restructuring Plan. As part of the agreement, ING filed a schedule for repayment to the Dutch State of the remaining EUR 3 billion in core Tier 1 securities plus a 50% premium, in four equal tranches in the years 2012-2015. A first tranche of EUR 1.125 billion was paid on 26 November 2012, following approval by De Nederlandsche Bank (DNB), the Dutch central bank. This brought the total repaid to the Dutch State to EUR 10.2 billion, including EUR 7.8 billion in principal and EUR 2.4 billion in interest and premiums.

It remains ING's ambition to repay the remaining support as quickly as possible and ING intends to accelerate repayments if possible and prudent under the prevailing economic circumstances. Given the ongoing crisis in the eurozone and increasing regulatory capital requirements, ING needs to take a cautious approach and to maintain strong capital ratios in the Bank as it builds towards the implementation of Basel III. Each subsequent repayment to the Dutch State requires prior approval from DNB, at the time ING decides to propose such repayment.

## LISTINGS

Depository receipts for ING Group ordinary shares are listed on the stock exchanges of Amsterdam, Brussels and New York (NYSE). Options on ING Group ordinary shares (or the depository receipts therefor) are traded on the NYSE Euronext Amsterdam Derivative Markets and the Chicago Board Options Exchange.

## SHAREHOLDERS AND DEPOSITORY-RECEIPT HOLDERS WITH STAKES OF 5% OR MORE

To the best of our knowledge, as at 31 December 2012, there were no shareholders or holders of depository receipts for shares who reported to hold an interest of 5% or more as mentioned in the Dutch Financial Supervision Act, other than *Stichting ING Aandelen* (ING Trust Office) and *Stichting Continuïteit ING* (ING Continuity Foundation).

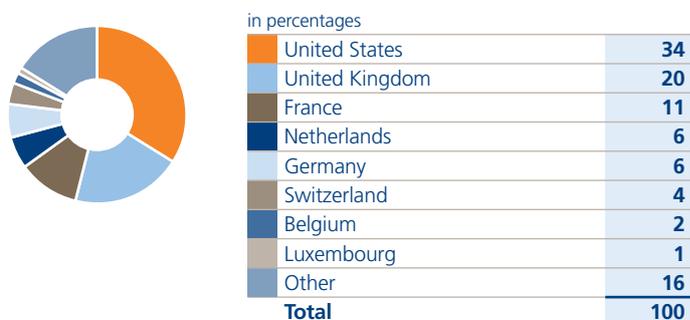
Authorised and issued capital		
in EUR million	Year-end 2012	Year-end 2011
<b>Ordinary shares</b>		
– authorised	<b>3,480</b>	3,480
– issued	<b>919</b>	919
<b>Cumulative preference shares</b>		
– authorised	<b>1,080</b>	1,080
– issued	–	–

Shares in issue and shares outstanding in the market		
in millions	Year-end 2012	Year-end 2011
(Depository receipts for) ordinary shares of EUR 0.24 nominal value	<b>3,831.6</b>	3,831.6
(Depository receipts for) own ordinary shares held by ING Group and its subsidiaries	<b>30.1</b>	49.3
(Depository receipts for) ordinary shares outstanding in the market	<b>3,801.5</b>	3,782.3

Prices depository receipts for ordinary shares			
Euronext Amsterdam by NYSE Euronext in EUR	2012	2011	2010
Price – high	<b>7.49</b>	9.41	8.16
Price – low	<b>4.53</b>	4.49	5.52
Price – year-end	<b>7.06</b>	5.56	7.28
Price/earnings ratio*	<b>6.9</b>	3.7	9.8

\* Based on the share price at year-end and net profit per ordinary share for the financial year.

## Geographical distribution of ING shares\*



\* Year-end 2012 figures, estimated on information provided by Thomson Reuters Advisory Services.

## INVESTOR RELATIONS

To be kept informed of press releases and other ING news, you can subscribe to the email service through our Investor Relations section at [www.ing.com](http://www.ing.com). You can also download the ING Investors and Media app on [www.ing.com](http://www.ing.com), which gives you access to the latest financial information and press releases both online and offline.

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## IMPORTANT DATES IN 2013\*

**Publication results 1Q 2013**  
Wednesday, 8 May 2013, 7:00 a.m.

**Annual General Meeting**  
Monday, 13 May 2013

**Publication results 2Q 2013**  
Wednesday, 7 August 2013, 7:00 a.m.

**Publication results 3Q 2013**  
Wednesday, 6 November 2013, 7:00 a.m.

\* All dates shown are provisional.

## Main credit ratings of ING <sup>(1)</sup>

	Standard & Poor's <sup>(2)</sup>	Moody's <sup>(3)</sup>	Fitch <sup>(2)</sup>
<b>ING GROEP N.V.</b>	A	A3	A
<b>ING BANK N.V.</b>			
– short term	A-1	Prime-1	F1+
– long term	A+	A2	A+
<b>ING VERZEKERINGEN N.V.</b>			
– short term	A-2	Prime-2	F2
– long term	A-	Baa2	A-

<sup>(1)</sup> Still valid on 18 March 2013, the date of this Annual Report.

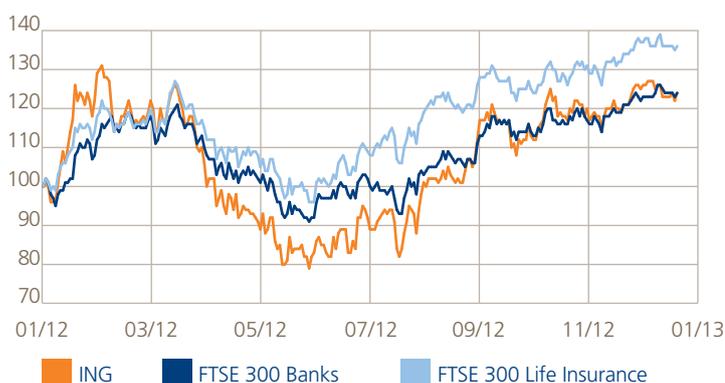
<sup>(2)</sup> Standard & Poor's and Fitch long-term ratings for ING Groep N.V., ING Bank N.V. and ING Verzekeringen N.V. carry a negative outlook.

<sup>(3)</sup> Moody's rating for ING Groep N.V. and the long-term rating of ING Bank N.V. carry a negative outlook, while the long-term rating of ING Verzekeringen N.V. carries a developing outlook.

ING's long-term credit ratings 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. 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.

## One-year price development ING depositary receipts for shares

Index 1 January 2012 = 100



# Financial and regulatory environment

## Adapting to change

- > Financial environment still highly challenging
- > ING adapting to financial sector reform

Continuing challenges in the external environment had an impact on ING in 2012, the most prominent being the deepening of the eurozone sovereign debt crisis which created an extremely challenging financial market environment in the first half of 2012, until the European Central Bank (ECB) took action to relieve the immediate financial markets stress. The ECB's efforts were probably the main reason for financial market stability from the third quarter onwards.

The current regulatory reforms taking place in the financial sector are aimed at making it more resilient to external shocks, and they have an impact on ING. We support the need to make financial institutions more resilient and the system as a whole more stable. We support the overall majority of international, European and national measures being undertaken, such as the required strengthening of banks' core capital base. However, ING is concerned about the cumulative impact of the many different measures, the uncertainty when and in what form they will be implemented, and how they will affect our role in financing the real economy.

### CHALLENGES IN FINANCIAL ENVIRONMENT REMAIN

The sovereign debt crisis continued in 2012 and its negative effect on the real economy escalated. Since the third quarter of 2012, the general financial market sentiment in the eurozone and in the US improved. By contrast, the real economy deteriorated in most of Europe during the second half of the year.

### EUROZONE SOVEREIGN DEBT CRISIS AFFECTED THE CREDIT AND EQUITY MARKETS IN 2012

The uncertainty about the future of the euro, combined with austerity measures taken in certain European Union member states, are among the reasons why the eurozone has been pushed back into recession. A modest recovery is only slowly taking hold in the US, while Chinese growth came off the boil in 2012. Globally, central banks have been providing additional support. Although this support probably has not been effective in curing the world's economic ills, it did stabilise financial markets.

Both in the eurozone and the US, credit spreads followed a similar pattern during the year. In the first quarter, they decreased as market sentiment improved, which was fuelled by the ECB's Long Term Refinancing Operation (of which ING made no use). However, market sentiment deteriorated again at the end of the second quarter due to concerns about a possible break-up of the eurozone. From the third quarter onwards credit market sentiment improved (and therefore credit spreads were down) again, mainly because of the ECB expressing its commitment to the euro. The ECB president's promise of unlimited, if conditional, sovereign bond buying – the so called Outright Monetary Transactions – in August and September 2012 eased immediate stress. Since then, there has been an uneasy market balance, despite no actual ECB intervention. During 2012, equity indices followed a pattern that mirrored credit spreads, with an overall improvement over the whole year.

### EUROPE FALLS BEHIND, SIGNS OF REVIVAL IN US ECONOMY

Austerity measures started to weigh heavily on the eurozone economy in 2012. As unemployment increased, consumer spending remained weak and companies postponed investment decisions. Economic growth in the eurozone turned negative in the second quarter and remained negative for the rest of 2012. European financial markets remained under stress in the first half of the year.

Whilst Europe was mired in recession, the US economy showed some signs of revival in the second half of 2012. The US housing market slowly recovered, with prices stabilising and construction activity recovering. Unemployment was trending downward, reinforcing ING's view of a recovery slowly taking hold in the US.

The prolonged low growth period in the advanced economies had a negative impact on consumption, capital investment expenditures and job creation in the emerging countries. Governments in China, India, Brazil, Turkey and other emerging markets shifted their focus to reducing government deficits. Risk aversion by foreign investors around the world reduced non-debt capital flows to emerging markets, forcing them to increase domestic savings to finance new capital investments. China suffered a growth slowdown in 2012, but the economy showed signs of picking up again towards the end of the year.

The uncertain economic outlook and the turbulence on financial markets in 2012 were among the factors that made ING Bank put extra focus on funding, capital and liquidity.

## ING GROUP FINANCIAL DEVELOPMENTS

The operating environment was challenging throughout 2012, with volatile financial markets and an uncertain macroeconomic environment. Against this backdrop, ING Group's 2012 net result declined to EUR 3,894 million, from EUR 5,766 million a year earlier. Special items after tax were EUR –1,060 million in 2012, compared with EUR 60 million in 2011. The 2012 special items predominantly reflect costs for various restructuring programmes, which are essential to reduce our future annual expenses. Furthermore, special items include EUR 169 million in separation and IPO preparation costs, EUR 386 million in settlement costs with the US authorities, partly offset by the favourable impact of a EUR 305 million provision release following the announcement on 3 July 2012 of the new Dutch employee pension scheme. The 2011 special items include a EUR 718 million net gain from the liability management transaction offset by costs for various restructuring programmes and separation costs.

Net gains on divestments, including net result on disposal and classification of discontinued operations, were EUR 1,714 million in 2012, compared with EUR 1,812 million in 2011. The 2012 results on divestments include gains on the sales of ING Direct USA (EUR 489 million), ING Direct Canada (EUR 1,135 million), and Insurance Malaysia (EUR 745 million), as well as a EUR 260 million loss on the announced sale of ING Direct UK and EUR 380 million in goodwill write-offs for Insurance/IM Korea. The 2011 gains on divestments of EUR 1,812 million were attributable to the sales of the Latin America business, ING Car Lease, and Real Estate Investment Management.

The result from discontinued operations was EUR 550 million in 2012 versus EUR 678 million in 2011 and relates to Insurance Asia/Pacific and Insurance Latin America. The decrease was due to the sale of Latin American pension, life insurance and investment management operations in 2011.

ING's capital position remained strong, despite the EUR 1,125 million repayment to the Dutch State in November 2012. ING Bank's core Tier 1 ratio increased from 9.6% in 2011 to 11.9% at the end of 2012, supported by the gain on the sale of ING Direct USA and ING Direct Canada. These transactions helped ING Bank to fund a dividend upstream of EUR 2,125 million to ING Group, which was used to repay part of the core Tier 1 securities and reduce Group leverage. ING Bank's risk-weighted assets were reduced by EUR 52 billion in 2012, primarily reflecting the sale of ING Direct USA, ING Direct Canada, lower lending volumes and de-risking of the investment portfolio. The Insurance Group Directive Solvency I ratio increased to 245% at the end of 2012, from 225% at the end of 2011, mainly due to the sale of Insurance Malaysia, market developments and the introduction of the Ultimate Forward Rate (UFR) curve for the Dutch insurance entities. The Group debt/equity ratio improved to 11.1% from 12.7% a year earlier.

Shareholders' equity increased by EUR 7.7 billion, from EUR 46.7 billion at the end of 2011 to EUR 54.4 billion at the end of 2012. This increase was caused by the addition of net profit and positive revaluations on debt securities, partly offset by exchange rate differences and the repurchase premium paid to the Dutch State in November 2012. Shareholders' equity per share was EUR 14.30 at the end of 2012 versus EUR 12.33 at the end of 2011. Underlying net return on equity, calculated as underlying net result divided by average IFRS-EU equity, decreased to 5.2% from 6.5% in 2011.

Underlying net result held up well at EUR 2,603 million, compared with an underlying net result of EUR 2,746 million in 2011. Underlying net result is derived from the total net result by excluding the impact of divestments, discontinued operations and special items.

Banking recorded an underlying result before tax of EUR 3,219 million in 2012, a 22.0% decrease compared with 2011. This decrease was mainly driven by higher loan losses, losses from active de-risking, negative credit and debt valuation adjustments and the Dutch bank levy. Insurance reported an underlying result before tax of EUR 311 million, which increased by EUR 636 million from the EUR 325 million loss in 2011. De-risking and low interest rates put pressure on investment returns, but underlying results recovered as the impact of market-related items declined to EUR –783 million in 2012 versus EUR –1,984 million in 2011.

## IMPORTANT CHANGES IN REGULATION AND SUPERVISION

The most prominent development in 2012 was the agreement reached among the heads of European Union member states on the introduction of a European banking union. Agreement on the details and timetable is likely to take some time.

### BANKING UNION/SINGLE SUPERVISORY MECHANISM

ING supports the concept of a banking union based on four main pillars: a single supervisory mechanism (SSM), a single rulebook for prudential regulation, a common framework for recovery and resolution, and a harmonised deposit guarantee scheme. Such a union is likely to reduce fragmentation in the interbank and wholesale markets and increase the integrity of the European single market and European single currency.

The SSM, which will give strong powers to the ECB for the supervision of all banks in the euro area, with a mechanism for non-eurozone countries to join voluntarily, is an important first step in achieving a banking union. It is crucial that the ECB has exclusive responsibility to carry out specific prudential tasks. Furthermore, a consistent application of the single rulebook, a single set of rules for all banks in the euro area, is key as it will diminish discrepancies between national supervisory practices. Important tasks like the authorisation of credit institutions, assessment of acquisitions and disposals, the authority to ensure compliance for capital, liquidity regime and leverage ratios, and the imposition of additional capital buffers for prudential and countercyclical reasons should be the exclusive responsibility of the ECB for all banks in the participating member states.

### REGULATIONS DRIVE UP CAPITAL REQUIREMENTS

The Capital Requirements Directives (CRD III and CRD IV) have already affected and will continue to increase the capital requirements for all banks in Europe, including ING. ING recognises the importance of mitigating systemic risk. As expected, the G20 in 2012 included ING on its list of Globally Systemically Important Banks (G-SIBs). G-SIBs will be required to hold an additional buffer above the 7% core Tier 1 buffer of Basel III, to be phased in between 2016 and 2019. ING is in one of the lower categories, and therefore subject to an additional requirement of 1%. In addition, the Dutch regulator indicated that the national capital requirements for systemically important banks in the Netherlands will be in the range of 1-3% including the G20 international requirement mentioned above. ING is expected to be in the highest category in the Netherlands. These requirements must be met by 2019. The Dutch Government agreed in October 2012 that the timetable for the additional buffers for Systemically Important Financial

## Financial and regulatory environment continued

Institutions (SIFIs) will be brought forward in a responsible way, taking the international situation into account. As for macro-prudential tools, CRD IV will introduce a Systemic Risk Buffer which will apply to the whole or parts of the banking sector and will be covered by the core Tier 1 capital ratio. The Systemic Risk Buffer is one of the most important deviations from the Basel III rules, as Basel does not recognise systemic risk. The details and impact of this buffer can only be assessed once CRD IV has been finalised. The delay in the implementation of CRD IV, which was scheduled for 1 January 2013, has created uncertainty about how the regulations will evolve and when they will be implemented. In particular, ING is concerned about the cumulative impact of all the various capital buffers, and the timing of their implementation.

### REGULATORY MEASURES THAT IMPACT LIQUIDITY

The liquidity position of European banks, including ING, is being shaped by CRD IV, and, in the case of ING, by regulations from DNB. The observation period of the Liquidity Coverage Ratio (LCR) was intended to start in the EU in January 2013, but this has not happened because CRD IV has been delayed. Based on input from various parties, the European Banking Authority (EBA) will incorporate reporting on a broader range of assets and will decide by 2015 on the final eligibility criteria for liquid assets. In January 2013, the Basel Committee on Banking Supervision (BCBS) announced a number of changes – both in content and planning of implementation – for the LCR. The proposed widening of the list of eligible assets for the LCR by the BCBS will be included in CRD IV.

### EU CRISIS MANAGEMENT FRAMEWORK

The draft Crisis Management Framework Directive was published in June 2012, and is still under discussion at the European Parliament and the European Council. The most important elements are: recovery and resolution planning, bail-in requirements and the financing of resolution arrangements. Bail-in requirements are planned to enter into force by 2018, the other parts in 2014.

ING favours the use of a designated bail-in liability class where the bail-in capital consists of subordinated instruments that may be written-down or converted in a resolution scenario with clear triggers attached to it. Banks should build up a sufficiently large layer of bail-inable debt that should be clearly defined, so that its position within the hierarchy of debt commitments in a bank's balance sheet is clear, and investors understand the eventual treatment in the event of resolution.

ING Bank submitted its recovery planning package to DNB in November 2012. These included detailed tasks and responsibilities for (i) recovery in case of financial crisis, (ii) monitoring of metrics, (iii) maintenance of the recovery planning package, and (iv) implementation of certain recovery planning activities. Except for responsibilities related to recovery these tasks and responsibilities are embedded in the regular, going-concern organisation and processes. ING has defined a crisis operational framework – with several specific governance arrangements – that will be initiated in case of recovery. Similarly, ING has set up a procedure to monitor the metrics and a decision-making process to determine whether or not the recovery plan should be activated.

Furthermore, in the course of 2012, DNB has requested the largest Dutch banks to prepare and submit information on the basis of which they will be able to develop a Resolution Plan. ING is diligently working towards providing this information and meeting the deadlines provided by DNB.

### BANK STRUCTURAL REFORM

The European Commission's High-level Expert Group on Bank Structural Reform, better known as the Liikanen Committee, published its report on reforming the EU banking sector on 2 October 2012. If the size of certain trading activities compared to a bank's total activities exceeds certain thresholds, the Liikanen Committee recommends that it may be necessary to require legal separation of these activities into a separate trading entity. The shares of this trading entity could be held by a bank holding company that also holds the shares of the deposit bank. In addition, the Liikanen Committee made a number of other recommendations regarding bail-in instruments, capital requirements and governance and control. The impact of the Liikanen recommendations on ING's business model is unclear, not in the least because it is uncertain if and to what extent the European Commission will follow the Liikanen Committee separation recommendation in its legislative proposal, which is expected around the summer of 2013.

ING believes in the strength of the universal banking model, combining retail and commercial banking activities. The universal banking model brings major benefits in terms of risk diversification, capital and liquidity management, consumer choice and fulfilling the needs of long-term customer banking relationships. Commercial banking activities within ING provide key support in terms of debt capital markets, hedging, cash management, trade finance and project finance, which helps serve the growing demand for integrated services, from large corporations and small and medium-sized enterprises (SMEs). The synergies achieved by combining this wide range of services within a universal bank would be lost if parts of these activities were separated or ring-fenced. ING is of the opinion that moving activities not permitted in a deposit bank into a trading bank would be detrimental to the ability of banks to serve their customers.

Trading activities account for only a small percentage of ING's overall activities. Many of the activities booked in the trading book are directly related to providing services to customers, such as hedging risks and securities underwriting. If trading activities had to be separated from the rest of the bank's activities, providing such customer services would no longer be possible within one bank, also due to the large exposure rules.

In the Netherlands, the Wijffels Committee, named after the Dutch representative in the Liikanen Committee, was established in October 2012. The task of the Wijffels Committee is to advise the Dutch government on a number of topics, including applying the recommendations of the Liikanen Committee to Dutch banks, or whether additional measures are needed. The Wijffels Committee has been asked to submit its report by 15 June 2013.

### SOLVENCY II

During 2012, ING Insurance/Investment Management devoted much attention to preparing to meet the Solvency II capital adequacy requirements. Both in the head office and in the business units, many measures have been taken to upgrade our existing risk measurement and risk reporting to the required levels.

During the course of 2012 it became increasingly likely that the Solvency II framework would not be transposed into national law by the official deadline 1 January 2014, giving the insurance industry more time. Although ING Insurance/Investment Management sees many potential advantages of Solvency II over the existing Solvency I

framework, we recognise that the Solvency II framework may have severe consequences, particularly on business models in which long-term guarantees are offered to customers. ING will therefore continue to take part in discussions with the industry and regulators to develop a more workable framework.

In parallel with these preparations, further development of Solvency II continued. Some progress was made on the Omnibus II Directive – the Directive that will amend the already-agreed level one Solvency II Directive – yet the legislative process was delayed when the trilogue partners (European Commission, European Parliament and the Council) failed to come to an agreement. The main area of disagreement is the treatment of long-term guarantees under Solvency II. Ultimately, the deadlock was broken with their agreement on an impact assessment, to be executed early 2013. During the trilogue discussions, ING stressed the importance of appropriate long-term guarantee measures. A failure to put in place appropriate measures would diminish insurers' ability to provide such long-term guarantees, and undermine the role of insurers as long-term investors and stabilisers of the economy. Together with other insurance companies ING proposed an appropriate balance, which will be tested in a forthcoming impact assessment.

ING recognises that the disagreements on the treatment of long-term guarantees have led to a significant delay in implementing Solvency II. We also recognise that the delay has prompted some member states to consider implementing elements of Solvency II ahead of the official date. As this would create an uneven playing field and impede standardised supervision, it is important for everyone to agree on a realistic timeline as soon as possible. ING will continue to play a part in industry discussions on Solvency II.

#### COMFRAME

On 2 July 2012, the International Association of Insurance Supervisors released a working draft on the Comframe 'Insurance core principles'. Comframe, short for 'Common Framework for the Supervision of Internationally Active Insurance Groups (IAIGs)', has three main objectives: (i) develop methods of operating group-wide supervision of IAIGs, (ii) establish a comprehensive framework for supervisors to address group-wide activities and risks, and (iii) foster global convergence. The working draft received harsh criticism from supervisors and industry alike for being too detailed and too prescriptive. The IAIS will open Comframe up for a second round of consultation in 2013. Finalisation is not expected until 2018.

#### GLOBAL SYSTEMICALLY IMPORTANT INSURERS (G-SIIs)

In 2012, discussions on the methodology to identify Global Systemically Important Insurers, or 'G-SIIs' in the terminology of the International Association of Insurance Supervisors (IAIS), continued. In those discussions, insurers have stressed that non-traditional, non-insurance activities should lie at the heart of G-SII identification. Regulators appear to prefer a much broader assessment also taking into account size and interconnectedness. A list of G-SIIs identified with this methodology is expected in the second quarter of 2013. In the meantime, the IAIS developed a policy on dealing with G-SIIs that was published for consultation. More discussions on this policy are expected in 2013.

#### EU UNISEX RULE

In March 2011, the European Court of Justice ruled that insurers in Europe cannot differentiate in price or benefits for the same insurance products, based on gender. This gender-neutral pricing,

commonly called the unisex rule, states that as of 21 December 2012 life insurers must offer products that are identical for men and women. To comply with this new regulation, all product portfolios across the insurance business units were reviewed. More than 90 products were re-priced in ING Insurance Central and Rest of Europe. In the Benelux, all products available for sale were reviewed in the past two years to ensure they were compliant with the EU unisex rule. From 21 December 2012, all ING Insurance's products available for sale throughout the European Union have been compliant with the rule.

#### ALTERNATIVE INVESTMENT FUND MANAGERS DIRECTIVE

During 2012, ING Investment Management spent considerable time and effort familiarising the organisation with the requirements of the Alternative Investment Fund Managers Directive (AIFMD), which was agreed in 2011 and comes into effect in July 2013. In July 2012, further details of the AIFMD became clear through a draft text publication. Since then the EC has missed its deadline of September 2012 for the publication of the final version of that text due to discussions on some of the detailed AIFMD measures. ING is awaiting publication of the final text and will continue to prepare the organisation for timely compliance with the AIFMD.

#### ING BANK REACHED AGREEMENT WITH U.S. AUTHORITIES

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 recognized ING's substantial cooperation in the resolution and ING's efforts and commitment to continuously enhance compliance within the organization.

#### DUTCH REGULATORY DEVELOPMENTS

##### Dutch Coalition Agreement

On 29 October 2012, the Dutch coalition government agreement was presented. It contained some far-reaching policy intentions for the banking sector which have still to be translated into legislation and pass through the Dutch parliament and senate. They include:

- The implementation of the capital requirements for SIFs (SIFs buffer) to be brought forward in a responsible way, based on a risk assessment and taking into account the need for an international level playing field.
- Dutch government support for a possible financial transaction tax (FTT) for the financial sector and membership of the group of EU member states exploring the possibilities of imposing an FTT in parts of the EU. However, a condition for the Dutch Government's support of any form of FTT is the exemption of Dutch pension funds.
- Legally capping variable remuneration, such as annual bonuses, in the financial sector at 20% of fixed remuneration.

## Financial and regulatory environment continued

- Stricter screening of bank employees to reduce risks.
- Enshrining banks' duty of care in law.
- Introducing proposals to better protect citizens' savings against high-risk banking, to be based on the advice of the Wijffels Committee.

Moreover, the Dutch government has introduced a mandatory oath for Executive and Supervisory Board members of financial institutions licensed in the Netherlands, effective per 1 January 2013. In this oath, the Executive and Supervisory Board members of the relevant ING entities licensed in the Netherlands, declare that they (i) will perform their duties with integrity and care (ii) will carefully consider all the interests involved in the company, i.e. those of the customers, the shareholders, the employees and the society in which the company operates, (iii) in that consideration, will give paramount importance to the customer's interests and inform the customer to the best of their ability, (iv) will comply with the laws, regulations and codes of conduct applicable to them, (v) will observe secrecy in respect of matters entrusted to them, (vi) will not abuse their knowledge, (vii) will act in an open and assessable manner and know their responsibility towards society and (viii) will endeavour to maintain and promote confidence in the financial sector. If they break the oath, the supervisory authority (DNB/AFM) can decide to reassess their suitability.

The coalition agreement also contains a number of measures affecting the Dutch housing market. One of these is the curtailment of mortgage interest deduction for income tax purposes: interest on new mortgages will only be tax deductible under specified repayment conditions.

The policy intentions for the insurance sector include:

- Measures to be taken in the area of second pillar pensions basically focus on reducing the tax-favoured treatment of second pillar pensions per 1 January 2015.
- The increase of the insurance premium tax from 9.7% to 21% per 1 April 2013, causing a significant increase in insurance policy premiums.
- Fees for advice on annuities and disability insurance will no longer be tax-deductible, causing the price for advice to rise.

### Bank Levy

On 1 July 2011, the Dutch Ministry of Finance announced a temporary reduction of the real estate transfer tax from 6% to 2% (a tax on property transactions). In this announcement, several ways of funding the reduction were identified, the introduction of a bank tax being one of them. The levy entered into force in 2012. Dutch and non-Dutch entities with banking activities in the Netherlands come within its scope. The taxable base of the levy is the liability side of the global consolidated balance sheet, with exemptions for equity, for deposits that are covered by a deposit guarantee scheme, and for certain liabilities that relate to insurance business.

The levy on short-term funding liabilities (less than one year) is twice as high as the levy on long-term funding liabilities (more than one year). Of the total yearly tax proceeds of EUR 600 million, EUR 175 million is borne by ING. If a bank violates the 1:1 fixed remuneration-to-variable remuneration ratio for board members set out in the Dutch Banking Code, the levy percentage will be increased. For ING, the levy increase will not be triggered as long as no bonuses are paid to the Executive Board of ING Group. Moreover, banking taxes paid by ING in other countries amounts to EUR 55 million in 2012. We

believe the timing and motivation for such a bank levy to be inopportune given the economic climate and conditions in financial markets. There is also a risk that banks such as ING will face double taxation, i.e. taxation by more than one country per bank activity.

### Deposit Guarantee Scheme

In August 2011, the Ministry of Finance and DNB published their proposal to establish an ex-ante funded (i.e. pre-funded) Deposit Guarantee Scheme (DGS) in the Netherlands. The scheme was expected to be introduced on 1 July 2013. However, as a consequence of the arrangements made by the Dutch government related to the nationalisation of SNS REAAL, ING and the 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. To avoid a disproportionate financial burden for banks and in view of the ability of banks to lend to the real economy the ex-ante DGS contribution has now been postponed by two years until 1 July 2015.

The target level of the fund will be 1% of total guaranteed deposits in the Netherlands. This is about EUR 4 billion now, to be built up, in principle, in 15 years. The main element of the proposal is that for each bank the individual target amount is defined as 1% of its guaranteed deposit base. To reach this individual target amount, every bank pays a base premium of 0.0167% per quarter of its guaranteed deposits. Additionally, a risk add-on of 0%, 25%, 50% or 100% of the base premium has to be paid by every bank, depending on its risk weighting. We expect the cost for ING to amount to EUR 100 to 150 million on a yearly basis as of the start date of the DGS contribution. The banking industry is in discussions with the Ministry of Finance on several aspects of the DGS, including banks' individual contributions and the fund's target size.

### The Banking Code Monitoring Committee

A committee to monitor banks' compliance with the Dutch Banking Code was set up in 2010 and in December 2012 it presented its report. It concluded that Dutch banks had made good progress on implementing the Code, but that more could be done and that banks should put more effort into communicating their efforts to the general public.

### Dutch Parliamentary Committee on the Financial System

The Dutch Parliamentary Committee on the Financial System ('Commissie De Wit') held a Parliamentary Inquiry from November 2011 to January 2012. Its mandate was to analyse the acute problems that developed in the Dutch financial system between September 2008 and January 2009, to assess the measures taken to deal with those problems, and to draw lessons for the future. Key people from the Dutch financial sector were interviewed and the Committee presented its report to the Dutch Parliament in April 2012.

The Commissie De Wit formulated 20 recommendations, of which 9 are relevant to banks. Recommendations include those on contributions to the Deposit Guarantee Scheme, investigating the possibility of ring-fencing bank activities outside the EU, and creating a strong European banking supervisor.

# Strategy

## Taking charge of change

- > Continued focus on customer centricity and sustainability
- > Solid financial results, continued active de-risking and a further strengthening of the capital and liquidity position
- > Good progress on restructuring amid a challenging environment
- > Agreement reached with the EC on amended Restructuring Plan
- > Further progress towards State repayment and double leverage reduction
- > Portfolio streamlined and businesses strengthened

Since the financial crisis of 2008/2009, ING has put more emphasis on its priorities to put the customer first, to better balance the interests of all stakeholders, and to have strong, financially sustainable, simpler businesses. In 2012, several important milestones were reached. First, we strengthened our capital, funding and liquidity positions to meet future regulatory requirements (Basel III), and continued to take a prudent approach to risk in a volatile external environment. Second, ING and the Dutch State reached an agreement with the European Commission (EC) in November 2012 on an amended Restructuring Plan. This has given us more flexibility in completing the divestments and making adjustments on other commitments in light of the market environment, economic climate and more stringent regulation. Third, ING's repayments (including premium payments) to the Dutch State exceeded the principal amount of capital support provided in 2008. Among all the European banks that received state aid following the crisis, ING is one of the furthest advanced in repaying it; above that with a significant premium.

Moreover, ING updated and streamlined its remuneration policy, and continued to reduce its risk profile. Sustainability has become more central to ING's strategy and we continue to foster dialogue with all existing and new stakeholders. ING sharpened its strategy for the Bank, and further reduced the size of the Bank's balance sheet and simplified its product range, making the company easier to manage. At the same time, we managed to increase service levels, which has won ING Bank several industry awards. On the Insurance and Investment Management side, we announced the first five sales of its Asian Insurance/IM units, and both ING U.S. (which is the new name for Insurance and IM activities in the US) and ING Insurance/IM Europe made strides in their initial public offering (IPO) preparations.

### STRENGTHENING THE FINANCIAL POSITION

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, which caused ING Group's net result to decline to EUR 3,894 million, we gained in financial strength in 2012. We said that capital, funding and liquidity would come before profit in 2012 and we delivered in full on that promise. Capital and funding improved, our liquidity position remained strong, earnings remained resilient, and net exposure to riskier asset classes and activities declined.

In January 2012 the Bank unveiled Ambition 2015, a set of aspirations that included generating more capital and attaining a core Tier 1 capital ratio under Basel III of at least 10% by 2013. The core Tier 1 ratio strengthened to a solid 11.9% under Basel II and 10.4% under Basel III by the end of the fourth quarter 2012 (on a pro-forma basis, taking into account the impact of new accounting rules on pensions, IAS 19R, which came into effect on January 2013). ING was also able to achieve a liquidity coverage ratio of more than 100% in 2012; a level we aimed at for 2015. In line with Ambition 2015, ING Bank's balance sheet optimisation is on track. The balance sheet was reduced by EUR 137 billion since September 2011 of which EUR 85 billion was related to the sales of ING Direct Canada and ING Direct USA.

ING Bank's decrease of its underlying result before tax was mainly driven by higher loan losses, losses from active de-risking, negative credit and debt valuation adjustments and the Dutch bank levy. Our strong funding position enabled us to continue supporting

our customers through lending in 2012, despite the challenging external circumstances. ING will strive to further strengthen its financial position by improving operating performance, boosting income and lowering risk and costs.

The Insurance/Investment Management operating profit decreased in 2012, mainly because of a lower technical margin, higher expenses and higher deferred acquisition costs in the life business and lower non-life results during the year. The underlying result was heavily affected by losses on hedges, as ING Insurance focused on protecting regulatory capital amid volatile financial markets.

### GOOD PROGRESS ON AND RENEWAL OF RESTRUCTURING PLAN

During 2012, ING made progress on its Restructuring Plan to fully separate its banking and insurance and investment management activities in a challenging operating environment. We announced the first five sales of our Asian Insurance/IM units, and Insurance U.S. continued with its IPO preparations. Moreover, ING and the Dutch State, reached an agreement with the EC to significantly amend the 2009 Restructuring Plan.

### DELIVERING ON RESTRUCTURING

To obtain approval from the EC in November 2009 for the support received from the Dutch State during the financial crisis, ING had to divest WestlandUtrecht Bank by 2012, and ING Direct USA and all ING's insurance and investment management operations by the end of 2013.

During the past few years the following important milestones have been reached:

- The operational separation of the insurance and banking activities, completed at the end of 2010.
- The sale of almost all of the Latin-American Insurance/IM operations in 2011.
- The sale of ING Direct USA, completed in February 2012.
- The first three sales of the Asian Insurance/IM units, announced in October 2012. Two additional sales were announced in November and December 2012.
- In November 2012, ING U.S. filed the registration statement for its IPO.

The first sale among the Asian Insurance/IM units, announced in October 2012, was ING's 33.3% stake in China Merchants Fund, an investment management joint venture, to the joint venture partners China Merchants Bank, and China Merchants Securities for EUR 98 million in cash and a net gain of EUR 64 million. The second sale announced in October 2012 and closed in December 2012, was that of the insurance businesses in Malaysia to AIA Group. ING received approximately EUR 1.3 billion in cash in this transaction, which delivered a net transaction gain at closing of EUR 745 million. The third sale was the sale of the life insurance, general insurance, pension and financial planning units in Hong Kong and Macau, and ING's life insurance operation unit in Thailand, to the Pacific Century Group (PCG). The sale proceeds of EUR 1.64 billion in cash for this combined transaction, result in a net gain of approximately EUR 1 billion. The fourth sale, announced in November 2012, was ING's investment management business in Thailand to UOB Asset Management for EUR 10 million in cash. The fifth sale, announced in December 2012, was ING's IM business in Malaysia to Kenanga. All divestments mentioned are expected to close at the latest in the first half of 2013.

ING has incurred over EUR 500 million in expenses in executing the 2009 Restructuring Plan since it started.

### AMENDMENTS TO THE RESTRUCTURING PLAN

ING announced in November 2012 that, together with the Dutch State, it had reached an agreement with the EC on significant amendments to the Restructuring Plan.

The amendments extend the time horizon and increase the flexibility for the completion of divestments and adjust other commitments in light of the market conditions, economic climate and more stringent regulation. Under the amendments, the final dates for divesting the insurance and investment management businesses have been extended as follows:

- The divestment of more than 50% of the 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 U.S. 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 Insurance/IM Europe has to be completed by year-end 2015, with the remaining interest divested by year-end 2018.
- As ING has committed to eliminate double leverage, proceeds from the divestments will be used to that end, while ensuring adequate leverage ratios for the insurance holding companies.

The base case scenario for the divestment of Insurance/IM Europe and ING U.S. is through an IPO process. We are determined to maintain the momentum of the programme achieved over the past four years. We will continue our efforts to improve our performance, serving our customers, prudently managing risks and expenses to make sure that when the circumstances are right, we will be ready for the next phase in restructuring and realigning our businesses. The timing of divestments will depend on market conditions and readiness, including performance. The process of divesting the remaining Insurance and IM units in Asia continues. ING is committed to conduct these processes with the utmost diligence in the interest of all stakeholders, including customers, employees, distribution partners and shareholders.

Under the terms of the original Restructuring Plan, ING was required to divest WestlandUtrecht Bank by 2012. However, due to market circumstances and changing regulatory requirements, this has not been feasible.

Under the amended terms of the Restructuring Plan, the commercial operations of WestlandUtrecht Bank will be combined with the recently created Nationale-Nederlanden Bank, which is to be divested as part of Insurance/IM Europe. The retail banking businesses will be integrated in the course of 2013 and 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 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 itself to ensuring that Nationale-Nederlanden Bank reaches 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 sold, whichever date comes first. Furthermore, ING has agreed to a maximum ratio for mortgage production at 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 restrictions on price leadership for certain products in EU markets. These restrictions will continue to apply until 18 November 2015 or until 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 10 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 an EC decision on 16 November 2012. As a result, the EC closed its formal investigations that were announced on 11 May 2012 and ING also withdrew its appeal at the General Court of the European Union, which was filed in July 2012. For principal legal reasons, the EC 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 agreement as announced in November 2012. We believe that the amended Restructuring Plan is in the interest of all stakeholders.

#### REPAYMENT OF STATE AID

ING received EUR 10 billion in state aid from the Dutch State in November 2008. Including the latest repayment in November 2012, ING has so far repaid EUR 10.2 billion, including EUR 2.4 billion in interest and premiums. As part of the amended Restructuring Plan, ING filed a schedule for repayment to the Dutch State of the remaining EUR 3 billion in core Tier 1 securities plus a 50% premium, in four equal tranches of EUR 1.125 billion in a period of two and a half years. These payments add up to EUR 4.5 billion (principal, premium and interest). A first tranche of EUR 1.125 billion was paid on 26 November 2012. That brought the total repaid (including premium and interest) above the EUR 10 billion of capital support provided by the Dutch State in 2008. The other tranches also of EUR 1.125 billion each, are due to be paid in November 2013, March 2014 and May 2015.

After the final payment, ING will have paid EUR 13.5 billion to the State, with a total annualised overall return for the State of 12.5%. However, ING has the option to accelerate repayments if possible and prudent under the prevailing economic circumstances. Repayments are conditional upon the approval of DNB, the Dutch central bank. The ultimate annualised overall return for the State will depend on when repayments are made (i.e. it will be higher if the repayment is accelerated) but under the envisaged timetable it would

be 12.5%, well above the minimum 10% demanded by the EC. ING Group and the Dutch State are also still linked via the Illiquid Assets Back-up Facility (IABF), as described in the Strategy chapter of ING Group Annual Report 2011. This situation remained unaltered in 2012. At year-end the mortgages portfolio held by the Dutch State was close to break-even or even exceeded that point.

#### PORTFOLIO STREAMLINED, MORE DIVESTMENTS MADE

Apart from the divestments required by the EC, ING also made a few divestments as a result of the continuous evaluation of its portfolio of businesses. This is in line with ING's strategic objectives of sharpening the focus of the Bank and further strengthening its capital position. In 2012, ING sold ING Direct Canada to Scotiabank for CAD 3.1 billion (EUR 2.4 billion at the then current exchange rate). The sale was completed in November 2012 and resulted in a total capital release for ING of EUR 1.3 billion, and a net transaction gain of EUR 1.1 billion after tax.

On 9 October 2012, ING announced that it had reached an agreement to sell ING Direct UK to Barclays. This transaction was closed in the first quarter of 2013. The combined loss for the transfer of the business and the investment portfolio to Barclays of EUR 0.3 billion will be offset by an expected total capital release of EUR 0.3 billion due to risk-weighted asset release. The total transaction will therefore be capital neutral to ING Bank's core Tier 1 ratio.

The remaining ING Direct units in Australia, Austria, France, Germany, Italy and Spain were not affected by the divestments. ING continues to invest to evolve the ING Direct business model, increasing the product offering and extending distribution, while integrating the balance sheet with the rest of ING Bank.

In February 2012, the sale of ING Direct USA to Capital One Financial Corporation was closed. The transaction resulted in a positive result after tax of EUR 0.5 billion. The sale had a positive impact on ING Bank's core Tier 1 ratio of approximately 80 basis points at closing. As part of the sale of ING Direct USA to Capital One, ING obtained shares in Capital One, all 54 million of which we sold in September 2012 for a total value of USD 3.0 billion (EUR 2.4 billion at the then current exchange rate).

#### BUSINESSES STRENGTHENED BANK

ING's goals are to help people and businesses build their future to realise their ambitions and to help them manage their risks. We want to be a financial institution our customers are comfortable with and are eager to refer to friends, colleagues, business partners and family.

Our vision is clear, and so are the strategic steps we need to take to execute it. First, we put the customer first, offering superior customer experiences at attractive costs and giving employees opportunities to grow and go the extra mile for customers. Second, ING Bank focuses on the safety of depositors' money. Our capital base should be solid, our deposit raising smooth and low-cost and our investment selection careful. Third, every ING business has its own roadmap, to excel in its area. Finally, we make a positive contribution to society, allowing future generations to thrive within the resource limits of this planet.

In 2012, several factors continued to put pressure on margins and limit the Bank's ability to grow. These factors included regulation

## Strategy continued

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(more conservative requirements for funding, liquidity and leverage), societal drivers (e.g. households and governments need to reduce debt), and a weaker economic environment.

However, ING Bank was able to continue delivering on its priorities to strengthen its financial position, reduce risks, meet the restructuring measures as approved by the European Commission and to build a stronger bank. The Bank has made good progress on the ambitions for 2015, defined in January 2012. The main pillars on which the Bank's strategy is based are customer centricity, operational excellence and optimising the balance sheet. Customer centricity is about restoring trust through transparency and fair pricing, improving service and focusing on providing solutions for customers. Operational excellence goes beyond cost cutting and is about streamlining processes and improving efficiency (simplifying the organisation to reach a structural and sustainable new level of efficiency). This is an imperative competitive edge as regulatory costs rise. Optimising the balance sheet entails managing the balance sheet to optimise returns to help offset the impact of higher capital requirements.

Among the short-term and medium-term focus areas for ING Bank are strengthening the capital and liquidity position, optimising the balance sheet (including in each country), adjusting the governance structure of individual business units and countries (including the appointment of CEOs for each country), and creating a consolidated Bank Treasury function for the entire Bank which helps it better coordinate its programme of funding, liquidity and investment portfolio.

A longer-term ambition is to develop a mature banking model in each country where ING operates. ING Bank has a good starting position and a competitive edge, with leading banking positions in its home markets of the Netherlands, Belgium, Luxembourg, Germany and Poland. Furthermore, ING has key positions in other Western, Central and Eastern European countries and Turkey, along with growth potential outside of Europe.

ING Bank has strong deposit gathering capabilities and a good funding mix. It has a well-known brand and it uses the Net Promoter Score (NPS) methodology to increase customer loyalty. The Bank is used to operating in lean, competitive markets which has helped it become a leader in innovative distribution. It has a prominent position in internet banking with a 'direct first, advice when needed' model and a relationship-driven commercial bank offering competitive products in terms of price, efficiency and effectiveness.

Since customer centricity remains crucial to all we do, we are converging our retail banking business models in terms of product offerings and distribution channels. We believe that operational excellence is crucial for meeting the demands of our customers, especially when regulatory costs and bank taxes increase costs. In order to remain competitive and to be able to face the challenging external environment, it has been necessary to cut costs. However, at the same time we focus on achieving true operational excellence, helping our customers obtain simple products through convenient and safe multi-channel access while at the same time streamlining our organisation and systems. These initiatives will offset some of the increasing regulatory costs and bank taxes, helping ING Bank to lower its current cost/income ratio of 62.5% in 2012 to 50-53% by 2015. Once the restructuring of the Group is complete and the

Bank is a stand-alone business, the emphasis will be on increasing our deposit base and integrating the balance sheet by matching the deposits of ING Direct with loans from Commercial Banking. This will allow us to increase the size of the business without growing the balance sheet. ING Bank aims to produce a competitive return on (IFRS-EU) equity of 10% to 13% through low costs and with a low-risk balance sheet.

ING aims to build on its leading position as a predominantly European bank with a strong international network focused on providing customers with consistently high-quality services. ING's main priority is to finance the real economy, even in a volatile economic and regulatory environment.

### **INSURANCE/INVESTMENT MANAGEMENT**

ING Insurance/IM will continue to focus on its customers and distributors by providing exemplary products and service as it continues to restructure in preparation for a stand-alone future.

In 2012, ING Insurance/IM as a whole further refined its sales processes and the process for the development of new products to ensure they continue to be fully compliant in terms of customer suitability. A five point gauge was developed in monitoring compliance. The five points include NPS, customer complaints, welcome call analysis, policy persistency rate and agent turnover rate. ING Insurance/IM continued to use insights from its Net Promoter Score (NPS) programme in 17 countries to make process improvements in 2012. Businesses in Europe and Asia revised written customer communications to ensure the language used was clear and free of jargon. ING's tied agency transformation programme reviewed agents in many countries, which improved agent productivity. ING Insurance/IM's strategy of being a customer-driven business providing first-class products and services through multi-distribution channels was recognised in several awards and special mentions received during the year. Awards were won by the Insurance businesses in Romania, the Czech Republic, Slovakia, Hungary, Greece and at ING Investment Management.

The Insurance/IM businesses have made progress towards independent futures. The sale of a large part of the Asian insurance and asset management business was announced and ING U.S. took another step towards its planned IPO by filing an initial registration statement on Form S-1 with the SEC in connection with its proposed IPO. It also made progress towards a stand-alone capital structure by successfully raising USD 5 billion in a credit facility and a further USD 850 million in debt issuance.

Towards the end of 2012, ING announced a Restructuring Plan for its European insurance/investment management operations. This involves the acceleration of a transformation programme at Nationale-Nederlanden to sharpen its strategic focus and improve processes and systems. These measures, together with reorganising support functions, are expected to further improve the efficiency of the businesses and to result in annual savings of approximately EUR 200 million by the end of 2014. Unfortunately, these initiatives will result in a reduction in the workforce of 1,350 full-time equivalents (FTEs) in 2013-2014. This reduction will be carried out with the utmost care. For further explanation on how ING is building stronger banking and insurance/investment management businesses see the 'Banking overview' and 'Insurance overview' sections of this Annual Report.

## ING IN SOCIETY

ING's business is centred on people and trust. Only by acting with professionalism and integrity can we maintain our stakeholders' confidence and preserve the company's reputation. At the heart of our values are the ING Business Principles, which are the global standard for the behaviour expected of every employee.

Our ambition to be a world-class and trustworthy financial institution includes being a company that takes its responsibilities towards people and the environment seriously. We leverage our unique resources, skills and expertise to contribute to economic growth, general well-being and positive change.

ING believes that customers, employees, shareholders and the rest of society no longer live in separate worlds that meet intermittently, but have become more integrated. This mutual interdependence of business and society means that organisations must follow the principle of shared value. It is our conviction that, to be a successful company, our business decisions must be in line with the expectations and interests of those to whom we owe our licence to operate – our stakeholders. Therefore, we do not engage in activities that seriously damage the environment or violate human rights. We strive to achieve our business goals while making a positive and responsible contribution to society everywhere we do business.

We strengthened our commitment to minimising any potential unethical, illegal or harmful consequences of our business activities, investments or transactions by applying strict policies and principles. An example of integration into our business practice is that ING became one of the founding signatories to the United Nations Principles for Sustainable Insurance. These were launched at the UN Conference on Sustainable Development in Rio de Janeiro in 2012.

Our commitment to sustainable development is also clearly reflected in our sustainability key performance indicators (KPIs). In 2012, we began the process of sharpening our goals and KPIs to enhance our accountability. Our refined sustainability KPIs reflect our ambition to provide suitable products and services that enhance the financial capabilities of our customers and that help provide solutions to problems that stem from long-term social trends in such areas as climate change, education and health. They indicate that ING is committed to playing its part to stimulate economic development, a sustainable environment and a stable society.

The voices and views of our stakeholders are an essential compass in identifying the risks and opportunities for our business. We therefore seek feedback from stakeholders on various issues and try to engage them in a constructive dialogue. Such engagements range from conducting large studies among our customers about our brand values, and the co-creation of new products together with customers, to meeting employee representatives, shareholders or civil society organisations. We are also member or partner of a wide range of international organisations, which helps prioritise issues and take action where necessary.

## CONCLUSIONS AND AMBITIONS

In a challenging environment ING's capital and funding improved, our liquidity position remained strong and earnings remained resilient. This enabled us to continue to support our customers. Beside strengthening our financial position, we were also able to make good progress on our other strategic priorities for ING Group: restructuring, streamlining the portfolio, repaying state aid and building stronger banking and insurance and investment management businesses. We continued to build our banking and our insurance businesses based on sound business ethics and good corporate citizenship. The Bank will continue to focus on restoring trust and customer centricity, on operational excellence and on optimising its balance sheet to meet its strategic goals.

Despite volatile markets, we have continued to work towards the full separation of our insurance and investment management companies with the goal of being ready to move ahead in time with the base case IPOs for ING U.S. and ING Insurance/IM Europe, as well as with the sale of the remaining insurance and investment management businesses in Asia. ING will make further efforts to simplify the structure of the company, to focus on core activities, to improve our risk profile and to bolster the capital base. In light of changing customer expectations and demands for more simplicity, easy access and sustainable entrepreneurship, ING has stepped up its efforts to take charge of these changes. We have been working hard to regain the trust of all of our stakeholders, but particularly of our customers, who are at the heart of our businesses; for example by simplifying the product range and making products more transparent, while ensuring suitability and a reasonable, attractive price. In spite of the challenging financial and regulatory environment, we are determined to stay true to our roots and keep helping customers build their future. We intend to remain ambitious in making further improvements to our businesses and in strengthening customer relationships.

# Capital management

Active capital management is an important factor in achieving ING's strategic and financial objectives. At a time of turbulence in the financial markets and in depressed economic conditions, capital adequacy at all levels within the organisation, and generating value for our shareholders, are top priorities. Maintaining sufficient financial flexibility is especially needed, given the rapidly changing regulatory landscape and the restructuring measures that have been approved by the European Commission.

## CAPITAL MANAGEMENT AT THREE LEVELS

ING Group continues to manage capital on a consolidated basis at three levels – ING Group, ING Insurance and ING Bank – due to the fact that ING has set strategic objectives at each of those levels. Within ING Bank and ING Insurance there are different entities that have their own ratings and capital requirements. The overall approach of ING Group's Capital Management is to meet these requirements, but also to challenge them constantly to ensure optimal use of capital. At the same time the fungibility of capital is being preserved to ensure that the Group can continue to benefit from the diversification between its banking and insurance activities.

Capital Management is integral to the way the Group manages its businesses and legal entities. ING's Capital Management strategy is driven by the strategic aims of the Group and the risk appetite set by the Board. 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 such as the repayment of the core Tier 1 securities. 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.

## CAPITAL MANAGEMENT DEVELOPMENTS AT ING GROUP

In line with the amended agreement with the EC, one of the focus areas at ING Group is to repay the core Tier 1 securities to the Dutch State and to eliminate double leverage. As ING has committed itself to eliminate double leverage, the proceeds from divestments will be used to that end, provided they are not needed to reduce the leverage of the remaining insurance businesses. Repayment of the core Tier 1 securities will primarily be funded out of capital generated by ING Bank.

ING Group has made a commitment to repay the Dutch State the remaining EUR 3 billion core Tier 1 Securities at a total cost of EUR 4.5 billion, consisting of principal, premiums, accrued interest and coupon payments should they be triggered by potential future dividend payments. The repayment is scheduled in four equal tranches of EUR 1.125 billion each. After approval by the Dutch Central Bank (DNB), the first tranche of EUR 1.125 billion was paid on 26 November 2012. The other tranches are due to be paid in November 2013, March 2014 and May 2015.

The remaining EUR 2.250 billion core Tier 1 securities will continue to be eligible as core Tier 1 capital. While ING has committed to redeem these securities per the defined schedule, ING has the ability to defer a repayment in full or in part. In the event that ING does not repay in full two consecutive repayment tranches or does not pay in total EUR 4.5 billion by 15 May 2015, the Dutch State will re-notify to the Commission who may require compensatory

ING Group capital structure		
in EUR billion	2012	2011
Equity	54.4	46.7
Core Tier 1 securities	2.3	3.0
Core debt	7.1	7.9
Hybrids	9.2	9.3
<b>Total capital Group</b>	<b>72.9</b>	66.9

Most significant divestments closed in full year 2012		
in EUR billion	IFRS-EU Book value	Sale Proceeds
<b>ING BANK</b>		
– ING Direct USA	6.3	6.9
– Capital One (ING's stake in)*	2.0	2.4
– ING Direct Canada	1.4	2.4
<b>ING INSURANCE</b>		
– Malaysia	0.6	1.3

\* Capital One shares received as part of ING Direct USA proceeds.

measures. All repayments are conditional upon the approval of DNB.

During 2012, the extra capital generated within ING Bank enabled it to pay an additional dividend to ING Groep N.V. of EUR 1.0 billion, to help reduce the double leverage, which at the end of 2012 stands at EUR 7.1 billion.

#### **CAPITAL MANAGEMENT DEVELOPMENTS AT ING INSURANCE**

The base case scenario for Insurance Europe and ING U.S. is for them to become standalone businesses through an initial public offering (IPO). The timing of the divestments will depend on market conditions, readiness and performance. To be ready for an IPO these businesses need to be capitalised in line with their peers. Another key requirement is that they have access to the debt markets on a stand-alone basis with their own ratings, whereas financial entanglements with other Group entities need to be at arm's-length. An important step in preparing for the divestments was the liability management transaction that was executed in March 2012. With this transaction ING was able to remove substantial assets disposal clauses in senior debt securities issued by ING Verzekeringen N.V. totalling EUR 2.6 billion that otherwise could have been triggered.

Currently, ING U.S. is at an advanced stage of IPO preparation. Historically it operated with a capital structure that reflected its status as a wholly-owned subsidiary of ING Group, and has not historically relied on direct access to the capital markets for financing needs. On 9 November 2012, ING U.S., Inc. (the US parent company of ING U.S., which constitutes ING Group's US-based retirement, investment and insurance operations) filed an initial registration statement on Form S-1 with the U.S. Securities and Exchange Commission ('SEC') in connection with its proposed IPO. On 23 January 2013, ING U.S., Inc. filed an Amendment No. 1 to its Form S-1 registration statement to include financial results for the 9-month period which ended 30 September 2012 and to respond to comments received from the staff of the SEC. Today ING U.S. is focusing on maintaining and strengthening its stand-alone credit ratings, migrating the company towards a targeted financial leverage to capital ratio and a combined Risk Based Capital (RBC) ratio of the US insurance company subsidiaries that meets these objectives. Another objective is to increase liquidity at the holding company level. To help achieve these objectives in 2012 it has already completed a USD 5.0 billion senior unsecured credit facility, and a USD 850 million inaugural senior notes offering in the US capital markets. Another important step in ING U.S.'s capital plan is the receipt of extraordinary distributions from its insurance subsidiaries with an aggregate amount of USD 800 million in the second quarter of 2012.

Preparations have been stepped up for the base case scenario of an IPO for the European insurance and investment management business. However, several challenges and uncertainties remain, including the developing market environment for IPOs of European financial institutions, the lack of clarity with regard to the regulatory capital framework under Solvency I and the lack of clarity of the Solvency II capital adequacy framework, including its methodologies and timing of implementation. Nevertheless, several important initiatives are under way to improve the operational performance of the European businesses and to establish a prudent set of capital targets for the stand-alone entity leading to the IPO. Progress on divesting the remaining units in Asia is continuing.

For more details, please see the 'Strategy' and 'Insurance overview' chapters in this Annual Report.

#### **CAPITAL MANAGEMENT DEVELOPMENTS AT ING BANK**

ING Bank manages its capital position primarily based on its published core Tier 1 ratio, which is the key constraining factor and the most widely used variable to assess the capitalisation of banks. The published ratio today is a Basel 2.5 ratio, but this will over time move towards a fully loaded Basel III ratio. ING Bank has set an ambitious target for its core Tier 1 ratio of 10% under Basel III, based on ING's risk appetite and which compares well to its peer group. While optimising the amount of core Tier 1 capital is the first priority, ING needs to take into account a multitude of other constraints. These include:

- Other regulatory capital requirements: such as the amount of additional capital, lower Tier 2 capital, the impact of the Basel I floor and the leverage ratio (as part of Basel III).
- Economic capital requirements: although not a constraining factor at the moment, economic capital is used to manage the Bank's risk profile and to set limits.
- Rating agency considerations: each rating agency provides a different analysis and specific topics may need to be addressed.

ING Bank is managing its banking business based on a variety of metrics including its own economic capital model but it is primarily the published core Tier 1 capital that is the main steering variable. ING Bank's capital position has been significantly strengthened over the last few years, including in 2012. In 2012, EUR 8.3 billion of regulatory capital was generated, of which EUR 1.125 billion was used to repay the Dutch State and an additional EUR 1 billion was paid as a dividend to ING Groep N.V. At the end of 2012, ING Bank's core Tier 1 ratio was strong at 11.9%. The fully loaded pro-forma Basel III core Tier 1 ratio at the end of 2012 stood at 11.0%; including the anticipated impact of the revised IAS 19, which took effect on 1 January 2013, it stood at 10.4%.

In spite of difficult market circumstances, ING Bank managed to improve its capital position in 2012 both through profit generation, risk reduction and the successful divestments of ING Direct USA, ING Direct Canada and ING Bank's 9.7% stake in Capital One. ING also announced the divestment of ING Direct UK, which had a neutral effect on ING Bank's capital position when it was closed in the first quarter of 2013. Over the coming years the guiding principles for ING's capital management will be to focus on cash capital generation, sustainable profits and financial flexibility. These objectives will help it deal with the scheduled repayment to the Dutch State of the core Tier 1 securities and with other challenges, such as achieving ING's strategic and financial ambitions, a potentially deteriorating economic environment and increasing regulatory requirements. ING is confident that its capital position provides an adequate buffer to cope with financial market challenges, new regulations and adverse economic conditions.

# Risk management

As a financial services company, ING is exposed to a variety of risks. Risks can have a negative financial impact, but as a financial intermediary performing a 'transformation' function ING cannot operate without taking measured and managed risks. To ensure risk-taking is properly controlled, ING has integrated risk management into its daily business activities and strategic planning.

ING plays an important role in society. The essence of our business is transformation, which takes many forms and serves various customer needs. In our retail banking operations, for example, we transform on-demand entrusted deposits into long-dated mortgage loans. Through our payments and cash management operations we make money available when and where customers need it. Our insurance business is about transformation through time, by converting uncertain future cash flows into fixed flows, whether they are in the form of life insurance contracts or pensions. Geographic transformation takes place through our international commercial banking network when we help corporate customers fund their international business plans.

## THREE LINES OF DEFENCE

The key objective of risk management at ING is to make sure that all risks are managed in the best possible way for all relevant stakeholders. We apply a 'three lines of defence' governance model for risk management, whereby ownership for risk is taken at three levels in the organisation.

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 Bank and Insurance boards 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, 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. The third line of defence is the corporate audit function, which independently oversees and assesses the functioning and effectiveness of the first two lines.

## ANTICIPATING CHANGES

The essence of risk management is the power to prevent and manage surprises. Within ING Bank we continuously challenge understanding, measurement, and management of risk using advanced technology and common sense in a manner that supports our strategy and retains trust among all our stakeholders. This is becoming more important as the world in which we operate changes rapidly. Risk management at ING is about anticipating this change.

With respect to developments in financial regulation and accounting standards, ING is following these closely and is taking action to ensure the bank and insurance units can cope with the changes. ING Bank has taken further steps to prepare for the improved regulatory capital and liquidity framework for banks – Basel III – and is well positioned to operate under this new framework. During 2012, ING Insurance/IM worked strenuously towards meeting the Solvency II directive requirements. Internal preparations by head office and the business units continued, in particular to adapt ING's risk measurement, management and reporting to levels required under the framework.

ING has set up a risk appetite framework that projects and restricts the impact of adverse markets on ING's capital and liquidity position, based on a number of different risk metrics. In addition, ING increasingly conducts company-wide and portfolio-specific stress tests as a supplementary tool to assess resilience to adverse market conditions and to act upon if mitigating actions are deemed necessary. Customer behaviour and demographics have an important bearing on risk management and are consequently modelled and incorporated in our risk appetite framework. Given the continuously changing environment, the underlying assumptions are regularly reviewed, as are all relevant metrics.

In 2012, economic conditions remained volatile, especially in Europe. Within this environment both the Bank and the Insurance units continued selectively to de-risk their balance sheet, for example by selling Spanish assets, asset-backed securities and real estate investments. The total exposure in the GIIPS (Greece, Ireland,

Italy, Portugal, Spain) countries decreased by EUR 13.8 billion to EUR 67.6 billion. The Spanish funding mismatch was reduced to EUR 9.3 billion, and will continue to decline as securities run off.

In addition, ING Bank continued its balance sheet integration programme as it worked towards optimising local balance sheets and risk-weighted assets were reduced following the restructuring of Financial Markets' activities. Weak economic and business fundamentals continued to contribute to elevated levels of risk costs in 2012, while the percentage of non-performing loans increased to 2.5% which represents EUR 14.9 billion. The underlying addition to the provision for loan losses rose by 59% to EUR 2,122 million. Moreover, several other mitigating actions were taken such as additional collateral requirements.

In spite of the challenging economic conditions, ING Bank succeeded in strong capital generation and consequently improved its capital ratios over 2012. ING Bank's core Tier 1 ratio expressed as a percentage of risk-weighted assets increased from 9.6% at year-end 2011 to 11.9% at year-end 2012. ING Bank continued to have access to funding at acceptable pricing.

During 2012 the long-term funding issuance further continued with EUR 33.1 billion, also in order to reduce short-term professional funding. Growth in funds entrusted continued to develop favourably at Retail Banking, which more than offset a net outflow within Commercial Banking. As a result, ING Bank's loan-to-deposit ratio (excluding securities that are recorded at amortised costs in loans and advances and excluding the IABF government receivable) moved to 1.13. The Bank therefore improved its funding profile and ensured its liquidity position stayed within conservative internal targets.

On the Insurance side, the ongoing de-risking activities were also applied to the general account of Insurance Europe. Reflecting the impact of different de-risking measures taken, the investment margin declined over 2012. Furthermore, there was a continued focus on protecting regulatory capital, both in Europe and in the US, and measures were taken to decrease the vulnerability of the Insurance capital position especially against falling equity markets.

For ING U.S. specifically, both estimated IFRS earnings sensitivities and regulatory capital sensitivities decreased in 2012 over a wide range of risk types, thereby leading to an improvement of the risk-based capital ratio from 488% in 2011 to 526% in 2012. This enabled ING U.S. not only to make progress on its stand-alone capital structure, but also to raise EUR 850 million external debt and a EUR 5.0 billion credit facility, and to reduce dependency on internal funding.

Non-financial risk issues increasingly demand our attention since they can seriously impact the functioning of our different businesses. These issues differ for each business activity and require tailored approaches to counter them. We have, for example, installed operational controls in the trading rooms of Financial Markets and anti-fraud programmes in our insurance and lending acceptance processes.

Another important non-financial risk issue is cybercrime, particularly now that distribution and communication channels are more internet-based and electronic banking is growing exponentially. This has increased the speed and convenience with which our customers can communicate with us to access their funds and

our services, but we are committed to providing this convenience without compromising security standards. We have therefore increased monitoring and controls to enhance our defences against external attacks and to reduce the level of losses.

With its function as a financial intermediary ING plays an important role in society. We are continuously developing our products according to our customers' changing demands and ensure that they comply with our proper values and principles, for example via sales suitability programmes.

In addition, ING has integrated sustainability objectives in its business strategies and activities and manages the related social and environmental risks. Furthermore, in line with European Union requirements, risk management plays an important role in evaluating the performance and determining the remuneration of senior management, ensuring that remuneration is properly correlated with our risk profile and the interests of all stakeholders.

A more detailed section in the Annual Accounts provides further insight into the risk management practice within ING Group.

# Banking overview

## MANAGEMENT BOARD BANKING on 31 December 2012

Jan Hommen  
chief executive officer

Koos Timmermans  
vice-chairman

Patrick Flynn  
chief financial officer

Wilfred Nagel  
chief risk officer

William Connelly  
CEO Commercial Banking

Eli Leenaars  
CEO Retail Banking Direct and International

Hans van der Noordaa  
CEO Retail Banking Benelux

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 underlying result before tax (excluding the impact of divestments and special items) dropped by 22.0% to EUR 3,219 million in 2012, from EUR 4,128 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 14.0% lower, fully attributable to higher risk costs.

Total underlying income was virtually stable at EUR 14,241 million. The underlying interest result decreased by 2.2% to EUR 11,712 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 1.32%, from 1.38% in 2011. Commission income fell 3.0% to EUR 2,162 million, mainly in Commercial Banking. Total investment and other income rose to EUR 368 million, from EUR 84 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 by the negative swing in CVA/DVA adjustments.

Underlying operating expenses increased slightly, by 0.9% to EUR 8,900 million, compared with EUR 8,824 million in 2011. The increase was mainly due to inflationary and regulatory pressure, including the EUR 175 million Dutch bank levy partly offset by strong cost control and lower impairments on real estate development projects. The underlying cost/income ratio rose to 62.5%, from 61.8% in 2011. Excluding market-related impacts and the Dutch bank levy, the cost/income ratio was 57.6% 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

### Financial overview\*

in EUR million	2012	2011
Total underlying income	14,241	14,289
Underlying operating expenses	8,900	8,824
Underlying additions to loan loss provisions	2,122	1,336
Underlying result before tax	3,219	4,128
Underlying interest margin	1.32%	1.38%
Underlying cost/income ratio	62.5%	61.8%
Underlying cost/income ratio (excl. market impacts and CVA/DVA)	57.6%	57.9%
Client balances: net production funds entrusted (EUR billion)	23	19
Client balances: net production lending (EUR billion)	0	26
Underlying risk costs in bp of average RWA	73	48
Risk-weighted assets (year-end, EUR billion, adjusted for divestments)	279	294
Underlying return on equity based on IFRS-EU Equity	5.9%	8.8%
Underlying return on equity based on 10% core Tier 1**	7.7%	10.9%
Employees (FTEs, year-end, adjusted for divestments)	65,827	67,205

\* Underlying numbers are derived from IFRS-EU, excluding the impact of divestments and special items.

\*\* Underlying after tax return divided by average equity based on 10% core Tier 1 ratio.

### Underlying income

in EUR million	2012	2011
Retail Banking	9,019	9,286
Commercial Banking	4,963	5,023
Corporate Line banking	260	-20
<b>Total</b>	<b>14,241</b>	<b>14,289</b>

### Underlying result before tax

in EUR million	2012	2011
Retail Banking	1,698	2,282
Commercial Banking	1,572	2,019
Corporate Line banking	-50	-173
<b>Total</b>	<b>3,219</b>	<b>4,128</b>

## WHERE WE OPERATE\*

ING Bank builds on its international network from its Northern European home markets, capitalising on its leadership position in gathering savings, multi-channel distribution, simple propositions, cost leadership and marketing.

ING's presence at 31 Dec 2012



compared with 48 basis points in 2011. The underlying return on IFRS-EU equity was 5.9% in 2012, down from 8.8% 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.

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, and bringing the cost/income ratio down to 50–53%.

ING Bank continued to generate capital by making a net profit of EUR 2.97 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 pro forma 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 six 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.

## Banking overview continued

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 customers' 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'. 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 programme 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.

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.

# Retail Banking

Responding to customer needs in an uncertain economic and social climate

- > Good progress made on balance sheet optimisation
- > Building a sustainable and resilient business a key long-term ambition
- > Responding to customer needs with easy and fair products at low costs
- > Mobile banking and social media increasingly important
- > Ten business units achieve high Net Promoter Scores

Retail Banking maintained its solid positions in the Benelux, Western Europe and Australia and remains well placed to seize opportunities in Central Europe and Asia. Amid economic and social uncertainty, its performance remained solid, but some countries came under pressure due to the deteriorating situation.

The business will continue to build on the 'direct if possible, advice when needed' model, while working towards becoming a more complete bank in certain countries. All initiatives are aimed at meeting the Bank's ambition of becoming the Preferred Bank for our customers.

There was continued focus on customer centricity, operational excellence and being a top employer. Other focal points were mobile banking and cybercrime.

## FINANCIAL DEVELOPMENTS

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.

Financial overview*		
in EUR million	2012	2011
Total underlying income	9,019	9,286
Underlying operating expenses	6,154	6,144
Underlying additions to loan loss provisions	1,167	860
Underlying result before tax	1,698	2,282
Underlying cost/income ratio	68.2%	66.2%
Underlying cost/income ratio (excl. market impacts)	64.1%	62.4%
Customer balances: net production funds entrusted (EUR billion)	28	22
Customer balances: net production lending (EUR billion)	12	27
Underlying risk costs in bp of average risk-weighted assets	80	61
Risk-weighted assets (year-end, EUR billion, adjusted for divestments)	146	143
Underlying return on equity based on 10% core Tier 1**	7.6%	12.0%

\* Underlying numbers are derived from IFRS-EU, excluding the impact of divestments and special items.

\*\* Underlying after tax return divided by average equity based on 10% core Tier 1 ratio.

Underlying income		
in EUR million	2012	2011
Retail Netherlands	3,897	4,145
Retail Belgium	2,194	2,031
Retail Germany	1,193	1,134
Retail Rest of World	1,735	1,975
<b>Total Retail Banking</b>	<b>9,019</b>	<b>9,286</b>

Underlying result before tax		
in EUR million	2012	2011
Retail Netherlands	878	1,261
Retail Belgium	609	455
Retail Germany	441	395
Retail Rest of World	-230	172
<b>Total Retail Banking</b>	<b>1,698</b>	<b>2,282</b>

## RETAIL BANKING BUSINESS DEVELOPMENTS

ING's ambition is to be the Preferred Bank for its customers, driven by operational excellence, customer centricity, balance sheet optimisation, and also on being a top employer.

ING's retail banks have different roots: some of them were established as part of the traditional, universal banks, while others have been established as new entrants, such as the ING Direct units. ING is now combining the two retail models into one, with the same strategic focus in every country: to provide easy and fair banking, at low costs – 'direct if possible, advice when needed'. In doing so, ING is meeting the increasing demand by customers for online and mobile products and services.

ING's customer-centric focus has proved a success, with 10 countries achieving first or second place in Net Promoter Scores (NPS) compared with competitors. ING applies the NPS methodology in all countries to measure customer engagement and compare us with competitors. Detailed feedback is used to improve our internal processes and customer services.

All of ING's business units focus on operational excellence. We therefore continually review business processes and implement improvements throughout the year. A focal point was 'cybercrime' and the Retail Standards Board therefore held a 'cybercrime awareness session' with the senior management of Retail Banking, including a demonstration of a sophisticated cyber-attack. As security is as much a responsibility of the business as it is of IT, key security-related commercial issues will be addressed by a special international taskforce launched in late 2012. Through sharing the knowledge and experiences of countries where cybercrime is prevalent, we prepare our other business units to effectively combat the inevitable increase in cybercrime in their local territories. In 2012, we improved our infrastructure and security to deal with the increasing threat of cybercrime.

The Retail Banking strategy is driven by the Retail Standards Board (RSB), which consists of the most senior leaders in the Retail organisation. Its objective is to set standards in Retail Banking through continuous improvement, innovation and the international exchange of best practices, and in so doing create a sustainable knowledge-sharing culture throughout the Bank.

The RSB's priorities for 2012 were business and customer intelligence, savings, consumer lending and social media. The RSB established an international Social Media Expert Team, which delivered guidelines, recommendations and standards to provide all retail business units with tools and know-how to claim a frontrunner position in the use of social media in their markets. These will be further rolled out across the Retail organisation in 2013.

Currently, the Top Employer initiatives are mainly aimed at our current workforce to improve performance and engagement. Early in 2012, all local Top Employer country teams exchanged best practices and ideas and discussed the next steps to take. These teams continued to implement their action plans and will continue to do so in 2013.

In each of the business unit sections in this chapter, we will go into more detail about the local situations.

## Sustainability

We believe long-term success can only be achieved if we contribute to economic development, a healthy environment and a stable society. We also want to meet the increasing demand for products and services that not only generate good financial returns, but also serve clear social and environmental objectives. Below you will find a few examples of the progress we made in this area in 2012.

### Sustainable financial products

The Dutch government decided to continue facilitating tax benefits for sustainable savings. ING retail customers in the Netherlands can deposit their savings or buy notes in ING Groenbank, which had a balance sheet total of EUR 804 million at year-end 2012. The Dutch government certifies all projects financed by Groenbank as environmentally friendly.

The ING Sustainable Investments strategy focuses on the economic implications of sustainable development from the perspectives of risk reduction and emerging opportunities. It also tried to identify investment opportunities that relate to important sustainability issues, such as scarcity of raw materials and water, talent retention and renewable energy. ING offers the widest range of sustainable investment funds to private investors in the Netherlands and a more limited range in Belgium and Luxembourg. The sustainable portfolios managed by Private Banking increased to EUR 696 million (2011: EUR 528 million).

In the last quarter of 2012, ING Bank Netherlands launched the CS ING SRI Index Fund, which aims to provide investors with a return linked to the ING Socially Responsible Investments Index. Since its introduction in 2008, the ING Socially Responsible Investments Index has outperformed the MSCI World Index and the Dow Jones Sustainability World Index. The Fund's launch was successful, reporting assets under management of almost EUR 15 million at year-end after just two months. The Fund is well positioned for further growth.

ING Belgium offers the ING Real Estate Eco Loan, which allows customers to borrow between EUR 2,000 and 50,000 to finance green home improvements.

ING Vysya Bank offers savings and loan products to people in rural areas, including microfinance for individuals, and self-help groups, which generally comprise of women who take out a loan from microfinance institutions. At year-end the total outstanding retail loan portfolio amounted to EUR 20 million, serving 6,919 people.

### Community investment campaigns

As part of its financial education initiatives, ING participated in the *Week van het Geld* ('Money Week'). Employees of several Dutch banks together gave over 3,300 guest lessons about money matters to primary school children. More than 550 of these guest lessons were given by ING employees in the Netherlands.

The German charity fund, 'DiBaDu und Dein Verein', donated EUR 1,000,000 to 1,000 local organisations. This programme was established in 2011 to support volunteering. It also sponsors 1,000 non-profit associations with EUR 1,000 each.

During the renovation of ING Belgium's head office, the building's façade was covered with a huge urban-art digital work by Belgian artist, Jean-Luc Moerman. One hundred multiples were auctioned

## Retail Banking continued

off by ING employees, generating more than EUR 115,000 for the ING Chances for Children project in partnership with UNICEF.

ING Direct Spain's Christmas campaign invited people to download an app from a dedicated website. The technology enables a smartphone to synchronise with a computer screen, showing a child entering a school by jumping from the computer screen to a mobile phone. The EUR 0.79 app fee was donated to UNICEF's children's education programmes, supported by ING Chances for Children. By early 2012, the campaign site had received 35,736 visits and raised EUR 305,947 in donations.

"Coltiva il tuo sogno" is an educational project run by ING Direct Italy to teach young children the value of saving. Some 4,000 'saving kits' were distributed to schools across the country, and 3,000 copies of the book *Le avventure del Folletto Seminasogni* to Italian bookshops. ING Direct Italy donated EUR 2.00 to the ING Chances for Children programme for every book purchased.

ING Direct Australia and the School for Social Entrepreneurs have entered into a partnership agreement. ING Direct Australia will build the professional and personal capacity of Australia's budding social entrepreneurs, helping them realise their potential. The longer term objective is to support the social innovation and entrepreneurship sector in Australia. A total of 200 entrepreneurs were supported as a direct result of ING's involvement.

### RETAIL NETHERLANDS FINANCIAL DEVELOPMENTS

The underlying result before tax of Retail Netherlands dropped by 30.4% to EUR 878 million compared with 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 programme 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.

### BUSINESS DEVELOPMENTS

The Dutch economy performed poorly in 2012, in common with most of the rest of Europe. Dutch consumers are concerned about their personal finances (for example the risk of negative equity, that is the gap between mortgage debt and market value of the house) and the effects of several government policies on their personal budgets.

Retail Netherlands (Retail NL) worked hard during 2012 to help customers manage their financial concerns. For example, with mortgages we have a transparent price policy, with all fees published on our website. Customers receive an interest renewal notification by email three months ahead of time, the *Hypotheekrentewekker* (mortgage interest alert). We also offer support to customers who are one month overdue on their mortgage payments and assign them a fixed contact person to see how ING can support them. In December, ING started a *Hypotheek Hulplijn* (mortgage help line) which provides tailor-made advice and support for those customers who seek assistance, in addition to specific information on the ING.nl website.

Retail NL's overall results remained solid, albeit affected by these adverse economic circumstances. The profit over 2012 was affected by the low interest rate environment, lower business lending demand and a stagnating housing market.

Market consolidation, continued competition and customers' preferences for simpler, lower cost products required a number of specific counter measures. We enhanced the number of direct channels, invested in the capacity and quality of our internet and mobile channels and improved paperless services. We continuously evaluated our product offering and adjusted it where appropriate.

Over the past five years, we have reduced the number of different savings products significantly, from over 60 to fewer than 10 now. All information, including current interest rates, is available on [www.ing.nl](http://www.ing.nl). Despite continued competition for customer deposits (which eased in the course of 2012) and reduced margins, ING's market share in savings remained stable. The Bank continued its efforts to attract savings and deposits across all channels (net inflow EUR 7.9 billion) and this will remain a priority in 2013. Funds entrusted were up to EUR 115.8 billion at year-end.

The mortgage market share declined by 0.9% with full-year net production at EUR 1.8 billion (2011: EUR 3.6 billion). Retail NL expects risk costs for Dutch mortgages to remain high due to the decrease in housing prices and a further expected increase in unemployment. The non-performing loans ratio increased slightly to 1.4% of total mortgage loans, though that is still relatively low. Furthermore, risk costs in relation to loans for commercial property development in the mid-corporate sector have increased.

Due to decreasing demand for business lending, market shares and revenues came under pressure. During the fourth quarter, a large re-classification of customer groups was carried out within the ING business segment. This has resulted in an internal re-organisation of staff and 30,000 additional small and medium-sized enterprises (SMEs) now having a personal relationship manager. Furthermore, we have extended our product offering to SME customers and are focused on becoming the preferred bank for these customers.

ING continually adapts its organisation to the current economic climate, including its cost level. To this end, we announced cost containment measures in November 2011 and February 2013, which combined are expected to result in a structural cost reduction of EUR 430 million by year-end 2015. So far, headcount has been reduced by 1,838 FTEs out of an expected 4,100 (of which 1,100 external FTEs) by year-end 2015.

## Private Banking

Private Banking, which serves close to 31,000 wealthy individuals, gained in strength and delivered a good performance, especially in asset management; assets under management amounted to EUR 8.3 billion at year-end. It delivered the highest returns on its model portfolios compared to its main competitors for the third year in a row.

ING Netherlands was awarded 'Best Private Bank 2012' by Dutch business magazine *InCompany*, based on a customer survey.

ING in the Netherlands maintained a number two overall market position, serving 8.2 million retail and private banking customers and approximately 585,000 SME and mid-corporate customers. It has more than 400 agents, 275 branches and over 200 service points across the country.

## Strategy

Retail NL's strategy is linked to ING Bank's overall strategy to build a leading retail and commercial bank. In November, ING Netherlands (ING NL) launched 'Orange is ING' – a new brand campaign which reflect the Bank's convenience, simplicity, expertise and personal commitment. The aim is to become the Preferred Bank of the Netherlands.

All parts of ING NL continued to focus on knowledge sharing across the business and a number of local collaboration projects were started across the Bank's entire product range, to share knowledge and expertise on how to improve customer service.

## Stakeholder trust

ING plays a pivotal role in society and has a big responsibility towards its stakeholders. Restoring stakeholder trust is essential, which is why we take an integrated approach towards stakeholders by engaging them in a constructive dialogue and seeking their feedback throughout the year. This comes in many shapes and forms; for example, online seminars on issues such as student loans, pensions and the housing market, and dialogue sessions with customers, consumer organisations, politicians and NGOs about a variety of topics.

In 2012, ING was also in constant dialogue with the Netherlands Authority for the Financial Markets (AFM) through stakeholder and round-table sessions. AFM supervises savings, investments, insurance and loans and this dialogue has improved our working relationship and created more mutual trust and understanding for each other's motives.

## Operational excellence

In 2012, we prepared for further growth and took a number of operational measures to facilitate this growth and provide reliable online banking services. During the year the Bank experienced a number of operational system disruptions due to several technical issues (database memory capacity) and human errors (wrongly executed changes), which limited customer access to Mijn ING, the mobile app and iDEAL. We have improved access to these systems by taking a number of measures, including technological improvements and reducing the interdependencies between the various applications. Thus we try to ensure smooth customer access to our services.

The Bank's anti-cybercrime efforts in 2012 resulted in delivering several large projects, including improvements to authentication, enhanced detection of banking malware, and better fraud detection and payment blocking in the backoffice. Lessons learnt were shared with representatives from the business and risk departments in Belgium, Spain, Italy, Poland and Germany, where similar projects were running.

90,000 Business Banking customers were transferred to the single IT platform that had been created in the wake of the merger between Postbank and ING Bank in 2009. Financial Institution customers and Corporate Clients are expected to transfer to this platform in 2013.

A new internet platform was introduced for ING's customers, including a new look and feel and a different log-in portal. Over four million retail customers transferred to the new online banking system Mijn ING and now benefit from this more user-friendly and accessible platform.

In 2011 the concept of 'customer service through delivery guarantees' was introduced at ING NL and fully implemented in 2012. During the second half, the transfer was made to the 'Less = More' programme, including a full redesign of all the daily banking processes. Less = More is about fewer processes to create more customer satisfaction. The programme contains 10 simple core principles and all customer processes have been measured against these principles and redesigned to make them more customer-friendly, uniform and straight forward. The redesigned processes will be put into effect in 2013.

## Customer centricity

Retail NL took a number of initiatives to improve its product and service offering as customers demand simple, transparent products and quick and flawless delivery.

ING NL, for example, introduced a mobile banking application for SMEs, in addition to the mobile app for private customers. The launch was backed up by an advertising campaign, showing that ING makes everyday banking easier by giving customers access to their accounts anytime, anywhere.

The mobile app, introduced for retail customers in 2011, reached a milestone of 1.9 million downloads, reflecting increased customer demand for mobile banking services. Mobile traffic had increased from 9 million (year-end 2011) to over 25 million visits a month by year-end.

In 2013-14, around 240 ING Service Points will be opened, following a successful pilot in February 2012. Service Points are service desks in shops and other retail outlets offering payment and savings services and where staff can answer basic queries from customers.

ING NL continued its Customer Suitability Programme, whereby products and services are assessed to see whether they still meet customer needs. Many service improvements were made, such as the provision of an early alert on the expiry of the fixed-interest rate term of a mortgage and improved communication on the price of business lending products.

## Retail Banking continued

ING NL continued to broaden its *Duurzaam Spaarbeleid* (sustainable savings policy), which provides consumers with simplified, transparent savings products. It has been integrated in our broader Customer Suitability Programme.

All these initiatives met with broad recognition: ING NL was awarded 'Best Bank in the Netherlands' by The Banker, as well as 'Best Business Service Provider for Commercial Finance' by Incompany Magazine for its 'Most popular financial website', and for being the 'Best traceable bank online 2012 based on Search Engine Optimization'. It was also rewarded 'Best Social Media Company in the Netherlands' by Social Media Monitor 5.

Social media use is increasing rapidly and has become an important way of entering into a dialogue with customers, potential employees and other stakeholders. At year-end, ING had close to 20,600 followers on Twitter and more than 78,000 on Facebook, 20% more than any of the other major Dutch banks.

### Top Employer

To become and remain a Top Employer, we need to ensure that employees are eager to work for ING and be proud ambassadors. ING NL has defined a number of ways of achieving this. One of them is Enter@ING, an induction course for new recruits introduced in January 2012.

The Connect & *Het Nieuwe Werken* ('remote working') programme allows certain employees to work away from the office and outside office hours. It has provided more flexible working conditions for some 1,500 staff at head office locations, with 89% of them having positive things to say about it. They feel it raises productivity and allows them to maintain a better work/life balance. The majority of ING Bank employees in the Netherlands (except employees at the ING bank branches) will switch to this new form of working between 2013 and 2018.

Furthermore, ING puts a lot of effort into the continuing development and education of employees to enhance their long-term employability, something that is particularly important in view of the ageing Dutch labour force.

### WestlandUtrecht Bank

In November 2012, ING and the European Commission agreed that the commercial operations of WestlandUtrecht Bank (WUB) would be combined with the retail banking activities of Nationale-Nederlanden, which is to be divested as part of Insurance/IM Europe. This is to result in a competitive retail bank in the Dutch market with its own funding capabilities and a broad distribution network.

Some of the WUB employees will transfer to Nationale-Nederlanden Bank while others will remain at the separate WUB entity within ING Retail Banking Netherlands, managing a mortgage portfolio. Unfortunately, this reorganisation will result in redundancies. ING will do its utmost to support affected staff members.

For further information on WUB, please refer to the Strategy chapter on page 18.

## RETAIL BELGIUM

### FINANCIAL DEVELOPMENTS

The underlying result before tax of Retail Belgium increased by 33.8% compared with 2011 to EUR 609 million as a result of 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 (2011: EUR 3.0 billion), 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.

### BUSINESS DEVELOPMENTS

Despite challenging economic and financial circumstances, ING Belgium (ING BE), the fourth-largest retail bank in the country, improved on its already solid position. Since customers are increasingly performing day-to-day banking transactions themselves, ING BE continued to offer more direct banking services and products.

These efforts are paying off, evidenced by the extensive use of the mobile banking app by smartphone and tablet users. In 2012 the Bank launched an Android version of MyING.be, resulting in 85% of smartphone users now being able to manage their ING accounts from this device. At year-end, there were 105,000 active mobile users. The number of daily mobile transactions rose from 1,500 to 5,000.

Expanding the 'direct if possible, advice when needed' business model will remain the Bank's major objective going forward.

The Bank has almost finished turning its smaller traditional branches into 'proximity' outlets with self-service cash facilities and online banking access. At year-end, 492 branches out of a total of 518 branches had been converted into proximity branches.

We also completed the pilot phase of transforming our bigger branches. The objective is to create equal focus on closer contact with the customer and on direct banking. An e-w@ll in these branches provides access to ing.be and Home'Bank, and a virtual wall displays products and services by means of a QR code. By the end of 2012, 20 of these renewed big branches had been opened.

Branch transformation is an important step in the evolution of our 'direct if possible, advice when needed' business model. Customers prefer to manage their day-to-day banking business on their PC or smartphone, but advice remains important for more complex products such as mortgages and investments.

It is the same for our business customers. Relationship banking is still central to our approach in order to meet their specific needs,

but we have redoubled our efforts to provide them with a broader online offer as well.

Retail BE was able to gain momentum: income rose by 8% to EUR 2.19 billion. It serves approximately 2.1 million retail and private banking customers and almost 170,000 SME, mid-corporate and Institutional customers. In 2012, it acquired 72,000 customers (net inflow). Since the introduction of the direct model in 2007, ING BE has gained almost 435,000 new customers.

The growth of Retail BE has been driven by all product categories. Funds entrusted were up by EUR 3.3 billion, totalling EUR 74.6 billion at year-end, driven by current accounts and the launch of a new regulated savings account, ING Lion Premium.

The number of users of the free ING Lion Account – our flagship product – increased from 90,767 at year-end 2011 to 94,858 at the end of 2012.

Online sales as a percentage of total sales continued to grow. Nearly 216,000 online products were sold (2011: nearly 157,000). Our goal is to significantly increase the online product and services range over the next few years.

### Operational excellence

ING BE strengthened its operations by working on a number of online improvements.

The online banking platform, Home'Bank, became more user-friendly. Customers can, for example, ask to receive their statements in digital format for all accounts. They can also validate transfers with a single signature via the payment basket. Over 1.4 million people use Home'Bank.

The online start page for the 'Make an Appointment' application was renewed. This is an online tool to book appointments directly into the agenda of a branch employee. This application is now also available via our mobile channel, MyING.be.

Another example of making banking easier and more convenient for our customers is the launch of a Download Documents Centre for business customers with a legal entity, allowing them to access certain documents online.

### Customer centricity

In 2012 the Bank added to its mobile product range by offering customers the opportunity to open a savings account or current account, or take out a travel insurance, using the mobile app MyING.be. In 2012 this app was downloaded 128,000 times (2011: 54,000 times).

In the area of investment funds, we reported continued success with our 'guided open architecture', in which the best investment funds of five different investment-management companies (ING Investment Management, Blackrock, Amundi, Franklin Templeton and Axa) are also distributed to our retail customers, aiming to give them the most objective advice.

Debit card renewals are now distributed in a much more customer-friendly and operationally effective way, as customers no longer have to collect their debit cards at a branch but can get them delivered directly to their home.

One of our goals is to expand our universal direct business model to all segments. To this end, the Bank launched a new website for business customers, including a broader online offer. ING customers can use the new bank guarantees service to apply for a bank guarantee online.

In addition to self-employed professionals and local businesses, medium-sized enterprises can now also apply for a loan online, by using ING Business Credit.

This new website has been designed in alignment with ING BE's strategy to not only improve and expand its online service range, but also to strengthen its position as a universal direct bank.

Furthermore, the Bank's approach towards start-up businesses was rewarded with an award for 'Best banking service in 2012' by the Forum for the Future, a foundation for professionals such as auditors.

### Private Banking

Retail BE provides private banking services in Belgium and Luxembourg to wealthy individuals. Private Banking has a top three position in Belgium. The unit's combined amount of funds entrusted and assets under management at year-end was EUR 16.8 billion in Belgium and in Luxembourg EUR 7.9 billion, totalling EUR 24.7 billion.

It contributed favourably to Retail BE's overall results, despite the adverse economic climate. Revenues are in line with expectations and costs are under control.

The business established two mortgage call centres to simplify the steps for taking out a mortgage loan and to provide personalised advice to private banking customers.

It also launched a new internet site in line with the new communications strategy focusing on customers' needs. Customer testimonials have also been added to the site showing an approach based on trust and the ability to listen to customers.

ING was awarded Best Private Bank in Belgium for 2012 by The Banker, based on the progress it made in its business and growth strategy, and for boosting inflows and profit.

### Mid-corporate and Institutional Banking

Lending to mid-corporate and institutional customers was up 10% at EUR 22.4 billion (2011: EUR 20.4 billion), mainly as a result of higher demand from the latter group.

ING has been awarded 'European Structured Finance Bank 2012' by Project Finance International – a reputable magazine dealing with project-finance matters globally – for its sheer range and quality of deals it supported in 2012, recognising its contribution both as lender and as advisor. ING Belgium accounted for three out of the eight 'Deals of the Year'.

### Top Employer

The local Top Employer programme was extended during the year. Initiatives included improving recruitment practices and support for new staff, advanced management training programmes for all managers and increasing flexible working.

The focal point in 2012 was on encouraging and promoting the corporate culture and fostering employee pride.

## Retail Banking continued

ING BE was labelled 'Top Employer 2012' by the CRF Institute, which identifies leaders in excellent human resources management.

### Record Bank

Retail BE includes Record Bank, the fourth-largest retail savings bank in Belgium, with close to 700,000 customers. Its strength is the personal approach taken by its network of around 1,500 independent agents, credit brokers and vendors. Its growth in funds entrusted volumes went up by 14% compared with 2011, with a strong increase in savings of EUR 1.0 billion, as a result of its excellent position in the Belgian savings market.

Record Bank has reconfirmed its strategy towards retail customers, with safe, simple and transparent products. The bank will continue to invest in online possibilities to support its different distribution channels.

### ING Luxembourg

ING Luxembourg is a full universal bank with three business lines, domestic retail banking, private banking and commercial banking. The Bank serves private individuals, SMEs, large companies and financial institutions. It is a top-five retail bank, serving 100,000 customers. It has 16 branches. It is the number four in the mid-corporate segment and number three in the corporate segment.

Two good examples of exchanging best practices and copying successful formulas within the Retail Banking organisation were the launch of ING Mobile, the mobile app for iPhone and iPad, and giving customers who open a current account ('ING Orange Account'), automatic access to an ING Orange Savings account. Both ideas were copied from ING Direct France.

Following a survey by the Luxembourg Consumer Association, ING Luxembourg's Visa card was recognised as the best credit card on the Luxembourg market. Customers highly value this card for being the most transparent and innovative Visa offer.

The Bank also received an ESR (Entreprise Socialement Responsable) accreditation for being a socially responsible company from the National Institute for Sustainable Development and Corporate Social Responsibility. It is now one of 60 companies identified as 'socially responsible' in the country.

ING Luxembourg's IT organisation was awarded ICT Department of the Year at the Luxembourg ICT Awards 2012.

## RETAIL GERMANY

### FINANCIAL DEVELOPMENTS

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, 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 against EUR 21 million of de-risking losses in 2012. Excluding impairments and de-risking losses, underlying income decreased to EUR 1,214 million, from EUR 1,319 million in 2011. The interest result dropped 8.5% to EUR 1,141 million, 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. 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 by 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 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).

### BUSINESS DEVELOPMENTS

Retail Germany consists of ING-DiBa Germany, ING-DiBa Austria and Interhyp.

In Germany, one of our key markets in Europe, ING-DiBa is the third-largest bank in terms of number of customers and the country's most favoured banking brand.

ING-DiBa offers an easy to understand, high-service product range, with only 10 different products, 24 hours a day – the ingredients to meet all the main needs of its customers. ING-DiBa focuses on values such as fairness, transparency and solidity in order to strengthen its position as 'Germany's most preferred bank'.

The still very fragmented German banking market offers ample room to expand ING-DiBa's market position. Consistent growth was achieved in 2012 in all core products. At year-end, ING-DiBa (including Austria) served 7.8 million customers (2011: 7.4 million). Total retail balances increased by EUR 13.6 billion and amounted to EUR 166.7 billion. This amount includes total funds entrusted and assets under management of EUR 102.8 billion.

Germany is one of the countries where ING has implemented a full bank model, the implementation of which began in 2011 with the integration of the German commercial banking activities in ING-DiBa. In 2012, this process was completed, showing clear benefits in managing the balance sheet more efficiently. Synergies were achieved by Retail Banking providing funding at a competitive level, while Commercial Banking is generating an additional source of high quality assets.

ING-DiBa Austria, which is reported under Retail Germany, reached the milestone of 500,000 customers in March. At year-end, total funds entrusted amounted to EUR 7.2 billion.

Interhyp – Germany's biggest mortgage broker – was awarded 'Best Mortgage Financer', with best service, advice and price for the seventh time in a row. Interhyp expanded its local branches and tied-agents network to over 50 in 2012.

### Operational excellence

ING-DiBa is constantly responding to customers' needs by improving its products so that customers can manage their current and future financial situation. It launched, for example, a new, more user-friendly website, meeting the rising need to offer the best usability for all end-devices, especially tablets.

ING-DiBa's ATM design underwent an optical overhaul and got a new look and feel. The first new ATMs have been installed and will be rolled out step-by-step.

## Customer centricity

ING-DiBa launched a new product, 'Riester-Rente Plus', in cooperation with a large German insurance company – a product for customers who seek a long-term state-supported retirement plan. It also launched 'ING Markets Germany', a financial-market product for retail customers.

ING-DiBa Austria launched an internal campaign to put customers at the centre of employees' minds. 'Die Hubers' (The Huber Family) are a fictional customer family who continuously remind employees about the customers they work for.

ING-DiBa received several awards in recognition of its high service and quality standards. It was again mentioned 'Deutschlands Beliebteste Bank' (most preferred bank) by some 130,000 respondents, for the sixth year in a row. It was also elected 'Onlinebroker of the Year' for the third time in a row by Börse Online, as a result of offering its brokerage clients direct access to the US stock markets.

## Top Employer

ING-DiBa concluded a new collective labour agreement in 2012. Under this agreement, it takes more responsibility for childcare and healthcare and for the first time provides employees with early-retirement opportunities. In addition, a job-rotation programme has been intensified, as well as its health-management programme called 'DiBa Fit'.

ING-DiBa Germany and Austria were both awarded as one of the best national employers in 2012 by the renowned Great Place to Work Institute.

## RETAIL REST OF WORLD FINANCIAL DEVELOPMENTS

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 UK, 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% 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.

## BUSINESS DEVELOPMENTS

Retail Rest of World (RoW) comprises of the ING Direct business units in Australia, France, Italy and Spain. It also includes the ING banks in Turkey and India, and the retail activities of ING Bank Slaski (Poland) and ING Bank Romania, as well as the minority stakes in TMB Bank (Thailand) and Bank of Beijing (China).

In 2012 it was decided to sell ING Direct Canada and ING Direct UK as part of ING Group's strategic repositioning. The Canada transaction was closed in 2012 and the UK transaction was closed in the first quarter of 2013. The other ING Direct businesses were not affected by these sales. The sale – announced in 2011 – of ING Direct USA closed in February 2012.

The results were significantly affected by the transformation of the investment portfolio. As part of the long-term balance sheet optimisation strategy, priority is given to the own-originated assets, while investments portfolios fulfil the role of liquidity pools. At the same time the balance sheet was shortened by a reduction in short-term professional funding, further improving the leverage ratio.

The ING Direct investment portfolios were constructed under a different strategic regime, before the financial crisis. Then, they mainly consisted of triple A mortgage-backed securities and covered bonds. New regulations and the deterioration of the ratings brought the average rating of the ING Direct investment portfolios to AA- level. ING therefore decided to reduce the portfolios to protect its capital and the medium-term results of the Bank. In 2012, EUR 6 billion in bonds were sold from the ING Direct investment portfolios, which resulted in a pre-tax capital loss of EUR 584 million (including EUR 21 million at ING-DiBa). These sales were concentrated on a material reduction of Spanish exposure and capital intensive mortgage-backed securities. The sales released EUR 7 billion in risk-weighted assets, freeing up core Tier 1 capital for the Bank. Secondly, the sale of Spanish covered bonds and asset-backed securities contributed significantly to a marked improvement of the balance between Spanish assets and Spanish liabilities on the Bank's balance sheet.

Progress was made with the One Bank strategy. The balance sheet integration activities remained on track with the finalisation of transfers in Italy, Spain and Australia in order to improve ING's overall funding position using local funding to finance local assets. Country CEOs and One Bank teams were established in France, Spain and Italy.

In line with the overall retail strategy, the RoW countries invested much time and effort in developing the integrated distribution channels. Internet platforms were upgraded in Italy and Poland. An innovative online platform for the SME segment in Poland was awarded the best in its category. New projects in the mobile banking area were undertaken at all business units.

All countries continued to reposition the contact centres and branches. The main aim was to convert them into advice channels and to integrate the customer experience and information platforms with other channels.

ING Direct's transformation into a full bank also includes the selective opening of bank shops and cafés in Spain, Italy and France.

## Retail Banking continued

Growth remains the key objective of the businesses and they will therefore focus on the number of active customers holding a current account and a savings account.

ING Bank Slaski showed a solid performance and crossed the milestone of three million retail customers. The number of SME customers increased to 162,676. In Turkey, the customer base grew by 127,000 and now stands at 1.4 million. After the successful launch of the Orange Savings Account in 2011, ING Bank Turkey demonstrated excellent performance in 2012. Loan growth amounted to 22% and deposit growth to 27%. ING Bank Turkey aspires to be one of the leading savings banks in Turkey. ING Direct Spain's customer base increased by 255,117 and totalled over 2.6 million at year-end.

In Italy the number of current accounts increased by 99,717 to a total of 303,200 and in France by 47,132 to 126,961. The deposit offering in Romania was significantly upgraded and well received by customers.

In 2012, over 250,000 customers and more than 577,000 payment accounts were added. At year-end 2012, RoW served a total number of 11.3 million customers, excluding Bank of Beijing and TMB Bank.

### Operational excellence

A highlight was ING Direct Italy enabling customers to open and activate a payment account in only 12 minutes at its bank shops. The newly launched mobile app had been downloaded 13,000 times within a week's time.

ING Direct Australia introduced the 'Bank in a Box' – a private internal cloud solution integrating the Bank's entire systems into a virtual cloud, facilitating quicker testing of new products and services and improving time to market.

In Poland the integration of processes between ING Bank Slaski, ING Lease and ING Commercial Finance was enabled, resulting in fast and easy access to leasing and factoring for our customers and the ING relationship managers with just one internet application. ING Bank Romania introduced a new front-end system for its sales force. It gives a 360-degree view of each customer, providing information about all their portfolios (banking and insurance products). It also has a special section for lead management and a reporting area.

### Customer centricity

The businesses continued to put their customers first by introducing products and services that best meet their needs.

A prime example was ING Direct Australia, which – in September – launched a new superannuation pension product (Living Super) providing members with control, fee transparency, and simplicity. It is Australia's first balanced fund with no fees, a rare proposition in this market. By year-end, 5,754 accounts had been opened, which raised over AUD 30 million in funds under management. ING Vysya Bank launched a first-of-its-kind savings product 'ING FD+', a fixed-deposit savings scheme, which enables customers to make a fixed deposit by sending an SMS. ING Direct France was the first bank in France to launch a mobile app that allows customers to open saving accounts from their smartphones and ING Bank Slaski launched a new iPhone app.

Several countries have adopted local versions of Retail Banking's social media strategy. ING Direct Spain is leading in social media and it is a user of different social media platforms. By the year-end, the number of Facebook fans had reached over 160,000.

### Awards

The businesses received more than 50 awards, including 'Best Bank' award for ING Bank Slaski by Gazeta Bankowa; 'Most Recommended Bank' award for ING Direct Spain by TNS and ING Direct Australia was the most awarded bank at the Mozo People's Choice Awards. ING Vysya Bank received the 'Safest Banker' award from Indian newspaper, The New Indian Express; Bank of Beijing won the accolade 'China's Best City Commercial Retail Bank', and TMB Bank won the Innovation in Business Rules Management award.

### Top Employer

In 2012, Top Employer initiatives included ING Bank Slaski starting the second edition of the Students Ambassadors programme, a one-year academic programme aimed at first-year students, to position ING as a desired employer among students and graduates. ING Bank Turkey again organised the Practica Business Life Competition, aimed at positioning the Bank as top employer among young graduates.

Several of our business units – Spain, Poland, France, UK – were recognised and awarded as best employer or great places to work.

### CONCLUSIONS AND AMBITIONS

ING's ambition is to be the Preferred Bank for its customers, driven by operational excellence, customer centricity, balance sheet optimisation, and also on being a top employer. It will continue its efforts to reach this goal in 2013.

Retail Banking continued to combine the two retail models into one, providing easy and fair banking products at low costs. It will continue its efforts in 2013.

The social media approach and the Social Media Project Team findings will be extended across the retail organisation in 2013.

ING Netherlands will continue to build on 'Orange is ING' – the new brand campaign aimed at becoming the Preferred Bank of the Netherlands.

ING will also do its utmost to support affected staff at WestlandUtrecht Bank who will be transferred to Nationale-Nederlanden Bank or who will be made redundant.

In Belgium, expanding the 'direct if possible, advice when needed' model will remain the Bank's major objective. Its goal is to significantly increase the online product and services range over the next few years.

The major objective of ING-DiBa for 2013 is to strengthen its position as 'Germany's most preferred bank'.

Retail Rest of World will continue to position itself for seizing future opportunities. ING Direct will work towards becoming a more complete bank, offering a full range of products and services, while our business units in Poland and Turkey will build on their successful commercial performance.

# Commercial Banking

## Adapting to a challenging environment

- > Commercial Banking reported resilient results despite negative credit and debt valuation adjustments and higher risk costs
- > The impact of increased risk costs due to difficult market circumstances were tempered by pro-active cost management
- > Despite active balance sheet de-risking and reductions, revenues held up well
- > Commercial Banking builds on its strategy
- > Operating model adapted to meet changing economic and regulatory pressures
- > Customer focus remains paramount

2012 was a year of change and challenge. Increasing regulatory demands and capital requirements, heightened funding and risk costs, and other headwinds have placed pressure on the industry and ING's operations. Commercial Banking adapted well to the adverse market and regulatory circumstances and continued to build a sustainable and resilient business.

Despite the challenges, Commercial Banking kept to a steady course, maintaining leadership positions in its core markets and main product areas and supporting clients in closing many high profile transactions.

### FINANCIAL DEVELOPMENTS

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 in 2011, 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 prior year impact 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.

Financial overview*		
in EUR million	2012	2011
Total underlying income	4,963	5,023
Underlying operating expenses	2,436	2,527
Underlying additions to loan loss provisions	955	477
Underlying result before tax	1,572	2,019
Underlying cost/income ratio	49.1%	50.3%
Underlying cost/income ratio (excl. market impacts and CVA/DVA)	43.1%	45.6%
Client balances: net production funds entrusted (EUR billion)	-5	-4
Client balances: net production lending (EUR billion)	-11	-2
Underlying risk costs in bp of average RWA	72	35
Risk-weighted assets (year-end, EUR billion, adjusted for divestments)	124	145
Underlying return on equity based on 10% core Tier 1**	8.6%	11.2%

\* Underlying numbers are derived from IFRS-EU, excluding the impact of divestments and special items.

\*\* Underlying after tax return divided by average equity based on 10% core Tier 1 ratio.

Underlying income		
in EUR million	2012	2011
- Industry Lending	1,953	2,050
- General Lending and Transaction Services	1,459	1,377
- Financial Markets	871	1,254
- Bank Treasury, Real Estate and Other	680	343
<b>Total Commercial Banking</b>	<b>4,963</b>	<b>5,023</b>

Underlying result before tax		
in EUR million	2012	2011
- Industry Lending	832	1,374
- General Lending and Transaction Services	606	559
- Financial Markets	0	363
- Bank Treasury, Real Estate and Other	135	-276
<b>Total Commercial Banking</b>	<b>1,572</b>	<b>2,019</b>

## Commercial Banking continued

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 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.

### BUSINESS DEVELOPMENTS

Commercial Banking contributes to a substantial part of ING Bank's overall strategy of being the preferred bank for its customers.

Commercial Banking has a market leading franchise in the Benelux and has a strong position in Central and Eastern Europe (CEE). Internationally, it is a leader in selected areas within Industry Lending and Financial Markets. It serves its clients, ranging from mid-sized enterprises to multinationals, also including governments and supranational organisations, through an extensive global network of operations in more than 40 countries.

ING offers a range of basic commercial banking services, such as lending, payments and cash management, leasing, factoring, treasury and foreign exchange products. It also provides more tailored solutions, including specialised and trade finance, structured financial markets products, corporate finance, mergers and acquisitions, and debt and equity capital markets advice.

In 2012, Commercial Banking remained firmly focused on servicing its clients. ING closed many high profile transactions for core clients and won several industry awards, confirming its leading positions in the Benelux home markets, Central and Eastern Europe and key functional product lines such as Industry Lending. It continued to invest in and streamline its operations and services to clients. Where necessary, business model adaptations were made in 2012 and more are planned in 2013, to ensure that the business remains competitive and that customer centricity remains paramount.

### BUSINESS REVIEW: ADAPTING TO CHANGE

2012 was another challenging year for Europe and the global economy. The European sovereign debt crisis set the tone with uncertainty about the future of the single currency and fears of departures from the monetary union causing an adverse impact on economic and business sentiment. Markets recovered somewhat in the second half of the year, after central bankers took steps to further ease monetary policy.

Against the backdrop of challenging economic conditions, increasing regulatory demands, higher capital requirements, additional bank taxes, and heightened funding costs, Commercial Banking initiated a review of its business to reconsider the operating fundamentals of all activities.

This review resulted in ING exiting from a number of activities which, under the new economic and regulatory environment, are no longer of strategic relevance for the business and its core clients. Commercial Banking operating platforms and models are also being streamlined, through a programme of system decommissioning and system and process standardisation. A number of measures were announced in 2012 in order to achieve structurally lower expenses and a reduction of approximately 1,000 jobs over the next three years.

However, while recognising and responding to the challenges in the market, Commercial Banking's strategy remains consistent. During

2012 strong progress was made on a number of key priorities, the most crucial being the developments in balance sheet optimisation. This was achieved through a number of important initiatives, including matching originated assets with originated liabilities across business units in different countries, asset transfers, integration of a number of legal entities, a focus on increasing client deposits, and the creation of a consolidated Bank Treasury function for the entire Bank.

### INDUSTRY LENDING

Our Industry Lending activity includes Structured Finance (SF) and Real Estate Finance (REF). These are specialised commercial lending activities, in which ING originates well-structured loans with an emphasis on achieving good risk adjusted returns.

### STRUCTURED FINANCE

Structured Finance (SF) is managed in three groups: the Energy, Transport and Infrastructure Group, the Specialised Financing Group, and International Trade and Export Finance. In 2012 the businesses saw a small reduction in income due to a decrease in lending assets, and also a reduction in the regulatory capital employed.

The Energy, Transport and Infrastructure Group (ETIG) specialises in capital-intensive industry sectors such as oil and gas, mining, offshore services, shipping, power utilities and infrastructure. ING saw continuing demand for project finance, notably for investments in renewable energy, offshore oil production and infrastructure through public-private partnerships. Container finance remained a market with reasonable opportunity, although the shipping markets are depressed. Our approach to this market has been cautious for many years and the loan book is performing within expectations.

The Specialised Financing Group (SFG) comprises of a number of teams largely engaged in lending against business cash flows, for instance in the telecommunications, media and technology sector. It includes a local industry lending business in the US mid-market and similar local activities in other regions where Commercial Banking is active. Companies, particularly in Europe, have been affected by the economic slowdown and ING has been cautious about extending new lending in this area, which therefore slowed down in 2012.

International Trade and Export Finance (ITEF) includes Trade and Commodity Finance (TCF, which supports the international trade in basic commodities such as oil, oil products, metals, grain, sugar and cotton) and Structured Export Finance (SEF, which supports the export of capital goods and services with long-term financing supported by export credit agencies). ITEF had a good year in 2012. In TCF there were increases in both volumes and margins as a result of ING's consistent approach to the market over many years. ING has become the leading bank in the syndicated loan market for commodity clients. In SEF, Commercial Banking was able to grow the business, particularly in Germany.

### REAL ESTATE FINANCE

Real Estate Finance's (REF) primary activity is lending to investors in income-producing real estate backed by first mortgages. About half of the business is in the Netherlands, where the portfolio extends to middle market lending. During 2012, REF sought to maintain the quality of its credit portfolio, despite the challenging market circumstances, with a strategy to reduce exposure to this asset class, while avoiding loss from forced sales. As part of this strategy REF has placed activities in Australia and the US into run-off.

The main feature of 2012 was a sharp increase in risk costs as real estate markets in many countries continued to deteriorate. New loan finance for real estate in many places in Europe is scarce, although in the US there is strong competition from both banks and institutional investors for the top quality business. The loan book overall remains of good quality, but several outlying transactions have required provisioning. ING has extensively reviewed its loan provisioning and monitoring activity.

## GENERAL LENDING AND TRANSACTION SERVICES

### GENERAL LENDING

Lending is core to building and supporting customer relationships in Commercial Banking's target markets, with both corporate and financial institution clients.

In the European loan markets, volumes decreased in 2012. Good quality names have ample access to the bond markets. For General Lending, the challenge is to maintain margins and volume within the current risk appetite while competition intensifies, in particular in markets where large domestic banks protect their core franchises. While margin pressures have increased, ING's average margin remains above pre-crisis levels. General Lending has maintained its position as market leader in the Benelux and CEE as bookrunner, and continued to support corporate clients through its international network.

ING constantly strives to improve its corporate lending products to ensure they remain in alignment with changes in client behaviour, market developments and regulation. Further standardisation of our product offering and streamlining of lending processes across countries is required to deal with these challenges in an effective way.

### TRANSACTION SERVICES

ING established the Transaction Services (TS) business line in 2011, bringing together all the basic transaction banking products under one umbrella with the objective of providing a more integrated and effective product offering to clients across Europe. The products are Payments & Cash Management (PCM), Trade Finance Services, Working Capital Solutions, Securities Services, Bank Mendes Gans and Leasing and Factoring.

TS aims to become a leading transaction services bank for international clients in Europe by improving the customer experience through improved execution and customer service; further investing in electronic channels for the combined products; rationalising and simplifying its product portfolio; making decisive investments into core products such as Trade Finance Services and PCM; and by simplifying the organisational structure to make it more client-centric and more efficient. Despite the market conditions and its ongoing transformation process, TS continues to generate stable financial returns.

A key strategic portfolio initiative has been the run-off of Leasing in 11 European countries, including the UK. Leasing will continue only in those markets where it is an integrated part of ING's full service offering. Given the nature of the leasing business, it was decided to transfer the remaining parts of Leasing out of TS into our General Lending division as from 1 January 2013.

TS requires a strong focus on technology and operational processing in order to remain competitive and to enhance its capabilities. It is therefore making some long-term investments. For example, PCM is

undertaking a multi-year strategic programme to improve cost efficiency, improve client service across Europe, adopt market-competitive new technology and comply with new regulatory obligations (especially those relating to the Single Euro Payments Area, SEPA). The programme includes a major upgrade of all related IT platforms and channels, customer processes and operating models.

ING has revised its Trade Finance Services strategy, leading to several essential investments. These include the introduction of a standard IT platform and the centralisation of processing via hubs, the aim being to streamline and expedite transaction and approvals processes, improve data quality and client service.

Bank Mendes Gans (BMG) performs the function of an in-house bank for companies and their subsidiaries, offering 'overlay' solutions, netting services and cash flow forecasting tools on top of existing local bank infrastructures. BMG had an excellent year in 2012 and its ambition is to continue to grow its market leading position as a provider of high-quality, specialist liquidity management solutions to multi-national corporations.

Investments were also made in Working Capital Solutions (WCS) which has been identified as an important growth opportunity for Commercial Banking. WCS offers three product lines which enable ING clients to enhance working capital efficiency and unlock alternative liquidity sources without impacting their relationships with other participants in their supply chain. These product lines include Supply Chain Finance, Trade Receivables Purchasing Programmes and Corporate Factoring. WCS aims to become a recognised provider of receivables and payables solutions for corporate clients. It won several prestigious mandates in 2012, and in 2013 it will focus on further strengthening its market position and execution capabilities.

### FINANCIAL MARKETS

Financial Markets (FM) is the global business unit that manages ING's financial markets trading and sales businesses. Through 2012 FM was managed as two business lines: Clients and Products as the primary customer facilitation business line and the discontinued Strategic Trading Platform (STP). In line with other de-risking activities, the STP business has been wound down over the last few years and was formally closed at the end of 2012. The remaining Clients and Products business will revert to the title of Financial Markets.

In 2012, FM withdrew from Mexico but retained its offshore Latin American derivative business in London. It also announced the closure of the international cash equities business outside the Benelux, including the closure (excluding Poland) of the Central and Eastern European business which unfortunately became no longer viable in the current market, economic and regulatory conditions. The foreign exchange rates and credit trading activities in four CEE countries have been centralised or re-aligned. In addition, FM is employing a number of de-risking strategies within the derivative portfolios to reduce capital and balance sheet usage.

The business line continued to increase efficiency and reduce operational complexity through a decrease in the number of booking locations and front office IT systems. This has reduced costs and operational risk, and helped the business unit meet new regulatory requirements.

## Commercial Banking continued

2012 was the second year in which FM incorporated the mark-to-market of ING's own default risk in derivatives-linked issued notes and in 'over the counter' derivatives portfolios. It was also the second year of marking-to-market counterparty credit risk embedded within the derivatives portfolios, generally referred to as debt valuation adjustment (DVA) and credit valuation adjustment (CVA). ING's credit spreads narrowed in 2012, which resulted in a material impact in the financial results through the DVA adjustment.

FM believes the regulatory environment will continue to be challenging under Basel III, with further new rules expected to affect all financial markets participants, along with the implementation of rules that have already been agreed. These regulatory developments will lead to a continual re-assessment of individual business lines and activities, particularly with regard to their capital requirements and subsequent return on equity and in due course may lead to further product or geographical re-alignment.

### **BANK TREASURY, REAL ESTATE & OTHER**

#### **BANK TREASURY**

Following the announcement in January 2012 that ING would combine all its treasury activities across all business lines within the Bank to adapt to new regulations and to execute ING's balance sheet optimisation strategy, a central Bank Treasury was established and became operational in June. The Treasury and ALCO (Asset and Liability Committee) departments of Financial Markets were separated from the commercial (Clients & Products) business units to form a part of the new Bank Treasury.

ING's balance sheet strategy is to improve its professional funding profile, to integrate further the balance sheet by matching originated assets with originated liabilities across business units in different countries, to further de-risk the investment portfolio by converting it into a liquid asset buffer.

#### **REAL ESTATE & OTHER**

The Real Estate & Other (RE & O) division consists of the residual assets of the legacy businesses sold or discontinued within the former Real Estate Development (RED) and Real Estate Investment Management (REIM) businesses, plus a number of General Lease operations which have been placed in 'run-off' in 2011 and 2012.

RE & O continued to close legacy divestments in 2012, reducing exposure substantially despite the continued challenging and deteriorating market. Residual future commitments have been dissolved, through a combination of stake sales and negotiated exits. Although impairments are still at relatively high levels, the portfolio is adequately provisioned and being wound down in a controlled manner. In 2012 RE & O closed operations in various countries and the organisation and costs have been reduced to minimum level.

In 2012, a dedicated Lease run-off organisation was established to oversee the discontinuation of General Lease operations outside its core markets ensuring the necessary control and management oversight.

#### **CUSTOMER CENTRICITY**

Customer service remains at the heart of Commercial Banking and market leadership positions were maintained within the core franchise areas.

In the Netherlands, customer surveys carried out by Greenwich Associates confirmed Commercial Banking's number one position for the third consecutive year. Commercial Banking was also recognised by Euromoney and The Banker as the 'Best Bank' in the Netherlands. And at a time when customer focus is more important than ever, ING was very pleased to receive recognition as the Best Overall Broker in the Benelux in the 2012 Extel Survey, again for the third year running. Commercial Banking ranked number one in league tables in the Netherlands and Benelux-wide as bookrunner for syndicated loans. ING relentlessly seeks to live up to this recognition in 2013.

Similarly in Central and Eastern Europe, ING maintained its strong market position, supporting its key client base. ING's commitment to the region was continued and many important transactions were closed. Again, Commercial Banking was ranked as number one in league tables in Russia, the Commonwealth of Independent States (CIS) and CEE-wide.

Structured Finance maintains many strong positions in its markets. ING has a leading global franchise in Trade and Commodity Finance, consistently maintaining a top three position: by several measures, ING is the market leader. In 2012, it was awarded 'Best European Bank' by Project Finance International; 'Best Trade Bank in Metals & Mining' by Trade Finance Review; and 'Best Global Commodity Finance Bank' by Global Trade Review based upon ING's consistent sector coverage backed by strong expertise and an effective global infrastructure. The Bank is leading in other niche areas such as the offshore oil sector, through provision of finance for drilling and production platforms, in finance for the container industry and in the Russian natural resource sector.

Commercial Banking's Transaction Services business line also collected a number of Global Finance's Transaction Processing awards, including 'World's Best Trade Finance Bank 2012' in the Netherlands and 'World's Best Foreign Exchange Provider' in the Netherlands. ING was also recognised as 'Best Cash Management Bank' in Eastern Europe by Treasury Management International.

While market conditions have been challenging, ING executed major benchmark transactions, strengthening its relationships with core clients. For example, a USD 2 billion five-year unsecured revolving credit facility (RCF) and USD 3 billion high yield issue was closed for LyondellBasell Industries, the world's third largest independent chemical company. ING acted as bookrunner and joint Mandated Lead Arranger (MLA) on the RCF, and as joint bookrunner on the high yield bond issue. The transaction team was able to broaden and deepen the overall client relationship in challenging market conditions.

Similarly ING – as bookrunner, MLA and joint global coordinator – closed a USD 1.335 billion syndicated credit facility and related interest rate swaps for Chinese conglomerate HNA Group and Bravia Capital's buy-out of GE SeaCo, one of the world's largest container leasing companies.

Other notable transactions include TNT's award of a mandate for cash management in seven Central and Eastern Europe countries, the Belgian-Brazilian beer company AB InBev (joint bookrunner and MLA on a USD 14 billion facility), and Dutch brewer Heineken (joint bookrunner on two dual tranche Eurobond issues; one for EUR 1.35 billion and the other for EUR 1.75 billion).

ING (along with two other banks) arranged EUR 1.55 billion in credit facilities to help its client Coca-Cola Hellenic Bottling Company (CCHBC) to move its headquarters from Greece to Switzerland and to become listed on the primary segment of the London Stock Exchange. CCHBC is the world's second biggest bottler of Coke. The deal is a prime example of how ING can use its international network to complete high-profile deals for its clients on demand and within a very short time. A number of different business lines within Commercial Banking were involved.

### OPERATIONAL EXCELLENCE

Commercial Banking continued with its strategic investment programme in 2012 in its Payments and Cash Management (PCM) division. The programme will transform all aspects of PCM, from sales and client services, to more efficient work processes.

Financial Markets (FM) also made good progress with the implementation of its target operating model, allowing for the decommissioning of IT systems, achieving cost savings and a reduction in operational risks globally.

To complement the PCM and FM initiatives, Commercial Banking businesses have launched a programme which consolidates operations and streamlines technology across all product lines over the next three years. This initiative includes moving to more centralised booking and processing of Commercial Banking business and greater use of investment in global IT applications. The simplified operating model will also enable support activities to be further streamlined.

### TOP EMPLOYER

As banking is essentially a people's business it is important as an employer to have engaged and motivated staff. Remaining a top employer is therefore a priority at ING.

Within Commercial Banking, several global Top Employer initiatives such as a mentoring programme, short-term assignments for talented staff and improvements in work-life balance for employees were implemented at a regional level.

The focus of Commercial Banking's Employee Engagement Programme is to keep employees motivated, for example the Line Management Development Programme within Industry Lending, which has been designed to train line managers around the globe on people management, strategy and communication skills.

### SUSTAINABILITY

Commercial Banking takes a considered position and a leading role in the debate on sustainability issues, engaging with public and policy makers on financing sustainable development and becoming increasingly prominent, speaking at important conferences and seminars. It is also an active participant in working groups at national, EU and UN levels. Examples of being an active participant are ING's membership of the United Nations Environment Programme Finance Initiative (UNEP FI), a partnership between UNEP and the global financial sector, and the United Nations Framework Convention on Climate Change's (UNFCCC) Green Climate Fund.

During the year, Industry Lending financed eight large renewable energy projects throughout Europe, including on- and offshore wind parks and solar photovoltaic. These projects stem from the EU

2020 ambitions for a low carbon economy. One of these projects was the financing of one of the largest onshore wind parks in Italy, ERG Eolica Fossa del Lupo. ING acted as MLA and Documentation Bank for the EUR 126 million transaction, which required a flexible and innovative financing structure. ING was able to provide financing due to its in-depth industry knowledge and strong local presence. As part of the transaction, ING agreed to donate part of its working fees to UNICEF and ING's Chances for Children programme. The donation will be used to provide a community school in Zambia with clean water and sanitation facilities and will educate 100 children for a year.

In May 2012, in recognition of Commercial Banking's influence in environmental and social risk management, ING was elected as the new Chair of the Equator Principles Association Steering Committee.

In July 2012, ING and the International Finance Corporation launched a USD 500 million facility to support global commodities trade. The facility aims to reduce the risk of food and energy shortages and maintain stable prices for buyers in emerging markets.

In October 2012, ING established a Sustainable Lending Team within Commercial Banking. The team will encourage and initiate viable sustainable commercial opportunities for Commercial Banking by focusing on companies and transactions that contribute to positive change for society and the environment.

### CONCLUSIONS AND AMBITIONS

2012 was a challenging year for the banking industry and for all parts of Commercial Banking.

However, even in these difficult conditions, Commercial Banking was able to take many positive steps to reinforce its competitive position across its core products and countries of operation. ING initiated a review of its business portfolio while continuing to build on its strengths. Commercial Banking complied with new regulations and prepared for future regulatory change. It maintained leadership positions in the Benelux and in Central and Eastern Europe, and in its core product areas within Industry Lending and Financial Markets and it further developed its Transaction Services operations.

Commercial Banking continues to develop new core businesses for the future while streamlining and optimising existing operations. It will steadfastly ensure that its customers are at the core of its business, maintaining an unwavering focus on providing superior products and services.

# Insurance overview

## MANAGEMENT BOARD INSURANCE on 31 December 2012

Jan Hommen

chief executive officer

Patrick Flynn

chief financial officer

Wilfred Nagel

chief risk officer

Financial overview*		
in EUR million	2012	2011
Total operating result**	1,095	1,658
Gains/losses and impairments	119	-609
Revaluations	-126	206
Market and other impacts	-776	-1,581
Underlying result before tax	311	-325
New sales (APE)	2,830	2,648
Administrative expenses/operating income (Life & ING IM)	47.5%	43.3%
Life general account assets (in EUR billion)	132	133
Administrative expenses (total)	3,072	2,882
Underlying Return on equity based on IFRS-EU Equity***	1.8%	-1.1%
Employees (FTEs, year-end, adjusted for divestments)	18,891	20,661

\* Underlying numbers are derived from IFRS-EU, excluding the impact of divestments, discontinued operations and special items.

\*\* Operating result is underlying result before tax excluding market and other impacts.

\*\*\* Underlying net result divided by average IFRS-EU equity.

Underlying result before tax		
in EUR million	2012	2011
Benelux	-91	739
Central and Rest of Europe	170	-198
United States (excl. US Closed Block VA)	928	618
US Closed Block VA	-379	-1,273
ING Investment Management	200	198
Corporate Line insurance	-516	-410
<b>Total</b>	<b>311</b>	<b>-325</b>

Operating result**		
in EUR million	2012	2011
Benelux	663	973
Central and Rest of Europe	184	206
United States (excl. US Closed Block VA)	702	666
US Closed Block VA	-122	20
ING Investment Management	159	187
Corporate Line insurance	-491	-394
<b>Total</b>	<b>1,095</b>	<b>1,658</b>

2012 was a challenging year marked by continuing low interest rates and financial volatility largely related to the European sovereign debt crisis. ING Insurance focused on the restructuring of its operations and preparing its businesses for standalone futures. Progress was made on the sale of Asia Insurance and Investment Management (IM). ING U.S. moved closer to its planned IPO, and ING Insurance/IM Europe stepped up its efforts to prepare for a base case IPO, a major aspect of which is the transformation of Nationale-Nederlanden.

## FINANCIAL DEVELOPMENTS

The operating environment remained challenging throughout 2012, with volatile markets and an uncertain macroeconomic environment. The underlying result before tax of Insurance/IM amounted to EUR 311 million in 2012, up from a loss of EUR 325 million in 2011. Capital gains and impairments improved from EUR -609 million in 2011 to EUR 119 million in 2012 as a result of improved financial market sentiment in comparison to the previous year. Revaluations decreased from EUR 206 million in 2011 to EUR -126 million in 2012 and were mainly driven by negative revaluations of equity hedges and real estate in the Benelux.

Market and other impacts improved to EUR -776 million from EUR -1,581 million in 2011, which was significantly impacted by a EUR 1,099 million charge related to a comprehensive policyholder behaviour assumption review for the US Closed Block VA business in that year. The remaining change in market and other impacts is mainly explained by a EUR 280 million decline in the Benelux, due to a change in the provision for guarantees on separate account pension contracts (net of hedging) and macro interest rate hedges.

The operating result of Insurance/IM decreased by 34% to EUR 1,095 million from EUR 1,658 million in 2011, mostly driven by higher administrative expenses and Deferred Acquisition Cost (DAC) amortisation, which was largely attributable to the US Insurance business. Life administrative expenses increased by 9% from EUR 2,319 million in 2011 to EUR 2,529 million in 2012 due to a non-recurring reduction in pension plan liabilities in the previous year, and higher DAC amortisation following higher operating income in the US.

The results of the Asia/Pacific insurance and investment management businesses (and the Corporate Line results attributable to them) are classified as 'net results from discontinued operations', pending the planned sale of ING's insurance and investment management business in the region.

The Life/IM administrative expenses ratio deteriorated from 43.3% in 2011 to 47.5% in 2012 as a result of 0.5% lower Life/IM income and 9.1% higher administrative expenses. Expenses, especially in the US, were higher in 2012 compared with 2011 as a result of the one-off impact of pension plan changes in 2011.

New sales (APE) in 2012 amounted to EUR 2,830 million, an increase from last year's EUR 2,648 million, or up 6.9% compared with last year. The increase was mainly attributable to higher sales in the US.

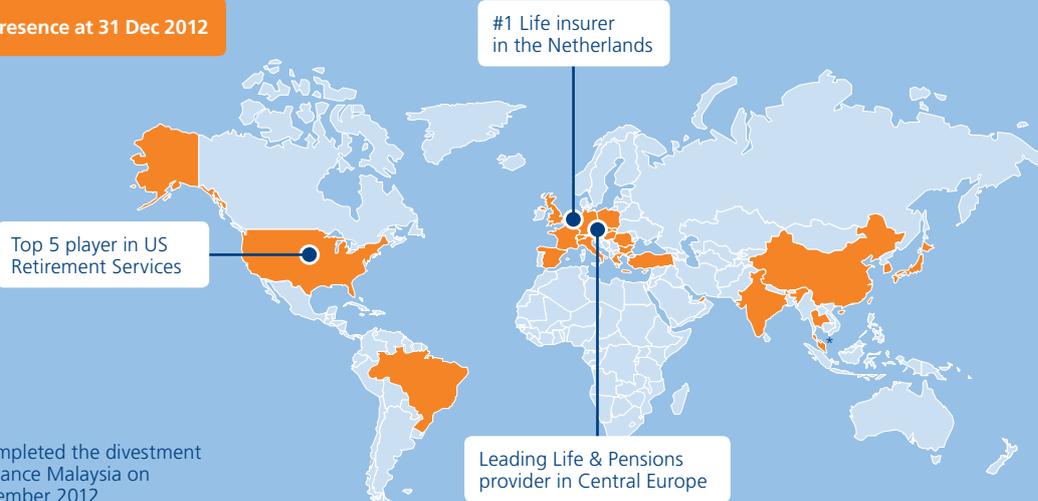
## BUSINESS DEVELOPMENTS

ING made good progress in 2012 in restructuring its insurance and investment management operations. In Asia, ING's life insurance business in Malaysia was sold. Sales agreements were announced

## WHERE WE OPERATE\*

ING Insurance/IM has a strong position as a provider of life insurance, retirement and asset management services and is well positioned to capitalise on socio-economic trends.

ING's presence at 31 Dec 2012



\* ING completed the divestment of Insurance Malaysia on 17 December 2012

for the insurance businesses in Hong Kong, Macau and Thailand (closed 28 February 2013), the investment management operations in Malaysia and Thailand, and a 33.3% stake in China Merchants Fund, an investment management joint venture.

ING U.S. took another step towards its planned initial public offering (IPO) by filing an initial registration statement on Form S-1 with the US Securities and Exchange Commission (SEC) in connection with its proposed IPO. It also made progress towards a standalone capital structure by successfully raising USD 5 billion in a credit facility and a further USD 850 million in debt issuance.

Towards the end of the year, ING announced a restructuring plan for its European insurance/investment management operations. This involves the acceleration of a transformation programme at Nationale-Nederlanden to sharpen its strategic focus and improve processes and systems. These measures, together with the delayering of support functions, are expected to further improve the efficiency of the businesses and to result in a reduction of the workforce by an estimated 1,350 FTEs over the period of 2013-2014 and annual savings of approximately EUR 200 million by the end of 2014.

In November, key revisions to ING's 2009 European Commission (EC) Restructuring Plan were announced, after ING and the Dutch State reached agreement with the EC. Among other things, the deadlines for Insurance divestments were extended beyond the original deadline of year-end 2013. The amended Restructuring Plan gives ING more time and flexibility to complete the required restructuring while leaving its strategic objectives unchanged. Under the amended Restructuring Plan, more than 50% of the Asian insurance and investment management businesses must be divested by year-end 2013, with the remainder divested before year-end 2016. The divestment of at least 25% of ING U.S. 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 Insurance/IM Europe

has to be completed by year-end 2015, with the remainder divested by year-end 2018. ING is committed to completing all restructuring as quickly as possible. However, these deadlines give the company more flexibility to complete divestments, given the challenging market environment and more stringent regulatory requirements.

Under the amended Restructuring Plan, certain operations of WestlandUtrecht Bank will be merged with the recently created Nationale-Nederlanden Bank. The combination will accelerate the strategy of Nationale-Nederlanden Bank, which will become a new mid-sized bank in the Netherlands under the strong Nationale-Nederlanden brand.

## GOVERNANCE EurAsia

In November 2011, the Management Board of the new holding company for the European and Asian insurance and investment activities, ING Insurance Eurasia N.V. (ING Insurance EurAsia, a subsidiary of ING Verzekeringen N.V.), was activated. The Management Board Insurance EurAsia manages the ING Insurance EurAsia insurance and investment management businesses and is responsible for strategic, operational and business decisions.

The composition of the Management Board ING Insurance EurAsia is as follows:

- Jan Hommen
- Patrick Flynn
- Wilfred Nagel
- Lard Friese
- Matthew Rider (until 31 December 2012)
- Gilbert Van Hassel
- Delfin Rueda (from 1 November 2012)
- Dorothee van Vredenburg (from 1 November 2012)
- Doug Caldwell (from 1 December 2012).

## Insurance overview continued

### United States

The US insurance and investment management operations continue to be part of a separate legal entity ING U.S., Inc. (formerly America Insurance Holdings), which is responsible to the Management Board Insurance.

The composition of the Board of ING U.S., Inc. is as follows:

- Jan Hommen
- Patrick Flynn
- Wilfred Nagel
- Rodney Martin
- Alain Karaoglan
- Ewout Steenbergen
- Robert Leary (until 6 December 2012).

### CUSTOMER EXPERIENCE

Insurance continued to use insights from its Net Promoter Score (NPS) programme in 17 countries that ING Insurance/IM operates in to make process improvements in 2012. Businesses in Europe and Asia revised written customer communications to ensure the language used was clear and free of jargon.

ING Insurance/IM's strategy of being a customer-driven business providing first-class products and services through multi-distribution channels was recognised in several awards and special mentions received during the year. Awards were won in Romania, the Czech Republic, Slovakia, Hungary, Greece and at ING Investment Management. New customer-centric initiatives were launched in the Netherlands and the Czech Republic. Nationale-Nederlanden launched a pension application to give its customers easy access to information about the size of their pension payouts when they retire as well as a simple guide to better understand their annual pension statements. 'For You', a unique breast cancer insurance product was launched in the Czech Republic which goes beyond being a product, it covers a full service proposition including online access to information and help.

In other countries, new life insurance and investment-based insurance products were introduced to help customers more easily build their wealth and protect it.

In 2012, ING Insurance/IM continued to refine its sales processes and the process for the development of new products to ensure they continue to be compliant in terms of customer suitability. A five point gauge was developed in monitoring compliance. The five points include NPS, customer complaints, welcome call analysis, policy persistency rate and agent turnover rate.

### SUPPORTING AND ENGAGING EMPLOYEES

Engaged employees are essential to achieving success, because they make the difference for our customers. The restructuring of the insurance and investment management business had an immediate impact on ING's employees. Supporting employees through this transition is very important. As the restructuring of the insurance and investment management operations differed in Asia, the US, and Europe, the strategic focus in each region varied as well.

At the insurance and investment management operations in Asia, employees were informed of changes and were assisted in preparing themselves for the divestment process with resources to manage change, including training, coaching and consulting.

For the insurance and investment operations in the US, the priority was to prepare the organisation for a standalone future through an IPO. Employees were guided in this process through training on how they can contribute to further performance improvements. High-quality talent management programmes were set up and a cultural change programme was officially launched. The overall change programme is divided into three pillars: communicate a clear strategy and define clear roles; create a culture of high performance and create an environment for continuous improvement.

To ensure employees at the insurance and investment operations in Europe remain engaged as they work towards preparing the business for a standalone future, the emphasis has been on two priorities: talent and leadership management, and engagement and diversity. Talent and leadership development are important for building the new organisation. Mid-2012, an extensive talent review was carried out, resulting in an up-to-date overview with succession plans in place for all key positions. In terms of engagement, a new annual engagement survey was developed for employees within Europe, resulting in an overall engagement score of 70%. This shows that despite turbulent times, commitment levels remain high. For diversity, three priorities were defined and these are: inclusive culture, female leadership and connection to a younger generation.

### SUSTAINABILITY

Embedding sustainability in ING Insurance/Investment Management core processes is a key priority. The businesses strive – in their daily actions and decision-making – to strike a balance between financial interest and their impact on society and the environment.

For ING Insurance/IM this entails offering suitable products and services that are transparent, fair and easily understood. Furthermore, the business strives to be a responsible investor of both our proprietary assets and the assets we manage on behalf of our customers. Responsible investing (RI) at Insurance/IM includes active ownership of the assets we manage, integrating environmental, social and governance aspects in our investment processes and includes providing Socially Responsible Investment (SRI) funds and tailor-made RI solutions.

In 2012, ING became one of the founding signatories of the United Nations Principles for Sustainable Insurance (PSI). The PSI was launched during the UN Conference on Sustainable Development in Rio de Janeiro and is a framework for the global insurance industry to address environmental, social and governance risks and opportunities.

ING's sustainability agenda for the insurance and investment management businesses also includes community investment initiatives, fund raising for charities, working closely with our global partner UNICEF, special causes and employees volunteering for local causes.

### SOLVENCY II

During 2012, ING Insurance/IM continued to work towards meeting the European Union's Solvency II directive's requirements, particularly with respect to adapting ING's risk measurement, risk management and reporting to levels required under the framework.

Due to ongoing discussions on the legislative content of Solvency II, the proposed framework will not come into force on 1 January 2014 as initially envisaged. Most importantly, more time is needed to find

appropriate solutions for the treatment of long-term guarantees in the framework. Subsequent to the outcome of that discussion, the insurance industry needs time to finalise preparations for the final Solvency II regime.

Until then, ING will continue to take an active role in discussions with the industry and with regulators on developing a European Solvency II framework that is robust and enables life insurance companies to continue to provide solutions for the long-term financial needs of their customers.

#### **EU UNISEX RULE**

In March 2011, the European Court of Justice ruled that insurers in Europe cannot differentiate in price or benefits for the same insurance products, based on gender. As a result, the European Commission introduced a requirement for gender-neutral pricing in insurance, also called the unisex rule, which required that from 21 December 2012, life insurers' products and their pricing must be identical for men and women.

To comply with this new regulation, all product portfolios across the insurance business units were reviewed. More than 90 products were re-priced in Insurance Central and Rest of Europe. In the Benelux, all products available for sale were reviewed in the past two years to ensure they were compliant with the EU unisex rule. From 21 December 2012, all ING's insurance products available for sale throughout the European Union were compliant with the rule.

#### **BUSINESS LINES**

For Insurance Benelux, the focus is to become a more customer-driven company. At the end of 2012, Nationale-Nederlanden announced the acceleration of the insurer's transformation programme to improve processes, deal with legacy systems and reduce expenses.

Insurance Central and Rest of Europe recorded strong life insurance sales growth in 2012 on the back of multi-channel distribution initiatives, new customer propositions and improved service levels.

Insurance US maintained steady progress towards a standalone future by focusing on delivering strong operating performance and focusing steadfastly on its customers and distribution partners.

US Closed Block VA focused on protecting regulatory reserves and rating agency capital from equity market movements.

ING Investment Management worked towards preparing its three regional businesses (ING IM International, ING IM US and ING IM Asia/Pacific) for separate standalone futures.

#### **CONCLUSIONS AND AMBITIONS**

ING Insurance/Investment Management will continue to focus on providing first-class products and services to its customers, as it works towards a standalone future. The company is mindful of its responsibility to society and will continue to pursue sustainability initiatives such as responsible investing.

In Europe, ING is aiming to create a leading European wealth management and protection company. It will have a combination of cash-generating businesses and leading positions in growth

markets. The business will concentrate further on improving the customer experience, focusing on product and service innovation, distribution excellence and effective and efficient operations.

Plans for an IPO of ING U.S. remain on track. Depending on market conditions, ING anticipates an IPO of the business in 2013.

# Insurance

## INSURANCE BENELUX

- > Results impacted by negative non-operating items
- > Accelerated transformation programme in Nationale-Nederlanden
- > Customer-focused strategy

The macro-economic environment in the Benelux was marked by volatile financial markets, low to negative GDP growth and a low interest rate environment. Despite the challenging market circumstances, Nationale-Nederlanden maintained its strong position in the insurance market in the Netherlands. In November 2012, Nationale-Nederlanden announced the acceleration of its transformation programme, commenced in 2011 to improve processes, deal with legacy systems and reduce expenses.

### FINANCIAL DEVELOPMENTS

The underlying result before tax of Insurance Benelux decreased by 112.3% to EUR –91 million in 2012 compared with EUR 739 million in 2011, partly due to a lower operating result, lower result on equity hedges and negative real estate revaluations, as well as lower results from a change in the provision for guarantees on separate account pension contracts (net of hedging) and lower results from macro interest rate hedges. This was partly offset by higher capital gains on loans, debt and public equity. The equity and macro interest rate hedges were in place to protect regulatory capital.

The operating result decreased by 31.8% in 2012 as a result of a lower investment margin, a lower technical margin and a lower non-life result. The investment margin declined by 9.3% during the same period as a result of lower fixed interest income from de-risking, low reinvestment yields, lower dividends on public equity and real estate funds, all of which were partly offset by higher volumes and also offset by EUR 51 million lower profit sharing to policyholders in the Netherlands in line with underlying results in 2012.

The technical margin decreased by 43.9% to EUR 177 million, from EUR 315 million in the previous year. This was mainly due to additions to the guarantee provisions for group life and retail life contracts, largely due to lower interest rates, as well as a EUR 70 million gain from the surrender of a contract with a large pension fund in 2011. Life administrative expenses increased by 1.3% due to higher expenses related to Solvency II compliance costs.

Non-Life results decreased by 53.9% in 2012 compared with 2011, mainly due to higher claims in Income Protection as a result of the economic downturn in the Netherlands, partly offset by better results in Fire and Liability.

New sales (APE) decreased by 23.1% to EUR 387 million in 2012 due to lower sales of group and individual pensions in the Netherlands and lower sales in Belgium due to product re-pricing.

### BUSINESS DEVELOPMENTS

2012 was a year of economic turbulence marked by low interest rates and further volatility in financial markets. The tax-favourable bank products for pension savings (*banksparen*) compensated for the decreasing business in individual life insurance. For Group

pensions, the low interest rate environment and increased longevity risk drove the need for redesign of pension plans and accelerated the move from Defined Benefits (DB) to Defined Contribution (DC) programmes. Nationale-Nederlanden responded to these market developments by instituting plans to simplify its structure which will enable the company to respond effectively to ongoing changes in the Dutch market place.

Nationale-Nederlanden's position as one of the leading pension providers in the Netherlands and its strengths in providing insurance, pension administration (AZL) and investment management services position it well to support existing and new clients with the important transition from DB to DC plans.

In the individual life insurance market in the Netherlands, consumers are switching to tax-favourable bank products for their pension savings (*banksparen*). Nationale-Nederlanden responded to this by introducing *banksparen* products in 2011 and continued this strategy in 2012. Nationale-Nederlanden Bank will expand the development in the *banksparen* field, which will be boosted by the upcoming merger with the commercial activities of WestlandUtrecht Bank. The existing individual life insurance contracts will be serviced by a so-called closed-block organisation focused on excellent customer service, process rationalisation and lower administration costs. In 2012 Nationale-Nederlanden stepped up its total compensation for customers with individual unit-linked policies. By early 2013, all customers were informed about their compensation.

Nationale-Nederlanden holds a leading position in the non-life market, especially in the segment of small and medium-sized enterprises. Nationale-Nederlanden will continue to build on this stronghold and will continue to focus on profitable growth and efficiency.

### Improving customer-experience

Insurance Benelux is committed to continuously improving the customer experience. In 2012, Nationale-Nederlanden established a Net Promoter Score (NPS) programme to collect customer feedback which will be used to further improve new products and services. It also launched a number of other customer-centric initiatives – workshops, webinars and a pension application – to help customers gain a better understanding of their finances.

In Luxembourg, the back-office was redesigned to create a single point of contact for all customers and partners. Key customer-related processes (e.g. complaint management, application acceptance, etc.) were also reviewed.

### Products and Service Innovation

ING introduced a number of new products and services in 2012 to make it easier for consumers to grow and protect their assets and wealth. Within the Netherlands, non-life products for the self-employed and small and medium-sized enterprises were standardised, making it simpler to understand. A simpler car insurance product was launched through the Nationale-Nederlanden website. In Belgium, ING overhauled a fire insurance product sold through ING Bank Belgium, making its terms and conditions more transparent.

### Multi-channel distribution

In 2012, Insurance Benelux continued to optimise its distribution channels to provide customers with more choice on how and where they can buy products. This involved creating more touch points for customers. Within the Netherlands, a selected range

of insurance products were adjusted into new retail products to enable sales through direct channels of Nationale-Nederlanden; a new *banksparen* product was launched through direct channels in 2012 and a further roll-out is planned for 2013.

To improve the customer experience, Nationale-Nederlanden focused on more straight-through processing and easy-to-use portals. This resulted in an upgraded website including sales tools. To prepare for new regulation, Nationale-Nederlanden helped its broker channel, through workshops and information toolkits, to prepare for the transition towards a ban on commissions on complex retail insurance products, which became effective on 1 January 2013.

In the Netherlands, Nationale-Nederlanden's 10-year bank distribution contract with ING Bank, signed in 2011, continued to deliver encouraging results. In Belgium, a long-term exclusive bancassurance distribution agreement with ING Bank was signed in 2012. In Luxembourg, where most of our insurance is distributed through banks, ING Life Luxembourg expanded its distribution network by appointing more banks, brokers and asset managers as intermediaries.

### Sustainability

Insurance Benelux has taken important steps to regain customer trust. Nationale-Nederlanden has started multiple initiatives to contribute to the financial awareness of our customers and other stakeholders, including information meetings on pensions.

Our efforts in responsible investing did not go unnoticed. Nationale-Nederlanden ranked fifth out of 29 in the VBDO Benchmark on responsible investment by Dutch insurance companies, up from an 11th position in 2011. The increase was due to improved transparency in the Environmental and Social risk framework, greater integration of the environmental, social and governance aspects into our investment processes and expansion to different asset classes.

As for community action, Nationale-Nederlanden partnered with Make a Wish Foundation where around 500 employees helped make wishes come true for very ill children in the Netherlands. Under the programme 'Wij & de Maatschappij' (We and Society), in which employees can apply for a donation from Nationale-Nederlanden to support local charities or projects, EUR 450,000 was donated to 263 projects.

### CONCLUSION AND AMBITIONS

In 2012, Insurance Benelux made important steps to become a more customer-driven company. Many customer-focused initiatives combined with our responsible business strategy have contributed to simpler and easier-to-understand products distributed through the customer's channels of preference.

Insurance Benelux's ambition is to become the most cost-efficient and most customer-driven company, based on modern IT systems and great customer service. For Nationale-Nederlanden, the acceleration of the transformation programme will improve processes, deal with legacy systems and reduce expenses. In the new company structure, Nationale-Nederlanden Bank will concentrate on the retail market offering a full range of savings, investment, mortgages, long-term savings and insurance products. A new to be created Pension Solutions group will combine ING's strengths in pension

administration, insurance and investment management offering Defined Contribution pension solutions to employers. Nationale-Nederlanden Non-Life will continue consolidating and expanding its market position in the non-life market.

Insurance Belgium will concentrate on its insurance strategy separate from ING Bank, and ING Life Luxembourg will concentrate on further developing private wealth insurance products.

## INSURANCE CENTRAL AND REST OF EUROPE

- > Strong sales growth
- > Focus on multi-channel distribution
- > New products with extra customer benefits

Despite the challenging macroeconomic environment in most countries as a result of the ongoing European sovereign debt crisis, Insurance Central and Rest of Europe (CRE) recorded double-digit sales growth in 2012. This was achieved through growth in most distribution channels, improved customer value propositions (new terms for health, cancer and critical illness) and improved service levels which were reflected in higher NPS scores. Cost containment remained a key priority; it ensured growth was achieved with expenses lower than in 2011.

### FINANCIAL DEVELOPMENTS

The underlying result before tax of Insurance Central and Rest of Europe in 2012 was a profit of EUR 170 million compared with a EUR 198 million loss in 2011. Contrary to the lower operating result, the gains/losses and impairments improved in 2012 at EUR -35 million compared with EUR -404 million in 2011. The latter amount reflects EUR 324 million in impairments on Greek government bonds, EUR 34 million capital losses on the sales of Italian sovereign bonds and EUR 18 million capital losses on the sales of Portuguese bonds issued by financial institutions.

The operating result declined by 10.7% to EUR 184 million in 2012, from EUR 206 million the previous year. This decline was mainly driven by lower fees and premium-based revenues and a lower investment margin.

The investment margin of EUR 59 million in 2012 was 18.1% lower than EUR 72 million in 2011, in part due to lower investment yields in Greece, reflecting de-risking measures. Fees and premium-based revenues declined by 6.9% compared with 2011. This decline was driven by lower fees in the life business and by regulatory changes to pension funds in Poland and Hungary. The technical margin increased by 3.6%, largely due to the release of a technical provision in Romania. Life administrative expenses fell by 7.5% compared with 2011, reflecting strict control and provision releases in 2012, while 2011 was impacted by higher project costs related to building a regional IT organisation and by reorganisation expenses.

New sales (APE) increased by 11.3% to EUR 396 million compared with the previous year. Life sales grew in all countries except Hungary – a very successful 2011 Hungarian campaign boosted sales in that year – and were EUR 31 million higher compared with 2011. The increase was largely due to strong sales of the third pillar pension fund in the Czech Republic, classified as life insurance products, and the sale of life products in Turkey. Pension sales grew in Romania, Slovakia and especially in Turkey. They were EUR 9

## Insurance continued

million higher compared with 2011, reflecting 76.1% higher pension sales in Turkey, partly offset by 67.6% lower pension sales in Poland, reflecting regulatory changes.

### BUSINESS DEVELOPMENTS

In 2012, Europe continued to battle difficult economic conditions as the European sovereign debt crisis dragged on. The pace of economic activity varied across countries in the region.

The Spanish economy lapsed back into recession, while Greece remained in deep recession. Poland and Bulgaria recorded growth while Turkey exhibited solid GDP growth.

ING achieved a modest operating profit and recorded double-digit sales growth. Life sales grew by 12.8% across the region and pension sales by 7.9%.

In 2012 Turkey became the region's number 1 market in terms of new sales (Life and pensions). Sales doubled (up 101%) compared to 2011. The Czech Republic, Slovakia, Greece and Romania also increased new sales, in most cases recording double-digit growth.

Given the subdued economic conditions, cost control remained important and resulted in expenses being lower than in 2011. In the Czech Republic, because of fierce competition in the broker channel and unfavourable pension reforms, 15% of local head office staff were made redundant. Recurring costs in the region's hub for managing infrastructure systems for regional IT applications were reduced significantly.

### Multi-channel distribution

Insurance CRE has life insurance and pension operations in nine countries – Poland, the Czech Republic, Slovakia, Hungary, Romania, Bulgaria, Turkey, Greece and Spain. Tied agents remain Insurance CRE's dominant distribution channel. Improving the quality and productivity of the tied agent sales forces through the Tied Agents Transformation Programme is one of the key strategic initiatives of Insurance CRE. One of the goals for this channel is to further improve customer centricity. To this end, ING in Romania has developed new tools to help agents recruit better qualified staff and to help them provide e-learning facilities and online personal finance plans for customers and prospective customers. Spain finalised the implementation of the transformation programme for all its agent branches and it is working on further refinements and upgrades.

Though tied agents remain the largest single channel for sales, the majority of Insurance CRE's new sales came from other channels combined, especially from brokers (Slovakia, the Czech Republic and Turkey), bancassurance (the Czech Republic and Turkey) and direct channels (Poland, Romania and the Czech Republic). In Turkey, ING is successfully building broker distribution from scratch, for example, by selling voluntary pensions through non-life brokers.

Bancassurance is growing successfully, largely through distribution agreements negotiated in 2011. In 2012, ING's Polish business began selling term insurance via Polbank and Raiffeisen Bank.

In direct channels, Insurance CRE is active in Spain, Poland, Romania, the Czech Republic and Slovakia. In Spain, a sales partnership with ING Direct Spain has resulted in strong life insurance sales in the past two years.

### Product & Service Innovation

Sales through all channels were enhanced by new customer value propositions in life and pensions as well as in investment-related insurance and protection products.

In the Czech Republic, 'For You', a unique breast cancer insurance product was launched which goes beyond being a product and includes online access to information and help. The online component involves using social media to build a community for women to share health problems and to seek advice and guidance. For You is a CRE regional project, and is planned to be introduced in Spain in the first half of 2013.

In Spain, CRE launched OptiPlan, an innovative long-term saving solution. Asset allocation is adjusted on an individual basis, making it unique in the Spanish market. In Poland, several new products including a new cancer cover rider were introduced via a very successful campaign in cooperation with non-government organisation 'Amazonki'.

### Improving customer experience

Improving the customer experience continued to be a core strategy in 2012. Insurance CRE continually strives to increase customer satisfaction by using feedback from the NPS programme to improve products and services. As a result of valuable NPS insights, CRE businesses, for example, will establish minimum standards for certain customer contact-points that all businesses need to abide by. In many business units (e.g. Spain, Bulgaria, Romania, Poland), other NPS-led improvements include the revision of key client letters so they are clear and jargon free. In the Czech Republic and Slovakia, the businesses made greater use of email to communicate with customers and enhanced the claim process – leading to 85% of claims being resolved within five days.

### Business improvements

Using a new business process management platform, ING is now able to introduce new interactive customer processes faster in Poland, Hungary and Romania. Also in Hungary, Bulgaria and Romania, client portals were introduced or enhanced to provide online applications, E-statements or transactions, and risk profiling. Websites and portals were boosted against external threats, such as hacking. ING maintains a strong focus on enhancing IT security enabling effective and integrated risk mitigation.

### Awards

ING's efforts to improve the customer experience were recognised by the markets in which we operate. ING's Czech insurance business was awarded the titles of best insurance business and most customer-friendly insurance company in 2012 by a leading Czech financial newspaper. Insurance Czech Republic also won two insurance awards in the Fincentrum Bank of the Year awards: one for its unit-linked life insurance Smart product for the second consecutive year, and one for its pension fund business. Insurance Slovakia won two first prizes in the country's Golden Coin 2012 awards: one for its Smart product and one for its Smart Senior product – a new life insurance policy for people over 55.

ING Insurance Romania's pension business won the 'Company of the Year' title in awards organised by *PRIMM Magazine* Insurance & Pensions, a major publication in the Romanian insurance and pensions sector. ING Insurance Romania also won the 'Best Insurance Product of the Year' award for adding a provision to its existing life

insurance product which gives people the option of insuring themselves against critical illness. ING Insurance Bulgaria was named the most dynamic pension insurance company in the 2012 Insurer of the Year awards. It was among the best-performing pension funds according to a jury of associations representing Bulgarian pension and insurance companies and other financial institutions. In Greece as well as in Hungary, ING took the title 'Top Corporate Brand' in the Insurance Services category for the second consecutive year.

### Sustainability

Insurance CRE is very mindful of its responsibility to society everywhere it operates. Whether it is improving the customer experience through the NPS programme or introducing new products and services that have an extra customer-centric dimension (such as the 'For You' product in the Czech Republic), ING aims to be a responsible financial services provider and business partner. ING is also an active investor in the community throughout its CRE markets. Activities range from financial education to health and wellbeing initiatives ('Chances for Life', which provide first aid lessons in Romania and donations for child health care in Hungary). They involve raising funds through donations and through employees volunteering their time for special projects.

### CONCLUSIONS AND AMBITIONS

Despite a challenging year in 2012, constrained growth is projected for most economies in Central Europe in 2013, with economic growth forecast to improve further in 2014. Insurance CRE businesses will continue to work to improve the customer experience and lift NPS as well as strengthen their multi-channel distribution strategies. Although sales growth has been good, for the full benefits to be reaped, cost containment remains paramount.

## INSURANCE US

- > Solid financial performance
- > Steady progress towards standalone future
- > Focus remains on customers and distribution partners

Insurance US maintained steady progress in 2012 towards a standalone future by focusing on its four key priorities: delivering strong operating performance, focusing steadfastly on its customers and distribution partners, maintaining an unwavering focus on separation efforts from ING Group and ensuring all business practices comply with the highest standards.

### FINANCIAL DEVELOPMENTS

The underlying result before tax of Insurance US increased by 50% to EUR 928 million in 2012, from EUR 618 million in 2011. The increase was driven by higher operating results, lower impairments/credit losses, gains on the sale of securities, and favourable Deferred Acquisition Cost (DAC) unlocking.

The operating result increased by 5.4%, as higher investment margins and fees and premium-based revenues were partially offset by a lower technical margin and higher administrative expenses.

The investment margin increased by 21.9%, primarily due to higher general account assets in the Retirement Services business, partially

due to customer transfers from equity accounts, and lower average crediting rates.

Fees and premium-based revenues increased by 11.7%, primarily due to growth in the term life business, and higher fee income, due to strong net flows in the full-service retirement business and higher equity market levels.

The technical margin decreased by 45.5% compared with 2011. This decline was mainly attributable to lower results in Individual Life, partially offset by higher results in Employee Benefits and the closed block Group Reinsurance business.

Administrative expenses were 18.9% higher than in 2011, primarily due to a non-recurring reduction in pension plan liabilities in the prior year.

Gains/losses and impairments improved to EUR 36 million, from EUR -171 million in 2011, primarily driven by lower impairments and credit losses as well as an increase in gains on securities sold.

Market and other impacts improved to EUR 29 million, from EUR -36 million in 2011, primarily due to net favourable DAC unlocking in the third quarter related to model refinements and assumption updates, largely in Annuities.

New sales (APE) were EUR 2,047 million, a 14.4% increase compared with 2011, primarily due to growth in the full-service retirement plans, partly offset by lower Annuity and Individual Life sales due to management actions to reduce sales in the current low interest rate environment.

### BUSINESS DEVELOPMENTS

Insurance US, US Closed Block VA, ING Investment Management US and Corporate Line US are all part of ING U.S. legal entities.

In 2012, ING U.S. continued to strengthen its capital position, reduced financial leverage, contained expenses further and continued to develop products and services to help individual and institutional customers accumulate and protect their wealth.

As part of the plan to establish an independent capital structure, ING U.S. entered into a USD 5 billion senior unsecured credit facility agreement with a syndicate of 27 banks. The credit facility was the first based on the standalone credit of ING U.S.

ING U.S. also completed a USD 850 million private placement debt offering. This debt offering, like the credit facility, was based on the standalone credit of ING U.S. More than 90 institutional investors participated in the offering and demand for the company's debt exceeded the amount issued.

In November, the company filed an initial registration statement on Form S-1 with the US Securities and Exchange Commission (SEC) in connection with its proposed initial public offering.

As part of an amended EU Restructuring Plan as approved by the European Commission, ING Group must divest at least 25% of ING U.S. by the end of 2013; more than 50% by the end of 2014; and any remaining interest by the end of 2016.

## Insurance continued

### Retirement Readiness strategy

ING U.S. is a major retirement, investment and insurance company serving the financial needs of approximately 13 million individual and institutional customers in the US. The company's vision is to become America's Retirement Company™, with approximately 7,100 employees focused on executing its strategy to help Americans with their retirement readiness.

ING U.S. offers products and services through a broad group of financial intermediaries, independent producers, affiliated advisers and dedicated sales specialists throughout the US to help its customers save, protect and enjoy their wealth to and through retirement.

The company's strategy is centered on helping customers become emotionally and financially secure and ready for their retirement. ING U.S. believes that the rapid aging of the US population, the weakening of traditional social safety nets, the shifting of responsibility for retirement planning from institutions to individuals, and growth in total retirement account assets will drive significant future demand and therefore market opportunity for the business in the years ahead.

ING U.S. operates its principal businesses through three business lines: Retirement Solutions, Investment Management and Insurance Solutions. Each has strong established market leadership positions and is organised to address all three dimensions of retirement readiness: asset accumulation, asset protection, and asset distribution. The power of ING U.S.'s value proposition comes from the combination of the three.

### Retirement Solutions

ING U.S. is a leading provider of retirement services and products in the US with an extensive product range which addresses both the wealth accumulation and income needs of customers, through a broad distribution capacity of almost 2,500 affiliated representatives and thousands of non-affiliated agents and third party administrators ('TPAs').

The company's Retirement Solutions business comprises two major product lines: Retirement and Annuities.

Retirement provides tax-deferred, employer-sponsored retirement savings plans and administrative services to more than 49,000 plan sponsors covering approximately 5.3 million plan participants in corporate, education, healthcare and government markets. Retirement also provides rollover IRAs (Individual Retirement Accounts), and other retail financial products as well as comprehensive financial advisory services to individual customers. The business serves a wide variety of employers ranging from small companies to very large corporations and government entities. It ranks in the top 5 in the US defined contribution retirement plan market by number of retirement plans administered and plan participants served, and by assets under management and administration at 31 December 2012. ING U.S. also ranks in the top 5 in the K-12 education market and in the higher education market by assets at 31 December 2012.

In the US, it is one of the few providers of retirement services with major presence and scale in the 401(k), 403(b) and 457 market segments.

ING U.S. offers fixed and indexed annuities, tax-qualified mutual fund custodial products and payout annuities for pre-retirement

wealth accumulation and post-retirement income management, sold through multiple channels.

In 2012, ING U.S. launched several initiatives in the retirement space. One example was the introduction of a new guaranteed retirement income solution, developed for 401(k) employer sponsored workplace retirement savings plans in the small corporate market. Another initiative was the launch of a new mobile game app (STRUCT), aimed at improving retirement literacy. Mobile games and applications are becoming increasingly effective ways to reach consumers.

### Insurance Solutions

ING U.S. is one of the largest providers of life insurance in the US. It is one of the top 5 providers of term insurance, and one of the top 10 providers of universal life insurance, based on premiums sold. The company ranks as one of the top 5 largest providers of medical stop loss insurance in the US based on in-force premiums.

ING U.S.'s insurance business comprises two major product lines: Individual Life and Employee Benefits. Individual Life provides wealth protection and the opportunity to transfer assets upon death through universal, variable, and term products, distributed through independent channels. It caters to a broad range of customers from the middle-market to the affluent segment. The Individual Life distribution model is supported by independent life sales agents, strategic distribution and specialty markets.

Employee Benefits provides stop loss, group life, voluntary employee-paid and disability products to mid-sized and large businesses. The company has 55 employee benefits sales representatives across 19 sales offices, with average industry experience of 16 years. In the Employee Benefits market in 2012, ING U.S. launched a new voluntary accident and critical illness insurance product suite that makes administration simple and easy for employers, employees and financial professionals.

### Industry expertise

ING U.S. often served as a source of information about important industry trends and information during the year. The company issued findings from an extensive consumer study that highlighted the retirement saving behaviours, attitudes and trends of multicultural and women's groups. In addition, ING U.S. conducted and shared findings from a separate study that highlighted consumer behaviours, attitudes and trends on purchasing life insurance. Finally, the company launched a research-based programme that re-promoted ING U.S.'s pioneering peer benchmarking web-tool, [www.INGCompareMe.com](http://www.INGCompareMe.com), as well as created an interactive map – [www.INGStateofSavings.com](http://www.INGStateofSavings.com) – to illustrate how Americans are saving across the country.

### CONCLUSIONS AND AMBITIONS

In 2012, ING U.S. reached all its important milestones, maintained its focus on improving its return on equity (ROE), increasing distributable earnings, and generated sales at or above the internal rate of return, thus setting the stage for executing the next phase of its separation plan in 2013.

ING U.S.'s broad presence in the market positions it well for the future. It has leading positions with its Retirement Solutions and Insurance Solutions businesses and a prominent Investment Management business with top-tier investment performance across

an array of asset classes. It has an extensive, multi-channel distribution network with strong producer relationships. ING U.S. has developed a highly scalable business model which positions the company well for future growth opportunities. The company's operating platform supports both current and significantly higher volumes of business, positioning it favourably for margin expansion in the future.

This operating platform strengthened further in 2012 as ING U.S. has successfully attracted and retained talent, adding highly qualified executives in several key positions. New heads were appointed for Human Resources, Individual Retirement and Tax Exempt Markets.

In 2013, ING U.S. will focus on execution to continue momentum towards a standalone future and improved operating results. Preparing customers for retirement readiness will remain central to the strategy.

## US CLOSED BLOCK VA

- > Focus on protecting regulatory reserves
- > Hedging activities in line with expectations
- > Business has been closed for three years

In 2009, ING decided to cease selling variable annuity policies with living benefits in the US. Since then, ING has taken decisive action to reduce risk, and protect regulatory reserves and rating agency capital. These actions have included reducing deferred acquisition costs, strengthening reserves, expanding hedging programmes to protect regulatory reserves, and increasing transparency by reporting US Closed Block Variable Annuity (VA) as a separate business alongside the ING's Insurance US business.

## FINANCIAL DEVELOPMENTS

The underlying result before tax of the US Closed Block VA improved to EUR -379 million, from EUR -1,273 million in 2011. The underlying result before tax in 2011 was impacted by the completion of a comprehensive policyholder behaviour assumption review for the US Closed Block VA, leading to a charge of EUR 1.1 billion in the fourth quarter of 2011.

The operating result decreased to EUR -122 million, from EUR 20 million in 2011. The decrease is mainly attributable to lower fees and premium-based revenues in addition to a lower investment margin.

The investment margin decreased to EUR 7 million compared with EUR 28 million in 2011, primarily due to lower yields on investments backing reserves due to higher liquidity balances and the low interest rate environment.

The fees and premium-based revenues decreased to EUR 100 million, from EUR 168 million in 2011. This decrease is mainly due to lower fee income and higher hedge and reserve costs.

Market and other impacts were EUR -274 million compared with EUR -1,295 million in 2011. Excluding the EUR 1.1 billion charge in the fourth quarter of 2011, market and other impacts in 2012 decreased, mainly reflecting a higher loss on hedges, net of reserve changes, due to the rising equity markets. The hedge programme is focused on protecting regulatory capital rather than mitigating earnings volatility.

## BUSINESS DEVELOPMENTS

In 2010, Insurance US separated its Closed Block Variable Annuity from its other operations, placing it in a run-off portfolio. Accordingly, this segment has been classified as a closed block and is managed separately from the rest of the business.

In 2009, Insurance US decided to cease sales of retail variable annuity products with substantial guarantee features (the last policies were issued in early 2010). Subsequently, Insurance US refined its hedging programme to dynamically protect regulatory reserves and rating agency capital of the variable annuities block from adverse equity market movements. In addition, since 2010, Insurance US has increased regulatory reserves considerably, added significant interest rate risk protection and has aligned its policyholder behaviour assumptions with emerging experience.

In 2012, Insurance US's focus in managing its Closed Block Variable Annuity segment was on protecting regulatory reserves and rating agency capital from equity market movements through hedging. It continues to look for opportunities to accelerate the run-off of the block, where possible. The hedging programme combined with regulatory reserves related to the variable annuity block, provides adequate resources to fund a wide range of, but not all, possible market scenarios as well as a margin for adverse policyholder behaviour.

## ING INVESTMENT MANAGEMENT

- > Assets under management (AuM) of EUR 321.5 billion
- > Continued strong investment performance
- > Both ING IM US and ING IM International on track for standalone future

In 2012, ING Investment Management (ING IM) started preparing the three regional IM businesses for their separate futures. ING announced the intention to sell ING IM Asia, whereas ING IM US as well as ING IM International are both preparing for their standalone future in conjunction with ING Insurance US and ING Insurance Europe respectively.

## FINANCIAL DEVELOPMENTS

The results of the Asian Investment Management business, with the exception of IM Japan and IM Singapore, have been transferred to 'net results from discontinued operations', pending the planned sale of ING's Insurance and Investment Management business in the region. All financials for the years 2010, 2011 and 2012 have been restated.

Assets under management (AuM) at ING Investment Management (ING IM) increased by 9.5% to EUR 321.5 billion at year-end 2012, from EUR 293.5 billion at year-end 2011. This increase was the result of EUR 10.8 billion inflows, realised in all segments, and market appreciation of EUR 21.7 billion, partly offset by EUR -4.6 billion of currency and other impacts.

In 2012, the underlying result before tax increased by 1.0% to EUR 200 million, while the operating result decreased by 15.0% to EUR 159 million. The decline in operating result was caused by higher administrative expenses, due in part to non-recurring items,

## Insurance continued

which were not fully offset by higher fees and premium-based revenues. The higher underlying result was attributable to EUR 34 million higher revaluations in IM US, including a non-recurring EUR 10 million favourable impact for performance fees, which more than offset the lower operating result.

Fees and premium-based revenues increased by 5.2% to EUR 824 million in 2012, from EUR 783 million in 2011, to a large extent as a result of currency effects and to a lesser extent as a result of the higher asset base. The annualised fourth quarter ratio of fees to average AuM remained flat at 27 basis points compared with the previous year. This ratio is calculated using an average of opening and closing AuM balances for the period.

Administrative expenses were 11.2% higher than the previous year, for a large part attributable to currency effects. On a constant currency basis, expenses rose 5.7% during the same period, mainly as a result of a non-recurring expense reduction from a change to the IM US pension plan in the prior year, and investments in Europe in the current year related to rebuilding its capabilities in the US.

### BUSINESS DEVELOPMENTS

ING IM is the principal investment manager of ING Group with activities in Europe, Americas, Asia Pacific and the Middle East.

In January 2012, ING announced an update on the restructuring of the insurance and investment management businesses whereby it decided to review strategic options for its Asian Insurance and Investment Management businesses. During the course of the year, ING announced the sale of its 33% stake in China Merchant Fund as well as the sale of ING Funds Berhad in Malaysia and ING IM Thailand. It also stated its intention to keep an ING IM presence in Singapore and Japan as part of the Europe-based ING IM organisation in order to protect global investment capabilities and key client relationships.

ING IM International opened offices in New York and Atlanta in 2012 to retain and build up its investment capabilities in the fixed income sphere. Given its geographic presence and the inclusion of ING IM Singapore and Japan in its governance, ING IM Europe began externally to refer to its business as ING IM International at the end of the year to signify the global scope of the business both in terms of investment offering and distribution capabilities. ING IM International and ING IM US will continue to operate as a partnership on an arm's-length basis. This arrangement began in 2011 to ensure continued commercial collaboration and cross-selling arrangements between the two businesses.

ING IM International and ING IM US are preparing for separate futures with their respective Insurance counterparts, providing a wide variety of actively-managed strategies, investment vehicles and advisory services in all major asset classes and investment styles. Both businesses deliver a wide range of investment strategies and services to both ING Insurance US and ING Insurance Europe as well to other retail and institutional clients including other ING affiliates.

### CUSTOMER INITIATIVES

Customer centricity is at the heart of ING IM's strategy. Client satisfaction surveys are held every year to measure and analyse where products and services to clients can be improved. In 2012 as in previous years, various initiatives to improve client satisfaction

were implemented. ING IM's client focus has received market recognition through various awards. For example in the Netherlands, ING IM received the *CASH*cow magazine People's Choice Award for 2012, recognising ING IM as the best investment management company in the country in terms of both investment products and services.

In addition, ING IM US was ranked in first place among defined contribution investment managers for client loyalty and favourability by market researcher Cogent Research. ING IM US was also awarded the 2012 Dalbar Seal of Excellence for its mutual fund call centre and for the quality of its client statements.

In terms of investment performance, ING IM in 2012 again delivered some significant results for clients. At ING IM International, 63% of AuM outperformed the benchmark in 2012, and the figure was higher at 73% on a three-year basis. In addition, 44% of ING IM International mutual funds had a 4 or 5 Morningstar rating against an industry average of 32%. At ING IM US, 77% of mutual funds achieved performance above their peer Morningstar average and 85% had less risk than the Morningstar competitor average on a five-year basis.

### RESPONSIBLE INVESTING

ING's business principles are ING IM's starting point for its policy on social and environmental responsibility. These responsibilities are clearly formulated in ING IM's Investment Principles where it is stated that ING IM is committed to investing responsibly and delivering customer-oriented investment solutions. The responsible investment policy has a four pillar approach: (i) active ownership (voting & engagement), (ii) integrating environmental, social and governance (ESG) factors in our investment processes, (iii) restrictions (driven by legislation, regulation, specific client requests), and (iv) offering specialised socially responsible investment (SRI) funds and tailor-made responsible investment solutions.

ING IM is a signatory to the United Nations Principles for Responsible Investment (UN PRI) and believes that integrating environmental, social and governance (ESG) factors into the investment process enables its investment professionals to take into account factors which are often outside the scope of traditional financial analysis, but which can have a significant impact on long-term performance.

For ING IM International, an internal ESG Board was established in 2012, chaired by the Chief Investment Officer. This board provides advice to senior management on ING IM's Responsible Investing strategy and approved policies. In the past year, the ESG board approved, amongst other things, a renewed voting policy including social, ethical and environmental issues in addition to good corporate governance.

### ING IM ASIA/PACIFIC

Despite the sale process, the business kept delivering consistent performance, which was recognised by two *AsianInvestor* magazine awards for performance in Asian fixed income (hard currency) and global equity categories.

### ING IM INTERNATIONAL

ING IM International has been developing its reputation for spread and income investment solutions, based on its strengths in Emerging Market Debt (EMD), credit, multi-asset and equity products. ING IM received market recognition by winning major

institutional covered bond, EMD, sustainable equity and insurance solutions mandates during the year. In 2012, ING IM International together with ING Insurance Europe launched the PremiePensioen Instelling (PPI), a new form of pension solution in the Netherlands and secured its first clients. The PPI combines ING's strengths in pension administration, insurance and investment management, offering Defined Contribution pension solutions to employers.

In its retail business, ING IM International had a strong year, launching four of its successful Credit Select funds gathering almost EUR 800 million in AuM in Belgium and becoming market leader in the Netherlands. Furthermore, ING IM International announced a partnership with Dutch actor Thom Hoffman and Dutch Olympic gold medal swimmer Ranomi Kromowidjojo. They will feature in various initiatives aimed at increasing awareness among consumers about investing and the need to build a financial future.

After launching a new sustainable credit fund in 2012, ING IM International achieved a notable highlight with its long-standing flagship sustainable equity strategy. The AuM in the SRI funds and mandates passed the USD 1 billion mark after winning a large institutional mandate from Luxembourg investor FDC. This mandate was won in a mainstream global equity contest on its attractive risk-return characteristics and strong qualitative features. The strategy compares favourably on SRI metrics compared with mainstream global equity peers and benchmarks. The fund highlights ING IM International's success in combining sustainable thinking and good financial performance for its clients.

On the operational side, the implementation of the BlackRock Aladdin IT platform that was purchased in 2011 is on track, and expected to be completed in the course of 2013. With the integration of this new platform, ING IM International has improved on its data quality and integrity and its capacity to service new and existing clients.

### ING IM US

In 2012 ING IM US investment performance remained strong across the equities and fixed income platforms, and continued to improve in the multi-asset platform. Total assets grew from USD 161.6 billion to USD 180.3 billion, with USD 10.8 billion of this growth coming from net inflows.

The strategic alignment and ongoing initiatives with ING US's Retirement Solutions business yielded many successful results, including more than USD 6.4 billion in mandates where ING IM replaced other mutual fund managers. This was directly related to ING IM US's investment performance. The focus on growing the proprietary share of business in US Retirement channels remains a key component of the ING IM US strategy, and is closely aligned with ING US's focus on retirement readiness (accumulation, protection and distribution) across each of its businesses.

On the sales front, key indicators for institutional, intermediary and retirement markets showed improvement as the Group added net assets in all three segments. ING IM US grew its third party asset base while assembling a robust, third-party pipeline of new business. Intermediary distribution demonstrated annual growth in sales and productivity with a more proprietary focus and lower cost of acquisition. The rebuilding of the Institutional Sales team over the past three years has brought deep, asset management and retirement expertise to the organisation which has enhanced our

consultative and solutions-based sales approach. ING IM US investment excellence continues to be recognised in the marketplace with strong annual improvement in pension consulting and retail intermediary approvals and buy ratings on investment strategies.

### CONCLUSIONS AND AMBITIONS

ING IM will continue to focus on delivering best-in-class performance and services for its customers throughout 2013. ING IM International will continue its preparations for a standalone future together with ING Insurance Europe while further developing its third-party business and new insurance solutions capabilities in selected areas.

For ING IM US, the focus remains on improving and sustaining strong investment performance in 2013 while adhering to the guiding principles of Stewardship & Service – putting customers first – to help them achieve their long-term investment goals. Additionally, IM US will continue to increase sales force productivity in the institutional and retail intermediary channels, and will continue efforts to increase the capture rate in the US Retirement channels.

## REPORT OF THE EXECUTIVE BOARD

The Corporate governance section starting on page 60 and the paragraphs of the Remuneration report 'Remuneration policy for senior management' and '2012 remuneration structure senior management' on pages 85-86 are incorporated by reference in this Report of the Executive Board.

**AMSTERDAM, 18 MARCH 2013**  
**THE EXECUTIVE BOARD**

# Report of the Supervisory Board

The Supervisory Board and the Executive Board met for eight regular meetings and five additional meetings in 2012. The strategy, the progress in executing the Restructuring Plan as approved by the European Commission as well as the impact of the sovereign debt crisis in the eurozone for the banking, the insurance and the investment management operations were important topics on the agenda.

The Committees of the Supervisory Board discussed a range of subjects on which the Supervisory Board received information, the main ones being the quarterly results, risk management, corporate governance and human resources.

## **GENERAL SUPERVISORY BOARD 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 meetings 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), including the preparation of the divestment of Insurance/IM Asia, the preparation of the initial public offerings (IPOs) for Insurance Europe and Insurance US 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 and insurance businesses also remained important topics on the agenda.

In January 2012 the Supervisory Board met to discuss a proposal for a divestment of Insurance/IM Asia apart from Insurance Europe, given the current market circumstances and outlook beyond 2012, the regulatory capital requirements, the necessary elimination of double leverage, as well as the Restructuring Plan requirement to divest Insurance by the end of 2013. At every Supervisory Board meeting the Supervisory Board was updated on the progress of the divestment programme, including the divestment of Insurance/IM Asia.

At the annual Supervisory Board Knowledge Day in January 2012, presentations were given on cybercrime and technology trends, sustainability, crisis management and a workshop on future economic scenarios was held. Several other educational sessions on specific topics were organised for the Supervisory Board during the year.

Also in January, the Supervisory Board held its annual meeting on ING's strategy as well as the medium-term plan (MTP) 2012-2015 and related risks. The MTP addresses the plans and the financial and non-financial targets for the banking and the insurance businesses and for the Group as a whole. The Supervisory Board discussed the strategic ambitions for ING Bank, ING Insurance/IM EurAsia, ING Insurance US and ING Group while taking into account the regulatory changes, the economic developments, the volatility on the financial markets, the sovereign debt crisis in the eurozone, the execution of the Restructuring Plan and the intended repayments of the outstanding core Tier 1 securities to the Dutch State. The Supervisory Board approved the MTPs and the proposed strategic directions for ING Bank, ING Insurance/IM as well as for ING Group.

The 4Q 2011 and the 2011 annual figures were discussed in February, including the related reports from the external auditors and the assessment of the Executive Board of the adequacy and effectiveness of ING's risk management and control systems. The Supervisory Board supported the proposal not to pay a dividend over 2011 given the uncertain financial environment, increasing regulatory requirements and ING's priority to repurchase remaining outstanding core Tier 1 securities.

The Supervisory Board also supported the decision that ING would make use of its discretion not to provide funds for indexation of pensions of retired Dutch employees.

The draft agenda of the annual General Meeting was discussed and approved, including the proposal to amend the Articles of Association of ING Groep N.V. and the publication on the application of the Dutch Banking Code and the Dutch Insurers' Code.

The successive quarterly figures of 2012 were discussed in May, August and November, respectively. The Annual Accounts and the SOX 404 sign-off were approved in March. Following the ruling of the European Court on the Restructuring Plan, the Supervisory Board met in April to discuss possible scenarios taking into perspective the position of the EC, the Dutch State and the Dutch central bank (DNB), as well as the market circumstances.

In May the investor feedback on ING's performance over 2011 was presented to the Supervisory Board and measures were presented to mitigate capital volatility, especially within Insurance EurAsia. An extra meeting took place in May following the press release issued by the EC on ING's restructuring. The Supervisory Board was informed that new business scenarios were being prepared for Insurance Europe and a product overview of life insurance products Insurance Europe was presented. The Supervisory Board was reported that an agreement had been reached with the labour unions on a new pension scheme for Dutch employees. The 2012 General Meeting was evaluated in June and various scenarios with regard to ING's Restructuring Plan were again discussed during an extra meeting in July.

In August the risk appetite framework for ING Bank was approved, including risk appetite statements for non-financial risk. A business plan for Insurance Europe was presented and strategic options were discussed. Several divestment transactions for Insurance/IM Asia were proposed and the Supervisory Board mandated the Executive Board to execute those transactions within the terms and conditions approved.

The Supervisory Board also approved a mandate to the Executive Board to divest ING Direct UK and ING Direct Canada under certain terms and conditions.

In September the Supervisory Board visited the ING-DiBa banking business in Germany. During this visit the Supervisory Board was briefed extensively on the various operations of ING-DiBa. Furthermore, a mid-year review of ING Bank's ambition for 2015 was presented and the Supervisory Board was informed on the preparations for an IPO for Insurance US.

In October an extra Supervisory Board meeting was organised to discuss the consensus that had been reached with the EC on amendments to the 2009 Restructuring Plan which could be the basis for a new decision by the EC. The Supervisory Board supported the proposed agreement with the EC.

In November the Supervisory Board met to discuss and approve the initial SEC S1 filing as a first step in the Insurance US IPO process. Due to macro-economic circumstances, the continued financial crisis and increased competition, an accelerated change programme for Nationale-Nederlanden was presented, including an adjusted business plan and a reduced workforce for Nationale-Nederlanden and at the head office of Insurance Europe, which the Supervisory Board approved.

The Supervisory Board also approved the proposed EUR 1.125 billion repayment in November on the outstanding core Tier 1 securities to the Dutch State.

During the internal meetings of the Supervisory Board – which the CEO joined, except when the annual evaluation of the Supervisory Board was tabled or matters concerning the CEO were discussed – the Executive Board 2011 performance assessments and the CEO performance objectives for 2012 were approved. In the first half of 2012 an important topic was the approval of the remuneration frameworks for Banking, Insurance EurAsia and Insurance US as required by DNB, based on the Capital Requirements Directive III (CRD III) and the DNB regulation on controlled remuneration policy. The suitability test, based on a new joint rule of the AFM (the Netherlands Authority for the Financial Markets) and DNB on expertise requirements for Supervisory Board members, was executed by the AFM and DNB in the first half of 2012. The execution of the suitability test was reviewed in the internal Supervisory Board meetings. An alternative remuneration structure for Dutch general managers was discussed in several meetings.

In February the variable remuneration pool was discussed and the performance assessment and variable remuneration proposal for the Executive Board and Management Boards were reviewed. A mandate was given to the Remuneration Committee to review the remuneration proposals for Identified Staff. Succession planning and talent management was discussed in June and August. The capital hurdles 2012, a threshold after which the pool for variable remuneration becomes available, were approved in June.

In August the Supervisory Board approved the candidacy of Delfin Rueda as member and CFO Insurance/IM EurAsia and Dorothee van Vredenburg as a member Management Board Insurance/IM EurAsia. In November the nomination of Doug Caldwell as CRO Insurance/IM EurAsia was approved. The remuneration proposals for these candidates were also approved by the Supervisory Board.

In September and November the Supervisory Board discussed the future composition of the Supervisory Board as well as Executive Board succession matters and approved the format for the 2012 Supervisory Board self-assessment. In November the Supervisory Board approved adjusted guidelines on severance pay for senior management as well as a new performance management model for Identified Staff Bank and a specific compensation structure for Dutch general managers banking.

The action points resulting from the 2011 self-assessment were acted upon during the year. For the 2012 self-assessment of the Supervisory Board, its Committees and its members, which was conducted in December, an external consultant drafted the questionnaires as well as the report based on the outcome of the questionnaires. Furthermore, bilateral meetings were held between the chairman and each Supervisory Board member (concerning the chairman: a bilateral meeting between the vice-chairman and the chairman). The self-assessment resulted in action points concerning the meeting documents, the structure and organisation of the Supervisory Board meetings, as well as the Audit Committee and Risk Committee meetings.

### **Audit Committee meetings**

In 2012 the Audit Committee met five times, with no absentees, to discuss the annual and quarterly results, the annual US GAAP 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, hedging activities and other measures to protect the solvency of Nationale-Nederlanden and Insurance US were frequently discussed. Next to that the Audit Committee discussed topics such as reserve adequacy levels in Asia and the policy holder behaviour assumptions for the US Closed Block VA. 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.

### **Risk Committee meetings**

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 and insurance were discussed. As of May the financial risk report of Insurance EurAsia and Insurance US was separately 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 affair 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.

### **Nomination Committee meetings**

The Nomination Committee met three times in 2012, with one absentee once and two absentees once, to discuss succession matters for the Executive Board and the Management Boards as well as the future composition of the Supervisory Board. The Nomination Committee interviewed three candidates for the Management Board Insurance EurAsia and advised positively on their nomination following a review in the Nomination Committee.

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.

### **Remuneration Committee meetings**

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 frameworks for ING Bank, ING Insurance EurAsia and ING Group, based on the EU CRD III and the DNB regulation on controlled remuneration policy. In February the Remuneration Committee discussed the remuneration framework for Insurance US once more and supported the proposed implementation. The proposed 2012 performance objectives for the Board were reviewed and positively advised. The Remuneration Committee also advised positively on the 2011 variable remuneration pools.

The functioning of the Executive Board and the Management Boards was discussed regularly. In February, the 2011 performance of the individual Executive Board and Management Board members was discussed on the basis of the Group 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 on the governance framework.

An extensive discussion about an alternative remuneration structure took place as well. In August and September compensation packages for various candidates for the Management Board Insurance EurAsia were supported. In November the Remuneration policy for Insurance US was discussed in light of the intended SEC S1 filing and taking into account the CRD III remuneration regulation. 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 ING Bank. The Remuneration Committee advised positively on both proposals.

### **Corporate Governance Committee meetings**

The Corporate Governance Committee met twice in 2012. In February the Corporate Governance Committee discussed the agenda for the 2012 annual General Meeting, including the publication on the application of the Dutch Banking Code by ING Bank N.V. and the implementation of the Dutch Insurers' Code by ING Insurance Eurasia N.V. In November the Committee reviewed the charters of all boards and advised on various recommendations regarding the 2013 annual General Meeting.

## CHANGES IN THE COMPOSITION OF THE EXECUTIVE BOARD AND MANAGEMENT BOARDS

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 and Management Board Insurance EurAsia. 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 Executive Board for a consecutive period of four years, ending after the annual General Meeting in 2017.

As of 1 November 2012 Delfin Rueda and Dorothee van Vredenburg joined the Management Board Insurance EurAsia. Doug Caldwell joined the Management Board Insurance EurAsia per 1 December 2012. Delfin Rueda became the CFO of Insurance EurAsia while Doug Caldwell became the CRO of Insurance EurAsia. Both succeeded Matthew Rider, who left ING per 1 January 2013.

## 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 9 for the composition of the Supervisory Board Committees at year-end 2012.

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.

Information on members of the Supervisory Board is provided on pages 70-71.

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. Luc Vandewalle is considered to be not independent because of his previous position at ING Bank Belgium.

## ANNUAL ACCOUNTS AND DIVIDEND

The Executive Board has prepared the Annual Accounts and discussed these with the Supervisory Board. The Annual Accounts will be submitted for adoption at the 2013 General Meeting as part of the Annual Report. ING will not propose to pay a dividend over 2012 at the 2013 annual General Meeting.

## APPRECIATION FOR THE EXECUTIVE BOARD, MANAGEMENT BOARDS AND EMPLOYEES

The Supervisory Board would like to thank the members of the Executive Board and the Management Boards 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.

## ADDITIONAL INFORMATION

For more information, see the section on Corporate governance (pages 60-72) and the Remuneration report (pages 80-87), which are deemed to be incorporated by reference here.

## AMSTERDAM, 18 MARCH 2013 THE SUPERVISORY BOARD

# Corporate governance

This section discusses the application by ING Groep N.V. ('ING Group') of the Dutch Corporate Governance Code effective as from 1 January 2009 ('Corporate Governance Code') and provides information on the share capital and control, the Executive Board, the Supervisory Board and the external auditor.

This section, including the parts of this Annual Report incorporated by reference, together with the separate publication 'ING's implementation of the Dutch Corporate Governance Code' dated April 2010, on the website of the Company ([www.ing.com](http://www.ing.com)), also serves as the 'corporate governance statement' referred to in section 2a of the Decree with respect to the contents of the annual report (*Besluit tot vaststelling van nadere voorschriften omtrent de inhoud van het jaarverslag*).<sup>1</sup>

## RECENT DEVELOPMENTS

### LEGISLATIVE AND REGULATORY DEVELOPMENTS

On 7 June 2012, a legislative proposal on the limitation of liability of supervisors of financial markets and rules on remuneration of persons who determine the day-to-day policy (*dagelijks beleidsbepalers*) of financial institutions receiving state aid (*wetsvoorstel in verband met het invoeren van een aansprakelijkheidsbeperking voor de toezichthouders op de financiële markten en het opnemen van regels met betrekking tot de beloning van dagelijks beleidsbepalers van financiële ondernemingen die staatssteun genieten*) was enacted. On 18 June 2012, a legislative proposal regarding the revision of the corporate investigative procedure (*wetsvoorstel in verband met de aanpassing van het recht van enquête*) was enacted. On 27 September 2012, a legislative proposal to clarify the legislative proposal on Management and Supervision (*wetsvoorstel aanpassing regels in bestuur en toezicht in naamloze en besloten vennootschappen*) was enacted. The last two acts came into force on 1 January 2013. A legislative proposal on the accountancy profession (*Wet op het accountantsberoep*) was enacted on 13 December 2012. A legislative proposal on corporate governance (*wijziging van de Wet op het financieel toezicht, de Wet giraal effectenverkeer en het Burgerlijk Wetboek naar aanleiding van het advies van de Monitoring Commissie Corporate Governance Code van 30 mei 2007*) was enacted on 15 November 2012. This act will come into force on 1 July 2013.

In addition, several legislative proposals with corporate governance implications were under discussion, or were adopted, by the Lower House of the Dutch Parliament, or were under discussion in the Upper House of the Dutch Parliament in 2012. These proposals concern, among other things, a legislative proposal on revision and claw back of executive bonuses and profit-sharing of directors and persons determining the day-to-day policy (*wetsvoorstel aanpassing en terugvordering van bonussen en winstdelingen van bestuurders en dagelijks beleidsbepalers*).

### TRANSACTIONS WITH THE DUTCH STATE

On 12 November 2008, ING Group issued one billion core Tier 1 securities ('Securities') for a total consideration of EUR 10 billion to the Dutch State. Following the repurchase of 500 million Securities on 21 December 2009, the repurchase of 200 million Securities on 13 May 2011, and the repurchase and/or redemption of a total number of 75 million Securities on 26 November 2012, another 225 million of Securities representing EUR 2.25 billion remain outstanding. The Securities do not form part of ING Group's share capital; accordingly they do not carry voting rights in the General Meeting. The financial entitlements of the Securities are described in note 34 to the consolidated annual accounts.

On 26 January 2009, ING Group reached an agreement with the Dutch State regarding the Illiquid Assets Back-up Facility ('IABF'), as amended on 13 November 2012 and as further described in note 34 to the consolidated annual accounts. During 2009, ING Bank N.V. issued various series of debt instruments under the 2008 Credit Guarantee Scheme of the Dutch State, for the first time on 30 January 2009.

As part of these transactions, certain arrangements with respect to corporate governance and remuneration were agreed with the Dutch State which will remain in place as long as the IABF remains in place.

1. Dutch Bulletin of Acts (*Staatsblad*) 2009, 154.

These arrangements entail among other things that the Dutch State may recommend two candidates ('State Nominees') for appointment to the Supervisory Board. Certain decisions of the Supervisory Board require approval of the State Nominees. These decisions are specified in the section on the Supervisory Board on page 67.

Furthermore, in line with these arrangements a sustainable remuneration policy for the Executive Board and senior management was introduced in 2010, which contains certain specific arrangements in relation to the remuneration of members of the Executive Board.

For more information on the State Nominees, please refer to the section on the Supervisory Board; for more information on ING's remuneration policy, please refer to the Remuneration report, starting on page 80.

### SHAREHOLDER PARTICIPATION AND POSITION OF ING TRUST OFFICE (*STICHTING ING AANDELEN*)

During the years 2009–2012, participation of shareholders, excluding ING Trust Office, and holders of depositary receipts in the decision-making in annual General Meetings consistently increased from 35.6% to 50.8%. Only the extraordinary General Meeting of 25 November 2009 showed a deviation from this trend with a markedly lower participation of 31.1%.

ING Group's depositary-receipts structure was evaluated by the Executive Board and the Supervisory Board in 2010. On the basis of this evaluation, the Executive Board and the Supervisory Board concluded that it would be premature to change or abolish ING Group's depositary-receipts structure in 2010 and that it would be appropriate to reconsider this as part of a re-evaluation of ING Group's entire governance structure following the current restructuring of ING Group and the completion of the divestments approved in the 2009 extraordinary General Meeting. The outcome of the aforementioned evaluation was discussed in the 2010 annual General Meeting.

### CORPORATE GOVERNANCE CODES

#### COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

For its corporate governance structure and practices, ING Group uses the Corporate Governance Code as reference. The Corporate Governance Code can be downloaded from the website of the Dutch Corporate Governance Code Monitoring Committee ([www.commissiecorporategovernance.nl](http://www.commissiecorporategovernance.nl)).

The application of the Corporate Governance Code by ING is described in the publication 'ING's implementation of the Dutch Corporate Governance Code', dated April 2010, on the website of the Company ([www.ing.com](http://www.ing.com)), which is to be read in conjunction with this section and is deemed to be incorporated into this section.

#### DUTCH BANKING CODE

The Dutch Banking Code ('Banking Code') is applicable to ING Bank N.V. and not to ING Group. The Banking Code can be downloaded from the website of the Dutch Banking Association ([www.nvb.nl](http://www.nvb.nl)). The principles of the Banking Code as a whole are considered as a reference by ING Bank N.V. and their application is described in the publication 'Application of the Dutch Banking Code by ING Bank N.V.', available on the website of the Company ([www.ing.com](http://www.ing.com)).

ING Group voluntarily applies the principles of the Banking Code regarding remuneration with respect to the members of its Executive Board, and considers these principles as a reference for its own corporate governance. ING Group's remuneration policy for the Executive Board and Senior Management is compliant with these principles.

#### DUTCH INSURERS' CODE

The Dutch Insurers' Code ('Insurers' Code') is applicable to the Dutch subsidiaries of ING Insurance Eurasia N.V. pursuing insurance business and not to ING Group, ING Verzekeringen N.V. or ING Insurance Eurasia N.V. The Insurers' Code can be downloaded from the website of the Dutch Association of Insurers ([www.verzekeraars.nl](http://www.verzekeraars.nl)). However, insurance companies that are part of a group (*concern*) can decide whether to apply all or parts of the Insurers' Code at the group level. ING Insurance Eurasia N.V. voluntarily applies the corporate governance related principles of the Insurers' Code. ING Insurance Eurasia N.V.'s remuneration policy for its Management Board and Senior Management is compliant with these principles. The application of the Insurers' Code principles is described in the publication 'Application of the Insurers' Code by ING Insurance Eurasia' available on the website of the Company ([www.ing.com](http://www.ing.com)).

#### DIFFERENCES BETWEEN DUTCH AND US CORPORATE GOVERNANCE PRACTICES

In conformity with regulations from the US Securities and Exchange Commission, ING Group as a foreign private issuer whose securities are listed on the New York Stock Exchange ('NYSE') must disclose in its Annual Report on Form 20-F any significant differences between its corporate governance practices and those applicable to US domestic companies under the NYSE listing standards.

ING Group believes the following to be the significant differences between its corporate governance practices and NYSE corporate governance rules applicable to US companies:

- ING Group has a two-tier board structure, in contrast to the one-tier board structure used by most US companies. In the Netherlands, a public limited liability company (*naamloze vennootschap*) with a two-tier board structure has an Executive Board as its management body and a Supervisory Board which advises and supervises the Executive Board. In general, members of the Executive Board are employees of the company while members of the Supervisory Board are often former state or business leaders and sometimes former members of the Executive Board. Members of the Executive Board and other officers or employees of the company cannot simultaneously be a member of the Supervisory Board. The Supervisory Board must approve specified decisions of the Executive Board. Under the Corporate Governance Code, all members of the Supervisory Board with the exception of not more than one person, should be independent. All members of ING Group's Supervisory Board, with the exception of Luc Vandewalle, are independent within the meaning of the Corporate Governance Code. The definition of independence under the Corporate Governance Code, however, differs in its details from the definitions of independence under the NYSE listing standards. In some cases, the Dutch requirements are stricter and in other cases the NYSE listing standards are the stricter of the two. The Audit Committee, Risk Committee, Remuneration Committee, Nomination Committee and Corporate Governance Committee of ING Group are comprised of members of the Supervisory Board.

- In contrast to the Sarbanes-Oxley Act of 2002, the Corporate Governance Code contains a 'comply-or-explain' principle, offering the possibility to deviate from the Corporate Governance Code as long as any such deviations are explained. To the extent that such deviations are approved by the General Meeting, the company is deemed to be in full compliance with the Corporate Governance Code.
- Dutch law requires that the company's external auditors be appointed at the general meeting and not by the audit committee.
- The articles of association of ING Group ('Articles of Association') provide that there are no quorum requirements to hold a general meeting, although certain shareholder actions and certain resolutions may require a quorum.
- The shareholder approval requirements for equity compensation plans under Dutch law and the Corporate Governance Code differ from those applicable to US companies which are subject to the NYSE's listing rules that require the shareholder vote on all equity compensation plans applicable to any employee, director or other service provider of a company. The results of such votes are advisory in nature rather than binding. Under Dutch company law and the Corporate Governance Code, binding shareholder approval is only required for equity compensation plans (or changes thereto) for members of the Executive Board and Supervisory Board, and not for equity compensation plans for other groups of employees.

### **CAPITAL AND SHARES**

#### **CAPITAL STRUCTURE, SHARES**

The authorised capital of ING Group consists of ordinary shares and cumulative preference shares. Currently, only ordinary shares are issued, while a call option to acquire cumulative preference shares has been granted to ING Continuity Foundation (Stichting Continuïteit ING). The acquisition of cumulative preference shares pursuant to the call option is subject to the restriction that, immediately after the issuance of cumulative preference shares, the total amount of cumulative preference shares outstanding may not exceed one-third of the total issued share capital of ING Group (see page 10). The purpose of this call option is to protect the independence, the continuity and the identity of ING Group against influences which are contrary to the interests of ING Group, its enterprise and the enterprises of its subsidiaries and all stakeholders (including, but not limited to, hostile takeovers). The ordinary shares are not used for protective purposes. The ordinary shares, which are all registered shares, are not listed on a stock exchange.

The Board of ING Continuity Foundation currently comprises four members who are independent of ING Group. No Executive Board member or former Executive Board member, Supervisory Board member or former Supervisory Board member, ING Group employee or former ING Group employee or permanent advisor or former permanent advisor to ING Group is on the Board of ING Continuity Foundation. The Board of ING Continuity Foundation appoints its own members, after consultation with the Supervisory Board of ING Group, but without any requirement for approval by ING Group. For more information on ING Continuity Foundation, see page 76.

#### **DEPOSITARY RECEIPTS**

More than 99.9% of the issued ordinary shares are held by ING Trust Office. In exchange for these shares, ING Trust Office has issued depositary receipts in bearer form for these shares. The depositary receipts are listed on various stock exchanges (see page 10 for an overview of the listings). Depositary receipts can

be exchanged upon request of the holders of depositary receipts for non-listed ordinary shares, without any restriction, other than payment of an administrative fee of one eurocent (EUR 0.01) per depositary receipt with a minimum of twenty-five euros (EUR 25.00) per exchange transaction.

The holder of a depositary receipt is entitled to receive from ING Trust Office payment of dividends and other distributions corresponding to the dividends and other distributions received by ING Trust Office on an ordinary share.

The Board of ING Trust Office currently comprises five members who are independent from ING Group. No Executive Board member or former Executive Board member, Supervisory Board member or former Supervisory Board member, ING Group employee or former ING Group employee or permanent advisor or former permanent advisor to ING Group is on the Board of ING Trust Office. The Board of ING Trust Office appoints its own members, without any requirement for approval by ING Group.

The Board of ING Trust Office reports on its activities through an annual report, which has been included on pages 73-75.

#### **ISSUANCE OF SHARES**

ING Group's authorised capital is the maximum amount of capital allowed to be issued under the terms of the Articles of Association. New shares in excess of this amount can only be issued if the Articles of Association are amended. For reasons of flexibility, ING Group seeks to set the authorised capital in the Articles of Association at the highest level permitted by law.

Share issuances are to be decided by the General Meeting, which may also delegate its authority. Each year, the General Meeting is asked to delegate authority to the Executive Board to issue new ordinary shares or to grant rights to subscribe for new ordinary shares, both with and without pre-emptive rights to existing shareholders. The powers delegated to the Executive Board are limited:

- in time: powers are delegated for a period of 18 months;
- by number: insofar as sufficient unissued ordinary shares are available in the authorised capital, ordinary shares may be issued up to a maximum of 10% of the issued share capital, or, in the event of a merger or takeover or to safeguard or conserve the capital position of the Company, up to a maximum of 20% of the issued capital; and
- in terms of control: resolutions by the Executive Board to issue shares require the approval of the Supervisory Board.

Approval by the General Meeting would be required for any share issuances exceeding these limits.

The purpose of this delegation of authority is to allow the Company to respond promptly to developments in the financial markets. Without such delegation, if the Company wished to issue new shares, there would be an increased risk that conditions in the financial markets may have changed during the time needed for convening a general meeting, especially due to the 42-day statutory convocation period. In view of the importance of flexibility with respect to the issuance of shares, the Executive Board and the Supervisory Board will periodically evaluate the delegation of authority to issue shares and, if necessary, make adjusted proposals to the General Meeting.

## TRANSFER OF SHARES AND DEPOSITARY RECEIPTS AND TRANSFER RESTRICTIONS

Shares are transferred by means of a deed of transfer between the transferor and the transferee. To become effective, ING Group has to acknowledge the transfer, unless ING Group itself is a party to the transfer. The Articles of Association do not restrict the transfer of ordinary shares, whereas the transfer of cumulative preference shares is subject to prior approval of the Executive Board. The Articles of Association and the trust conditions for registered shares in the share capital of ING Group ('Trust Conditions') do not restrict the transfer of depositary receipts for shares. ING Group is not aware of the existence of any agreement pursuant to which the transfer of ordinary shares or depositary receipts for such shares is restricted.

## REPURCHASE OF SHARES

ING Group may repurchase outstanding shares and depositary receipts for such shares. Although the power to repurchase shares and depositary receipts for shares is vested in the Executive Board subject to the approval of the Supervisory Board, prior authorisation from the General Meeting is required for these repurchases. Under Dutch law, this authorisation lapses after 18 months. Each year, the General Meeting is asked to approve the Executive Board's authority to repurchase shares.

When repurchasing shares, the Executive Board is to observe the price ranges prescribed in the authorisation. For the ordinary shares and depositary receipts for such shares, the authorisation currently in force stipulates a minimum price of one eurocent and a maximum price equal to the highest stock price on Euronext Amsterdam by NYSE Euronext on the date on which the purchase agreement is concluded or on the preceding day of stock market trading.

## SPECIAL RIGHTS OF CONTROL

No special rights of control referred to in Article 10 of the EU Directive on takeover bids are attached to any share.

## SHAREHOLDERS' STRUCTURE

Pursuant to the Dutch Financial Supervision Act (*Wet op het financieel toezicht*), any person who, directly or indirectly acquires or disposes of an interest in the voting rights and/or the capital of ING Group as a result of which acquisition or disposal the percentage of his voting rights or capital interest, whether through ownership of shares, depositary receipts, American depositary shares or any other financial instrument whether stock settled or cash settled, such as call or put options, warrants, swaps or any other similar contract, reaches, exceeds or falls below certain thresholds, is required to notify in writing the Dutch Authority for the Financial Markets (*Autoriteit Financiële Markten*) immediately after the acquisition or disposal of the triggering interest in ING Group's share capital. These thresholds are 5%, 10%, 15%, 20%, 25%, 30%, 40%, 50%, 60%, 75% or 95% of the issued share capital of ING Group; as of 1 July 2013, there will be an additional threshold of 3%.

Details of investors, if any, who have reported their interest in ING Group pursuant to the Dutch Financial Supervision Act (or the predecessor of this legislation), are shown on page 10. ING Group is not aware of shareholders, potential shareholders or investors with an interest of 5% or more in ING Group other than the ING Trust Office and the ING Continuity Foundation.

Pursuant to the European Regulation on short selling any person who acquires or disposes of a net short position relating to the issued share capital of ING Group, whether by a transaction in shares, depositary receipts or American depositary receipts, or by a transaction creating or relating to any financial instrument where the effect or one of the effects of the transaction is to confer a financial advantage on the person entering into that transaction in the event of a change in the price of such shares, depositary receipts or American depositary receipts is required to notify, in accordance with the provisions of the above-mentioned Regulation:

- The Dutch Authority for the Financial Markets (*Autoriteit Financiële Markten*) if, as a result of which acquisition or disposal his net short position reaches, exceeds or falls below 0.2% of the issued share capital of ING Group and each 0.1% above that.
- ING Group if, as a result of which acquisition or disposal his net short position reaches, exceeds or falls below 0.5% of the issued share capital of ING Group and each 0.1% above that.

## INVESTOR RELATIONS AND BILATERAL CONTACTS WITH INVESTORS

ING Group encourages and recognises the importance of bilateral communication with the investment community. Communications with current and potential shareholders, holders of depositary receipts, bondholders, and industry analysts is actively managed by the Investor Relations department.

ING Group strives to provide clear, accurate and timely financial information that is in strict compliance with the applicable rules and regulations, in particular those concerning selective disclosure, price sensitive information and equal treatment. In addition to the annual General Meeting, ING Group communicates with its shareholders and the investment community through earnings announcements, presentations, and meetings with analysts or investors.

ING Group publishes a comprehensive quarterly disclosure package which includes extensive and detailed financial figures with relevant explanatory remarks. This information is discussed thoroughly during press, analyst and investor conference calls on the day of the results release, which are broadly accessible to interested parties. The publication dates of quarterly earnings releases are announced in advance on ING Group's corporate website ([www.ing.com](http://www.ing.com)).

ING Group participates in several industry conferences and generally hosts one or two Investor Relations Days each year. These events are announced in advance on the company website, and presentation materials are made available in real time on the website. This is in accordance with the applicable regulatory requirements intended to ensure that all shareholders and other market participants may have equal and simultaneous access to information that could potentially influence the price of the company's securities. ING Group's Investor Relations Days can be accessed by means of live webcasts or telephone conferencing. No Investor Relations Day or conference in which ING Group participates is held shortly before the publication of quarterly financial information.

ING Group strives to maintain an open and constructive dialogue with current and potential investors, and with industry analysts. The scope of such bilateral communication may range from single investor queries via e-mail, to more elaborate discussions with analysts or institutional investors that take place via telephone or face-to-face. These meetings are not announced in advance, nor can they be followed by webcast or any other means. ING Group's

Investor Relations department is the main point of contact for these communications. However, Executive Board members also participate in investor meetings. Information provided during such occasions is always limited to that which is already in the public domain, and no bilateral contacts take place shortly before the publication of regular quarterly results releases. If bilateral communication between ING Group and investors is organised and/or facilitated through a broker, an analyst or specialist salesperson representing the broker may be present in the meeting. ING Group does not provide brokers with any form of compensation pertaining to such meeting organisation and/or facilitation services.

In the event that non-public price sensitive information is inadvertently disclosed during any bilateral contacts, ING Group will publicly announce such information as soon as possible.

ING Group may decide not to accommodate or accept any requests or invitations to enter into a dialogue with potential investors, or to accommodate or accept such request or invitation under certain conditions.

ING Group is actively covered by approximately 25 analysts who frequently issue reports on the Company. A list of these analysts can be found under 'Analyst Coverage' of the Investor Relations section of the Company's website. During 2012, ING Group did not provide any form of compensation to parties that are directly or indirectly involved in the production or publication of analysts' reports, with the exception of credit-rating agencies.

ING Group presented at 12 industry conferences throughout the year. In total, there were 433 meetings (including conference calls) with equity investors and 136 meetings (including conference calls) with fixed income investors. Combined conference presentations and face-to-face meetings with investors took place in 40 different cities across the globe. In 2012, ING Group hosted one Investor Day, which took place on 13 January 2012.

The geographical distribution of ING Group's investor base is diverse: an estimated 34% of shares outstanding are held in the US, 20% in the UK, 11% in France, 9% in the Benelux, 6% in Germany, 4% in Switzerland and 16% in the rest of the world. For more information, see the 'ING share' chapter on page 10.

### **GENERAL MEETING**

#### **FREQUENCY, NOTICE AND AGENDA OF GENERAL MEETINGS**

General meetings are normally held each year in April or May, to discuss the course of business in the preceding financial year on the basis of the reports prepared by the Executive Board and the Supervisory Board, and to decide on the distribution of dividends or other distributions, the appointment and/or reappointment of members of the Executive Board and the Supervisory Board, if any, other items requiring shareholder approval under Dutch law, and any other matters proposed by the Supervisory Board, the Executive Board or shareholders or holders of depositary receipts in accordance with the Articles of Association.

General meetings are convened by public notice via the website of ING Group ([www.ing.com](http://www.ing.com)) no later than on the forty-second day before the day of the general meeting. As of the date of convening a general meeting, all information relevant for shareholders and holders of depositary receipts is made available to them on this website and at the ING Group head office.

Such information includes the notice for the general meeting, the agenda, the place and time of the meeting, the address of the website of ING Group, the verbatim text of the proposals with an explanation and instructions on how to participate in the meeting (either in person or by proxy), as well as the reports of the Executive Board and the Supervisory Board. More complex proposals such as amendments to the Articles of Association are normally not included in the notice but are made available separately on the website of ING Group and at the ING Group head office.

#### **PROPOSALS BY SHAREHOLDERS AND HOLDERS OF DEPOSITARY RECEIPTS**

Proposals to include items on the agenda for a general meeting that have been adequately substantiated under applicable Dutch law can be made by shareholders and holders of depositary receipts representing a joint total of at least 0.1% of the issued share capital or representing together, on the basis of the stock prices on Euronext Amsterdam by NYSE Euronext, a share value of at least EUR 50 million. Given the periods of notice required for proxy voting, proposals have to be submitted in writing at least 60 days before the date of the meeting.

#### **DIALOGUE WITH SHAREHOLDERS AND HOLDERS OF DEPOSITARY RECEIPTS**

In 2012, shareholders and holders of depositary receipts were allowed to ask questions about items on the agenda for the annual General Meeting and they will similarly be allowed to do so in 2013. Shareholders and holders of depositary receipts can visit the website of ING Group ([www.ing.com](http://www.ing.com)) to submit their questions.

#### **RECORD DATE**

Pursuant to Dutch law, the record date for attending a general meeting and voting on the proposals at that general meeting is the twenty-eighth day before the day of the general meeting. Shareholders and holders of depositary receipts who hold shares and/or depositary receipts for shares at the record date are entitled to attend the general meeting and to exercise other rights related to the general meeting in question on the basis of their holding at the record date, notwithstanding a subsequent sale or purchase of shares or depositary receipts for shares. The record date is published in the notice for the general meeting. In accordance with US requirements, the depositary sets a record date for the American Depositary Shares ('ADSs'), which date determines which ADSs are entitled to give voting instructions. This record date can differ from the record date set by ING Group for shareholders and holders of depositary receipts.

#### **ATTENDING GENERAL MEETINGS**

For logistical reasons, attendance at a general meeting by shareholders and holders of depositary receipts, either in person or by proxy, is subject to the requirement that ING Group is notified in advance. Instructions to that effect are included in the notice for the general meeting.

General meetings are webcasted via the Company's website ([www.ing.com](http://www.ing.com)), so that shareholders and holders of depositary receipts who do not attend the general meeting in person, may nevertheless follow the course of affairs in the meeting by internet webcast.

## VOTING RIGHTS ON SHARES

Each share entitles the holder to cast one vote at the general meeting. The Articles of Association do not restrict the voting rights on any class of shares. ING Group is not aware of any agreement pursuant to which voting rights on any class of its shares are restricted.

## VOTING ON THE ORDINARY SHARES BY HOLDERS OF DEPOSITARY RECEIPTS AS PROXY OF ING TRUST OFFICE

Although the depositary receipts for shares do not formally carry any voting rights, holders of depositary receipts, in practice, rank equally with shareholders with regard to voting. ING Trust Office will, subject to certain restrictions, grant a proxy to a holder of depositary receipts allowing such holder, in the name of ING Trust Office, to exercise the voting rights attached to the number of ordinary shares that corresponds to the number of depositary receipts held by such holder of depositary receipts. On the basis of such a proxy, the holder of depositary receipts may vote such shares according to his or her own discretion.

The following restrictions apply in respect of grants of voting proxies to holders of depositary receipts by ING Trust Office:

- the relevant holder of depositary receipts must have announced his or her intention to attend the general meeting observing the provisions laid down in the Articles of Association; and
- the relevant holder of depositary receipts may delegate the powers conferred upon him or her by means of the voting proxy, provided that the relevant holder of depositary receipts has announced his or her intention to do so to ING Trust Office observing a term before the commencement of the general meeting, which term will be determined by ING Trust Office.

## VOTING INSTRUCTIONS OF HOLDERS OF DEPOSITARY RECEIPTS TO ING TRUST OFFICE

Holders of depositary receipts not attending a general meeting are entitled to give binding instructions to ING Trust Office, concerning ING Trust Office's exercise of the voting rights attached to the ordinary shares. ING Trust Office will follow such instructions for such number of ordinary shares equal to the number of depositary receipts for shares held by the relevant holder of depositary receipts.

ING Trust Office has made it easier for votes to be cast this way by putting arrangements in place for proxy voting.

## VOTING ON THE ORDINARY SHARES BY ING TRUST OFFICE

ING Trust Office has discretion to vote in respect of shares for which it has not issued voting proxies to holders of depositary receipts and has not received any voting instructions.

According to its Articles of Association and the Trust Conditions, ING Trust Office is guided primarily by the interests of the holders of depositary receipts, taking into account the interests of ING Group and its affiliated enterprises.

ING Trust Office promotes the solicitation of specific proxies or voting instructions of holders of depositary receipts. ING Trust Office encourages the greatest possible participation of holders of depositary receipts and promotes the execution of voting rights in a transparent way. At the same time it prevents that a minority of shareholders and holders of depositary receipts could use a chance majority of votes to the disadvantage of the shareholders and holders of depositary receipts present nor represented at a general meeting of ING Group.

## PROXY VOTING FACILITIES

ING Group is a participant in the Shareholder Communication Channel (*Stichting Communicatiekanaal aandeelhouders*), through which participating holders of depositary receipts can give voting instructions to ING Trust Office. ING Group provides a similar proxy voting facility to international institutional investors. In addition, ING Group solicits proxies from its ADS holders in line with common practice in the US.

Proxy voting forms for shareholders and voting instruction forms for holders of depositary receipts who do not participate in the Shareholder Communication Channel are made available on the website of ING Group ([www.ing.com](http://www.ing.com)). The submission of these forms is subject to additional conditions specified on such forms.

## MAIN POWERS OF THE GENERAL MEETING

The main powers of the General Meeting are to decide on:

- the appointment, suspension and dismissal of members of the Executive Board and members of the Supervisory Board, subject to a binding nomination or a proposal of the Supervisory Board as set forth in the Articles of Association;
- the adoption of the annual accounts;
- the declaration of dividends, subject to the power of the Executive Board to allocate part of or all of the profits to the reserves – with approval of the Supervisory Board – and the declaration of other distributions, subject to a proposal by the Executive Board which was approved by the Supervisory Board;
- the appointment of the external auditor;
- an amendment of the Articles of Association, a legal merger or division of ING Group, and winding up ING Group, all subject to a proposal made by the Executive Board upon approval by the Supervisory Board;
- the issuance of shares or rights to subscribe for shares, the restriction or exclusion of pre-emptive rights of shareholders, and delegation of these powers to the Executive Board, subject to a proposal by the Executive Board which was approved by the Supervisory Board; and
- the authorisation of a repurchase of outstanding shares and/or a cancellation of shares.

Moreover, the approval of the General Meeting is required for Executive Board decisions that would be considered to greatly change the identity or nature of ING Group or its enterprise. This includes resolutions to transfer or otherwise assign all or substantially all of the enterprise of ING Group or its subsidiaries as a consequence of which such resolutions ING Group or the group of companies over which ING Group exercises control would cease to engage in either insurance or banking activities.

## REPORTING

Resolutions adopted at a general meeting are generally published on the website of ING Group ([www.ing.com](http://www.ing.com)) within one week after the meeting. The draft minutes of the general meeting are, in accordance with the Corporate Governance Code, made available to shareholders and holders of depositary receipts on the website of ING Group ([www.ing.com](http://www.ing.com)) no later than three months after the meeting. Shareholders and holders of depositary receipts may react to the draft minutes in the following three months, after which the final minutes will be adopted by the chairman of the meeting in question and by a shareholder or holder of depositary receipts appointed by that meeting. The final minutes are made available on the website of ING Group

(www.ing.com). In a deviation from the default provisions of the Corporate Governance Code shareholders and holders of depositary receipts will not have the opportunity to react to the minutes of a general meeting if a notarial report of the meeting is made, as this would be in conflict with the laws applicable to such notarial report.

### **EXECUTIVE BOARD**

#### **APPOINTMENT AND DISMISSAL**

Members of the Executive Board are appointed by the General Meeting from a binding list to be drawn up by the Supervisory Board. The list will be rendered non-binding if a resolution of the General Meeting to that effect is adopted by an absolute majority of the votes cast which majority represents more than one-third of the issued share capital. Candidates for appointment to the Executive Board must comply with the suitability and reliability requirements set out in the Dutch Financial Supervision Act and must continue to meet these while in office.

Members of the Executive Board may be suspended or dismissed at any time by a majority resolution of the General Meeting. A resolution to suspend or dismiss members of the Executive Board that has not been proposed by the Supervisory Board may only be adopted by the General Meeting by an absolute majority of the votes cast, which majority represents more than one-third of the issued share capital.

#### **FUNCTION OF THE EXECUTIVE BOARD**

The Executive Board is charged with the management of ING Group, which means, among other things, that it is responsible for the setting and achieving of the Company's objectives, strategy and policies, as well as the ensuing delivery of results. It also includes the day-to-day management of ING Group. The Executive Board is accountable for the performance of these duties to the Supervisory Board and the General Meeting. The responsibility for the management of ING Group is vested in the Executive Board collectively. The organisation, powers and modus operandi of the Executive Board are detailed in the Executive Board Charter, which was approved by the Supervisory Board. The Executive Board Charter is available on the website of ING Group (www.ing.com).

#### **PROFILE OF MEMBERS OF THE EXECUTIVE BOARD**

The Supervisory Board has drawn up a profile to be used as a basis for selecting members of the Executive Board. It is available on the website of ING Group (www.ing.com) and at the ING Group head office.

ING Group aims to have an adequate and balanced composition of its Executive Board. Thereto, annually, the Supervisory Board assesses the composition of the Executive Board. 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 its Executive Board members.

However, because of the fact that ING Group needs to balance several relevant selection criteria when composing its Executive Board, the composition of the Executive Board did not meet the above-mentioned gender balance in 2012. ING Group will continue to strive for an adequate and balanced composition of its Executive Board 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.

#### **REMUNERATION AND SHARE OWNERSHIP**

Members of the Executive Board are permitted to hold shares and depositary receipts for shares in the share capital of ING Group for long-term investment purposes. Transactions by members of the Executive Board in these shares and these depositary receipts for shares are subject to the ING regulations for insiders. These regulations are available on the website of ING Group (www.ing.com). Details of the remuneration of members of the Executive Board, including shares granted to them, together with additional information thereto, are provided in the Remuneration report, starting on page 80.

#### **ANCILLARY POSITIONS/CONFLICTING INTERESTS**

No member of the Executive Board has corporate directorships at listed companies outside ING. This is in accordance with ING Group's policy to avoid conflicts of interest.

#### **TRANSACTIONS INVOLVING ACTUAL OR POTENTIAL CONFLICTS OF INTEREST**

In accordance with the Corporate Governance Code, transactions with members of the Executive Board in which there are significant conflicting interests will be disclosed in the Annual Report. In deviation of the Corporate Governance Code however, this does not apply if (i) disclosure would be against the law; (ii) the confidential, share-price sensitive or competition-sensitive character of the transaction prevents disclosure; and/or (iii) the information is so competition-sensitive that the disclosure could damage the competitive position of ING Group.

Significant conflicting interests are considered to be absent and are not reported if a member of the Executive Board obtains financial products and services, other than loans, which are provided by ING Group subsidiaries in the ordinary course of their business on terms that apply to all employees. In connection with the foregoing, 'loans' does not include financial products in which the granting of credit is of a subordinated nature, e.g. credit cards and overdrafts in current account, because of a lack of materiality. For an overview of loans granted to members of the Executive Board see page 84.

In case of a conflict of interest, the relevant member of the Executive Board abstains from discussions and decision-making on the topic or the transaction in relation to which that Board member has a conflict of interest with ING Group. If all members of the Executive Board have a conflict of interest, the decision will be taken by the Supervisory Board.

#### **INFORMATION ON MEMBERS OF THE EXECUTIVE BOARD**

##### **JAN H.M. HOMMEN, CHIEF EXECUTIVE OFFICER**

*(Born 1943, Dutch nationality, male; appointed in 2009, term expires in 2013)*

Jan Hommen graduated with a master's degree in Business Economics from Tilburg University. He was appointed a member of the Executive Board on 27 April 2009. He is also CEO of ING Bank N.V. and CEO of ING Verzekeringen N.V. Jan Hommen was a member of the Supervisory Board of ING Group as of 1 June 2005 and became chairman of the Supervisory Board of ING Group in January 2008. Until 1 May 2005, he was vice-chairman and chief financial officer of Koninklijke Philips Electronics N.V. From 1975 to 1997, he worked for Alcoa Inc. From 1978, he worked at the Alcoa head office in

the US, becoming chief financial officer in 1991. Jan Hommen is a member of the board of Royal Concertgebouw Orchestra and a member of the Supervisory Board of PSV (football club). Seven Group staff departments report directly to Jan Hommen: Legal Department Group, Corporate Human Resources, Corporate Development, Corporate Communications, Group Public & Government Affairs, Sustainability and Corporate Audit Services.

#### **PATRICK G. FLYNN, CHIEF FINANCIAL OFFICER**

*(Born 1960, Irish nationality, male; appointed in 2009, term expires in 2013)*

Patrick Flynn is a Chartered Accountant and a member of the Association of Corporate Treasurers in the UK. He also holds a bachelor's degree in Business Studies from Trinity College Dublin. He was appointed a member of the Executive Board of ING Group on 27 April 2009. From 2007 to 2009, he was the chief financial officer of HSBC Insurance Holdings Ltd. Patrick Flynn is responsible for ING's finance departments and Investor Relations.

#### **WILFRED NAGEL, CHIEF RISK OFFICER**

*(Born 1956, Dutch nationality, male; appointed in 2012, term expires in 2016)*

Wilfred Nagel was chief executive officer of ING Bank Turkey until his appointment as a member of the Management Board Banking and the Management Board Insurance as of 5 October 2011. Wilfred Nagel joined ING in 1991 and has held various positions including Global Head Credit Risk Management from 2002 to 2005 and CEO Wholesale Banking in Asia from 2005 to 2010. He was appointed a member of the Executive Board of ING Group on 14 May 2012. Wilfred Nagel is responsible for ING's risk management departments including compliance.

#### **CHANGES IN THE COMPOSITION**

The current terms of appointment of Jan Hommen and Patrick Flynn will expire at the end of the 2013 annual General Meeting. At this meeting, they will be nominated for reappointment. The Supervisory Board will propose to reappoint Patrick Flynn as a member of the Executive Board for a consecutive period of four years, ending after the annual General Meeting in 2017. The Supervisory Board will propose to reappoint Jan Hommen as a member of the Executive Board for the period until 1 October 2013. The Supervisory Board will propose to the annual General Meeting of 13 May 2013 to appoint Ralph Hamers (born 1966, Dutch nationality, male) as a member of the Executive Board for a consecutive period of four years, ending after the annual General Meeting in 2017. The Supervisory Board intends to appoint Ralph Hamers as chairman of the Executive Board and CEO as of 1 October 2013.

#### **SUPERVISORY BOARD APPOINTMENT AND DISMISSAL**

Members of the Supervisory Board are appointed by the General Meeting from a binding list to be drawn up by the Supervisory Board. The list will be rendered non-binding if a resolution of the General Meeting to that effect is adopted by an absolute majority of the votes cast, which majority represents more than one-third of the issued share capital. Candidates for appointment to the Supervisory Board must comply with the suitability and reliability requirements set out in the Dutch Financial Supervision Act and must continue to meet these while in office.

Members of the Supervisory Board may be suspended or dismissed at any time by a majority resolution of the General Meeting.

A resolution to suspend or dismiss members of the Supervisory Board that has not been proposed by the Supervisory Board may only be adopted by the General Meeting by an absolute majority of the votes cast, which majority represents more than one-third of the issued share capital.

In connection with the issuance of the Securities to the Dutch State and the IABF, ING Group and the Dutch State agreed that the Dutch State may recommend candidates for appointment to the Supervisory Board in such a way that upon appointment of all recommended candidates by the General Meeting, the Supervisory Board would comprise two State Nominees among its members. The Dutch State may recommend a Supervisory Board member already in office.

The recommendation right of the Dutch State is subject to applicable law and to corporate governance practices, generally accepted under stock exchange listing regimes applicable to ING Group and continues as long as the IABF continues. Should the IABF be discontinued, the State Nominees will remain in office and complete their term of appointment.

Candidates recommended by the Dutch State will be nominated for appointment by way of a binding nomination, unless one or more specified situations occur. Such situations include when:

- the candidate is not fit and proper to discharge his duties as a Supervisory Board member;
- upon appointment the composition of the Supervisory Board would not be appropriate and/or not be in accordance with the Supervisory Board Profile;
- the appointment would be incompatible with any provision of the Articles of Association, the Supervisory Board Charter, any principle or best-practice provision of the Corporate Governance Code as applied by ING Group and/or any other generally accepted corporate governance practice or requirement which is applicable to ING Group as an internationally listed company;
- the relevant candidate has a structural conflict of interest with ING Group; and
- DNB, the Dutch central bank refuses to issue a statement of 'no objection' for the appointment of the relevant candidate.

As a consequence of the transaction between ING Group and the Dutch State, the Dutch State recommended Lodewijk de Waal and Tineke Bahlmann for appointment to the Supervisory Board. Following such recommendation, Lodewijk de Waal and Tineke Bahlmann were appointed by the General Meeting on 27 April 2009. The current terms of appointment of Tineke Bahlmann and Lodewijk de Waal will expire at the end of the 2013 annual General Meeting. 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.

#### **FUNCTION OF THE SUPERVISORY BOARD**

The function of the Supervisory Board is to supervise the policy of the Executive Board and the general course of events of ING Group and its businesses, as well as to provide advice to the Executive Board. In line with Dutch company law, the Corporate Governance Code and the Articles of Association, the Supervisory Board Charter

requires all members of the Supervisory Board, including the State Nominees, to act in accordance with the interests of ING Group and the business connected with it, taking into account the relevant interests of all the stakeholders of ING Group, to perform their duties without mandate and independent of any interest in the business of ING Group, and to refrain from supporting one interest without regard to the other interests involved.

Certain resolutions of the Executive Board, specified in the Articles of Association of ING Group, the Executive Board Charter and in the Supervisory Board Charter, are subject to the approval of the Supervisory Board.

As long as the IABF continues, certain resolutions of the Supervisory Board are subject to the condition that no State Nominee shall have voted against the proposal. These rights became effective as from the 2009 annual General Meeting. These resolutions relate to the following matters:

- a. the issuance or acquisition of its own shares by ING Group, other than related to the Securities issuance (including, for the avoidance of doubt, for the purpose of conversion or financing of a repurchase of Securities), as part of regular hedging operations or in connection with employment schemes;
- b. the cooperation by ING Group in the issuance of depositary receipts for shares;
- c. the application for listing on or removal from the price list of any stock exchange of the securities referred to in a. or b.;
- d. the entry into or termination of a lasting cooperation between ING Group or a dependent company and another legal entity or partnership or a general partner in a limited partnership or general partnership where such cooperation or termination thereof has a material significance for ING Group, i.e. amounting to one-quarter or more of ING Group's issued capital and reserves as disclosed in its balance sheet and notes thereto;
- e. the acquisition by ING Group or a dependent company of a participating interest in the capital of another company amounting to one-quarter or more of ING Group's issued capital and reserves as disclosed in its balance sheet and notes thereto or a material increase or decrease in the magnitude of such participating interest;
- f. investments involving an amount equal to one-quarter or more of ING Group's issued capital and reserves as disclosed in its balance sheet and notes thereto;
- g. a proposal to wind up ING Group;
- h. filing of a petition for bankruptcy or moratorium of ING Group;
- i. a proposal to reduce the issued capital of ING Group (other than related to the Securities issuance);
- j. a proposal for merger, split-off or dissolution of ING Group;
- k. a proposal to change ING Group's remuneration policy; and
- l. appointment of the chief executive officer of the Executive Board.

### **PROFILE OF MEMBERS OF THE SUPERVISORY BOARD**

The Supervisory Board has drawn up a profile to be used as a basis for its composition. It is available on the website of ING Group ([www.ing.com](http://www.ing.com)) and at the ING Group head office.

In view of their experience and the valuable contribution that former members of the Executive Board can make to the Supervisory Board, it has been decided, taking into account the size of the Supervisory Board and ING's wide range of activities that such individuals may become members of the Supervisory Board of ING Group. There is, however, a restriction in that only one in every five other members

of the Supervisory Board may be a former member of the Executive Board. In addition, this member must wait at least one year after resigning from the Executive Board before becoming eligible for appointment to the Supervisory Board. Former members of the Executive Board are not eligible for appointment to the position of chairman or vice-chairman of the Supervisory Board.

After being appointed to the Supervisory Board, a former member of the Executive Board may also be appointed to one of the Supervisory Board's committees. However, appointment to the position of chairman of a committee is only possible if the individual in question resigned from the Executive Board at least four years prior to such appointment.

ING Group aims to have an adequate and balanced composition of its Supervisory Board. Thereto, annually, the Nomination Committee assesses the composition of the Supervisory Board. 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 its Supervisory Board members. However, because of the fact that ING Group needs to balance several relevant selection criteria when composing its Supervisory Board, the composition of the Supervisory Board did not meet the above-mentioned gender balance in 2012. ING Group will continue to strive for an adequate and balanced composition of its Supervisory Board in future appointments, by taking into account all relevant selection criteria including but not limited to gender balance, executive experience, experience in corporate governance and experience in the political and social environment.

### **TERM OF APPOINTMENT OF MEMBERS OF THE SUPERVISORY BOARD**

A member of the Supervisory Board retires no later than at the end of the first general meeting held four years after his or her last appointment or reappointment. In accordance with the Corporate Governance Code, members of the Supervisory Board may as a general rule be reappointed for two additional four-year terms. Under special circumstances however, the Supervisory Board may deviate from this general rule, among others in order to maintain a balanced composition of the Supervisory Board and/or to preserve valuable expertise and experience. As a general rule, members of the Supervisory Board shall also resign at the end of an annual general meeting in the year in which they attain the age of 70 and shall not be reappointed. The schedule for resignation by rotation is available on the website of ING Group ([www.ing.com](http://www.ing.com)).

### **ANCILLARY POSITIONS/CONFLICTING INTERESTS**

Members of the Supervisory Board are asked to provide details on any other directorships, paid positions and ancillary positions they may hold. Such positions may not conflict with the interests of ING Group. It is the responsibility of the individual member of the Supervisory Board and the Corporate Governance Committee to ensure that the directorship duties are performed properly and are not affected by any other positions that the individual may hold outside the Group.

Members of the Supervisory Board are to disclose material conflicts of interest and potential conflicts of interest and to provide all information relevant thereto. Thereupon the Supervisory Board – without the member concerned taking part – decides whether a conflict of interest exists.

In case of a conflict of interest, the relevant member of the Supervisory Board abstains from discussions and decision-making on the topic or the transaction in relation to which he or she has a conflict of interest with ING Group.

### **TRANSACTIONS INVOLVING ACTUAL OR POTENTIAL CONFLICTS OF INTEREST**

In accordance with the Corporate Governance Code, transactions with members of the Supervisory Board in which there are significant conflicting interests will be disclosed in the Annual Report. In deviation of the Corporate Governance Code however, this does not apply if (i) such disclosure would be against the law; (ii) the confidential, share-price sensitive or competition-sensitive character of the transaction prevents such disclosure; and/or (iii) the information is so competition-sensitive that disclosure could damage the competitive position of ING Group.

Significant conflicting interests are considered to be absent in case of a relationship that a member of the Supervisory Board may have with ING Group subsidiaries as an ordinary, private individual, with the exception of any loans that may have been granted. For an overview of loans granted to members of the Supervisory Board see page 87.

### **INDEPENDENCE**

Annually, the members of the Supervisory Board are requested to assess whether the criteria of dependence set out in the Corporate Governance Code do not apply to them and to confirm this in writing. On the basis of these criteria, all members of the Supervisory Board, with the exception of Luc Vandewalle, are to be regarded as independent on 31 December 2012. Luc Vandewalle is not to be considered independent because of his former position at ING Belgium. Members of the Supervisory Board to whom the independence criteria of the Corporate Governance Code do not apply, and members of the Supervisory Board to whom the criteria do apply but who can explain why this does not undermine their independence, are deemed to be independent.

### **COMPANY SECRETARY**

ING Group's company secretary is Jan-Willem Vink, general counsel of ING Group.

### **COMMITTEES OF THE SUPERVISORY BOARD**

On 31 December 2012, the Supervisory Board had five standing committees: the Audit Committee, the Risk Committee, the Remuneration Committee, the Nomination Committee and the Corporate Governance Committee.

The organisation, powers and conduct of the Supervisory Board are detailed in the Supervisory Board Charter. Separate charters have been drawn up for the Audit Committee, the Risk Committee, the Remuneration Committee, the Nomination Committee and the Corporate Governance Committee. These charters are available on the website of ING Group ([www.ing.com](http://www.ing.com)). A short description of the duties for the five Committees follows below.

The Audit Committee assists the Supervisory Board in monitoring the integrity of the financial statements of ING Group, ING Verzekeringen N.V. and ING Bank N.V., in monitoring the compliance with legal and regulatory requirements and in monitoring the independence and performance of ING's internal and external auditors.

On 31 December 2012, the members of the Audit Committee were: Joost Kuiper (chairman), Tineke Bahlmann, Henk Breukink, Jan Holsboer, Yvonne van Rooy and Luc Vandewalle.

The Supervisory Board has determined that Joost Kuiper is a financial expert as referred to in the Corporate Governance Code. Joost Kuiper was appointed as the chairman of the Audit Committee on 9 May 2011. Joost Kuiper is considered by the Supervisory Board as financial expert because of his relevant knowledge and experience.

The Risk Committee assists and advises the Supervisory Board in monitoring the risk profile of ING as a whole as well as the structure and operation of the internal risk management and control systems. On 31 December 2012, the members of the Risk Committee were: Piet Klaver (chairman), Tineke Bahlmann, Joost Kuiper, Luc Vandewalle and Jeroen van der Veer.

The Remuneration Committee advises the Supervisory Board, among other things, on the terms and conditions of employment (including remuneration) of the members of the Executive Board and on the policies and general principles on which the terms and conditions of employment of the members of the Executive Board and of senior managers of ING and its subsidiaries are based. On 31 December 2012, the members of the Remuneration Committee were: Peter Elverding (chairman), Piet Klaver, Jeroen van der Veer and Lodewijk de Waal.

The Nomination Committee advises the Supervisory Board, among other things, on the composition of the Supervisory Board and Executive Board. On 31 December 2012, the members of the Nomination Committee were: Jeroen van der Veer (chairman), Peter Elverding, Piet Klaver and Lodewijk de Waal.

The Corporate Governance Committee assists the Supervisory Board in monitoring and evaluating the corporate governance of ING as a whole and the reporting thereon in the Annual Report and to the General Meeting and advises the Supervisory Board on improvements. On 31 December 2012, the members of the Corporate Governance Committee were: Henk Breukink (chairman), Jeroen van der Veer and Lodewijk de Waal.

The current composition of the Supervisory Board Committees can be found on the Company's website ([www.ing.com](http://www.ing.com)), which is updated on a regular basis.

### **REMUNERATION AND SHARE OWNERSHIP**

The remuneration of the members of the Supervisory Board is determined by the General Meeting and is not dependent on the results of ING Group. Details of the remuneration are provided in the Remuneration report on page 86. Members of the Supervisory Board are permitted to hold shares and depositary receipts for shares in the share capital of ING Group for long-term investment purposes. Details are given on page 87. Transactions by members of the Supervisory Board in these shares and depositary receipts for shares are subject to the ING regulations regarding insiders. These regulations are available on the website of ING Group ([www.ing.com](http://www.ing.com)).

### INFORMATION ON MEMBERS OF THE SUPERVISORY BOARD

#### **JEROEN VAN DER VEER (CHAIRMAN)**

*(Born 1947, Dutch nationality, male; appointed in 2009, term expires in 2013)*

Former chief executive officer of Royal Dutch Shell plc.

Other business activities: until the end of the AGM in May 2013, non-executive director of Royal Dutch Shell plc. Chairman of the Supervisory Board of Koninklijke Philips Electronics N.V. (listed companies). Member of the Supervisory Board of Het Concertgebouw N.V. Chairman of the Supervisory Council of Nederlands Openluchtmuseum. Member of the Board of Nationale Toneel (theatre). Chairman of the Supervisory Council of Platform Bèta Techniek. Chairman of the Advisory Council of Rotterdam Climate Initiative. Member of the Governing Board of European Institute of Innovation & Technology (EIT).

#### **PETER A.F.W. ELVERDING (VICE-CHAIRMAN)**

*(Born 1948, Dutch nationality, male; appointed in 2007, term expires in 2015)*

Former chairman of the Managing Board of Directors of Koninklijke DSM N.V. Former vice-chairman of the Supervisory Board of De Nederlandsche Bank N.V. (Dutch central bank).

Other business activities: chairman of the Supervisory Board of Koninklijke BAM Groep N.V. (listed company). Vice-chairman of the Supervisory Board of SHV Holdings N.V. Chairman of the Supervisory Board of Q-Park N.V. Chairman of the Supervisory Board of Camille Oostwegel Holding B.V. Member of the Supervisory Board of Koninklijke FrieslandCampina N.V. Member of the Board of Stichting Instituut GAK.

#### **J.P. (TINEKE) BAHLMANN**

*(Born 1950, Dutch nationality, female; appointed in 2009, term expires in 2013)*

Professor in Business Administration, University of Utrecht.

Other business activities: vice-chairman of the Supervisory Board of N.V. Nederlandsche Apparatenfabriek 'Nedap' (listed company). Member of the Supervisory Board of Stedin Netbeheer B.V. Member of the Board of Maatschappelijk Verantwoord Ondernemen Nederland (CSR). Chairman of the Supervisory Council of Maasstad Ziekenhuis (hospital). Chairman of Stichting Max Havelaar. Member of the Board of Toneelgroep Amsterdam (theatre).

#### **HENK W. BREUKINK**

*(Born 1950, Dutch nationality, male; appointed in 2007, term expires in 2015)*

Former managing director of F&C and country head for F&C Netherlands (asset management firm).

Other business activities: member of the Supervisory Board of NSI N.V. (real estate fund) (listed company). Member of the Supervisory Board of Brink Groep BV. Chairman of the Supervisory Board of Heembouw Holding B.V. Chairman of the Supervisory Council of Omring (health care institution). Member of the Supervisory Board of HaagWonen (housing corporation). Chairman of the Supervisory Council of Inholland University.

#### **JAN H. HOLSBOER**

*(Born 1946, Dutch nationality, male; appointed in 2012, term expires in 2016)*

Former member of the Executive Board of Univar N.V. and former member of the Executive Boards of ING Group and Nationale-Nederlanden.

Other business activities: non-executive (senior independent) director of PartnerRe Ltd. (Bermuda). Chairman of the Supervisory Board of TD Bank N.V. Non-executive director of YAFA S.p.A. (Turin, Italy). Member of the Supervisory Board of YAM Invest N.V. Chairman of the Supervisory Board of Vither Hyperthermia B.V. Chairman of the Executive Board of Panorama Mesdag B.V. Chairman of the Board of Foundation Imtech. Member of the Investment Committee of the Dutch Cancer Society.

#### **SJOERD VAN KEULEN**

*(Born 1946, Dutch nationality, male; appointed in 2011, will resign in 2013)*

Former chairman of the Executive Board of SNS Reaal N.V.

Other business activities: member of the Supervisory Board of Heijmans N.V. (listed company). Member of the Supervisory Board of Vado Beheer B.V. Vice-chairman of the Supervisory Committee of World Wildlife Fund. Chairman of the Board of Investment Fund for Health in Africa. Member of the Board of Health Insurance Fund. Advisory member of the Supervisory Board of Stichting PharmAccess International. Member of the Supervisory Board of Stichting Natuur en Milieu.

#### **PIET C. KLAVER**

*(Born 1945, Dutch nationality, male; appointed in 2006, will resign in 2013)*

Former chairman of the Executive Board of SHV Holdings N.V.

Other business activities: chairman of the Supervisory Board of PostNL N.V. (listed company). Chairman of the Supervisory Board of each of Koninklijke Dekker B.V., Credit Yard Group B.V., Dura Vermeer Groep N.V. and Blokker Holding B.V. Vice-chairman of the Supervisory Board of SHV Holdings N.V. Member of the Board of the African Parks Foundation.

#### **JOOST CH.L. KUIPER**

*(Born 1947, Dutch nationality, male; appointed in 2011, term expires in 2015)*

Former member of the Executive Board of ABN AMRO Bank N.V.

Other business activities: chairman of the Supervisory Board of IMC B.V. Member of the Supervisory Board of Hespri Holding B.V. Member of the Supervisory Council of Nexus Institute. Board member of each of Stichting voor Ooglijders, Prins Bernhard Cultuurfonds and Aanwending Loterijgelden Nederland. Member of the Advisory Board of Boelens de Gruyter. Member of the Advisory Board of Boron.

#### **ROBERT W.P. REIBESTEIN**

*(Born 1956, Dutch nationality, male; appointed in 2012, term expires in 2016)*

Former senior partner of McKinsey & Company.

Other business activities: member of the Supervisory Board of IMC B.V. Chairman of the Board of Royal Concertgebouw Orchestra. Member of the Board of Overseers Columbia University Business School. Member of the Supervisory Board of World Wildlife Fund. Member of the European Council on Foreign Relations. Vice-chairman of the Supervisory Board of Leiden University. Vice-chairman of the Board of VVD (political party).

## **YVONNE C.M.T. VAN ROOY**

*(Born 1951, Dutch nationality, female; appointed in 2012, term expires in 2016)*

Former Minister of Foreign Trade, member of the Dutch Parliament and member of the European Parliament. Former president of Utrecht University.

Other business activities: chairman of Nederlandse Vereniging van Ziekenhuizen (Dutch association of hospitals). Member of the Board of Trust Foundation Koninklijke Brill N.V. Member of the Board of Royal Concertgebouw Orchestra. Member of the Advisory Board of Nexus Institute. Member of the Board of Stichting Instituut GAK. Member of the Advisory Board of Stichting Nationaal Fonds Kunstbezit.

## **LUC A.C.P. VANDEWALLE**

*(Born 1944, Belgian nationality, male; appointed in 2011, term expires in 2014)*

Former chairman and non-executive member of ING Belgium NV/SA.

Other business activities: chairman of the Supervisory Board of each of Bakker Hillegom B.V., Domo Real Estate, Matexi Groep, Plu Holding, Transics International and Alinso N.V. Member of the Supervisory Board of each of Allia Insurance Brokers, Arseus, Besix Groep, Galloo, Masureel Veredeling, Sea-Invest, Sioen Industries, Vergroup, Veritas and Willy Naessens Industriebouw.

## **LODEWIJK J. DE WAAL**

*(Born 1950, Dutch nationality, male; appointed in 2009, term expires in 2013)*

Former general manager of Humanitas.

Other business activities: member of the Supervisory Board of PGGM N.V. Member of the Advisory Board of Zorgverzekeraars Nederland. Chairman of the Advisory Board of Stichting Nationaal Fonds Kunstbezit. Member of the Netherlands' National Contact Point (NCP) of the OECD. Chairman of the Supervisory Council of Museum Volkenkunde. Chairman of the Platform 'Slim Werken Slim Reizen'. Member of the Toetsingscommissie Beloningen Woningcorporaties.

## **CHANGES IN THE COMPOSITION**

At the 2012 annual General Meeting Jan Holsboer, Robert Reibestein and Yvonne van Rooy were appointed as members of the Supervisory Board. Aman Mehta retired at the end of the 2012 annual General Meeting.

Sjoerd van Keulen and Piet Klaver will resign at the end of the 2013 annual General Meeting. The current terms of appointment of Jeroen van der Veer, Tineke Bahlmann and Lodewijk de Waal will expire at the end of the 2013 annual General Meeting. Lodewijk de Waal has decided not to apply for reappointment. At this meeting, Jeroen van der Veer and Tineke Bahlmann will be nominated for reappointment. Tineke Bahlmann is recommended for reappointment by the Dutch State. 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.

More information can be found in the convocation for the 2013 annual General Meeting, available on the website of ING Group ([www.ing.com](http://www.ing.com)) from 28 March 2013.

## **FINANCIAL REPORTING**

A description of the main features of ING Group's internal control and risk management systems in relation to the financial reporting process is included in the statement with respect to Section 404 Sarbanes-Oxley Act on page 78, which is deemed to be incorporated by reference herein.

## **CHANGE OF CONTROL PROVISIONS LEGAL PROVISIONS**

Pursuant to the terms of the Dutch Financial Supervision Act a declaration of no objection from the Dutch Minister of Finance must be obtained by anyone wishing to obtain or hold a participating interest of at least 10% in ING Group and to exercise control attached to such a participating interest. Similarly, on the basis of indirect change of control statutes in the various jurisdictions where subsidiaries of ING Group are operating, permission from or notification to local regulatory authorities may be required for the acquisition of a substantial interest in ING Group.

## **CHANGE OF CONTROL CLAUSES IN MATERIAL AGREEMENTS**

ING Group is not a party to any material agreement that becomes effective or is required to be amended or terminated, in case of a change of control of ING Group following a public bid as defined in section 5:70 of the Dutch Financial Supervision Act. ING Group subsidiaries may have customary change of control arrangements included in agreements related to various business activities, such as joint venture agreements, letters of credit and other credit facilities, ISDA-agreements, hybrid capital and debt instruments, reinsurance agreements and futures and option trading agreements. Following a change of control of ING Group (as the result of a public bid or otherwise), such agreements may be amended or terminated, leading, for example, to an obligatory transfer of the interest in the joint venture, early repayment of amounts due, loss of credit facilities or reinsurance cover and liquidation of outstanding futures and option trading positions.

## **SEVERANCE PAYMENTS TO MEMBERS OF THE EXECUTIVE BOARD**

The employment contracts entered into with the members of the Executive Board provide for severance payments, which become due upon termination of the applicable Board member's contract in connection with a public bid as defined in section 5:70 of the Dutch Financial Supervision Act. For the purposes of calculating the amounts due, it is not relevant whether or not termination of the employment contract is related to a public bid. Severance payments to the members of the Executive Board are limited to a maximum of one year's fixed salary, in line with the Corporate Governance Code. Dutch legislation (Law on the limitation of liability of supervisors of financial markets and rules on remuneration of persons who determine the day-to-day policy (*dagelijks beleidsbepalers*) of financial institutions receiving state aid) (*Wet aansprakelijkheidsbeperking DNB en AFM en bonusverbod staatsgesteunde ondernemingen*) prohibits financial institutions to grant severance payments to members of the Executive Board in case of state aid to such financial institution.

## **AMENDMENT OF THE ARTICLES OF ASSOCIATION**

The General Meeting may resolve to amend the Articles of Association, provided that the resolution is adopted on a proposal of the Executive Board, which has been approved by the Supervisory Board. Such a resolution of the General Meeting requires a majority of at least two-thirds of the votes cast at a general meeting, whereby

at least two-thirds of the issued share capital is represented. An amendment of the Articles of Association has to be passed by notarial deed.

### **EXTERNAL AUDITOR**

At the annual General Meeting held on 14 May 2012, Ernst & Young was appointed to audit the financial statements of ING Group 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 and the 2012 annual General Meeting.

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 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 Group or ING Verzekeringen N.V. or 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, on among other things, 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.

The external auditor may be questioned at the annual General Meeting in relation to its audit opinion on the annual accounts. The external auditor will therefore attend and be entitled to address this meeting. The external auditor may only provide audit, audit-related, tax and other services to ING Group and its subsidiaries with the permission of the Audit Committee. The Audit Committee generally pre-approves certain types of audit and audit-related services to be provided by the external auditor on an annual basis. Services that have not been pre-approved by the Audit Committee should not be provided by the external auditor unless they are specifically pre-approved by the Audit Committee at the recommendation of local management.

The Audit Committee also sets the maximum annual amount that may be spent on pre-approved services. Throughout the year, the external auditor and ING monitor the amounts paid versus the pre-approved amounts. ING provides the Audit Committee with a full overview of all services provided to ING, including related fees, supported by sufficiently detailed information. This overview is periodically evaluated by the Audit Committee during the year.

More information on ING Group's policy on external auditor independence is available on the website of ING Group ([www.ing.com](http://www.ing.com)).

# Report of ING Trust Office

The following report is issued in compliance with the provisions of article 14 of the trust conditions for registered shares in the share capital of ING Groep N.V. and best-practice provision IV.2.6 of the Dutch Corporate Governance Code.

## OBJECT

Pursuant to its articles of association (the 'Articles of Association'), the object of Stichting ING Aandelen, a foundation organised under the laws of the Netherlands, with its registered seat in Amsterdam ('ING Trust Office') is:

- a. to acquire and administer for the purpose of management registered shares in the capital of ING Groep N.V., a public limited company with its registered office in Amsterdam ('ING Group') and any bonus shares which may be distributed thereon or shares acquired as stock dividend or by the exercise of subscription rights and to issue exchangeable depositary receipts for these shares, to exercise voting rights and all other rights attaching to the shares, to exercise subscription rights and to receive dividends and other distributions, including proceeds of liquidation, subject to the obligation to distribute the income to the holders of depositary receipts, save that depositary receipts shall be issued for bonus shares, shares acquired as stock dividend and shares acquired on behalf of holders of depositary receipts by virtue of the exercise of subscription rights;
  - b. to promote the exchange of information between ING Group on the one hand and the holders of depositary receipts and shareholders in ING Group on the other;
  - c. to promote the solicitation of proxies of shareholders other than the foundation itself and of specific proxies and/or voting instructions of holders of depositary receipts,
- and further to engage in any activity which may be related to the foregoing in the widest sense, whereby all activities which entail commercial risk shall be excluded from the foundation's object.

## ACTIVITIES

### BOARD MEETINGS

During the 2012 reporting year, the board of ING Trust Office (the 'Board') held six meetings.

In these meetings, among other things, the following topics were discussed:

- The preparation of the meeting of holders of depositary receipts of 21 November 2012.
- The annual General Meeting of ING Group of 14 May 2012 ('AGM'), the items on the agenda of the AGM, the proxy voting results and the voting by ING Trust Office.
- The promotion of participation in the decision-making in annual general meetings of shareholders and holders of depositary receipts and the exercise of voting rights in general.
- The functioning of ING Trust Office, the composition of the Board, the 2011 balance sheet and statement of income and expenses of ING Trust Office.

### MEETINGS WITH ING GROUP

During the 2012 reporting year, the Board had five meetings with the chairmen of the Executive Board and the Supervisory Board of ING Group.

In these meetings, among other things, the following topics were discussed:

- The activities and performance of ING Group in 2011 on the basis of the press release of 9 February 2012 and the 2011 figures, the activities and performance of ING Group over the first six months of 2012 on the basis of the press release of 8 August 2012 and the activities and performance of ING Group over the first nine months of 2012 on the basis of the press release of 7 November 2012.

## Report of ING Trust Office continued

- The appeal with the General Court of the European Union against specific elements of the European Commission's decision regarding ING's restructuring plan.
- Several items on the agenda of the AGM.
- The progress in the restructuring of ING Group.

### ANNUAL GENERAL MEETING ING GROUP, VOTES CAST AND VOTING BEHAVIOUR

ING Trust Office attended the AGM and during this meeting ING Trust Office asked the Executive Board and the Supervisory Board of ING Group various questions and made a statement on how it proposed to vote, where desired.

ING Trust Office granted proxies to holders of depositary receipts who attended the AGM in person or who were represented by a third party, to vote at their own discretion on such a number of shares equal to the number of depositary receipts held by the relevant holder of depositary receipts on the record date, with due observance of the Articles of Association and the Trust Conditions.

Holders of depositary receipts who did not attend the AGM in person or who were not represented by a third party, were entitled to give binding voting instructions to ING Trust Office for a number of shares equal to the number of depositary receipts held by the relevant holder of depositary receipts on the record date. During the AGM, ING Trust Office voted on these shares in accordance with the voting instructions given. A more detailed overview of these voting results can be found on the website of ING Group ([www.ing.com](http://www.ing.com)).

In accordance with the Articles of Association and the Trust Conditions, ING Trust Office voted at its own discretion on the shares for which it did not issue voting proxies and did not receive voting instructions, representing 49.2% of the total votes that might be cast at the AGM. In voting such shares, ING Trust Office was guided primarily by the interests of all holders of depositary receipts, taking into account the interests of ING Group and its affiliated enterprise. As a result, ING Trust Office voted on these shares in favour of all voting items on the agenda of the AGM.

ING Trust Office promotes the solicitation of proxies of shareholders of ING Group other than ING Trust Office itself and of specific proxies or voting instructions of holders of depositary receipts. ING Trust Office encourages the greatest possible participation of shareholders and holders of depositary receipts in the decision-making in annual general meetings and promotes the execution of voting rights in a transparent way. At the same time it prevents that a minority of shareholders and holders of depositary receipts could use a chance majority of votes to the disadvantage of the shareholders and holders of depositary receipts present nor represented at a general meeting of ING Group.

### MEETING OF HOLDERS OF DEPOSITARY RECEIPTS

According to the Trust Conditions, ING Trust Office may consult holders of depositary receipts in a separate meeting if and when it considers this necessary or desirable. In addition, one or more holders of depositary receipts who jointly hold at least 10% of the total number of depositary receipts issued by ING Trust Office, may request the Board in writing, setting out the matters to be considered in detail, to convene a meeting of holders of depositary receipts.

The Board convened a meeting of holders of depositary receipts, which was held on 21 November 2012. 0.13% of the total number of depositary receipts issued was present or represented during this meeting. During the meeting a report was made on the activities of ING Trust Office. In addition, the Board answered various questions of holders of depositary receipts attending the meeting. The minutes of the aforementioned meeting are published on the website of ING Trust Office ([www.ingtrustoffice.com](http://www.ingtrustoffice.com)).

### DEPOSITARY-RECEIPTS STRUCTURE

During the years 2009-2012, participation of shareholders, excluding ING Trust Office, and holders of depositary receipts in the decision-making in annual general meetings of ING Group consistently increased from 35.6% to 50.8%. Only the extraordinary General Meeting of 25 November 2009 showed a deviation from this trend with a markedly lower participation of 31.1%.

In 2010, ING evaluated the depositary-receipts structure, and concluded that it would be premature to change or abolish the depositary-receipts structure in 2010 and that it would be appropriate to reconsider this as part of a re-evaluation of ING Group's entire governance structure following the current restructuring and the completion of the divestments approved in the extraordinary General Meeting in 2009, the outcome of which was discussed in the annual General Meeting of 27 April 2010.

### OUTSTANDING DEPOSITARY RECEIPTS

On 31 December 2012, the nominal value of administered ordinary shares amounted to EUR 919,265,820.96 for which 3,830,274,254 depositary receipts were issued, each with a nominal value of EUR 0.24. During the reporting year, the net number of depositary receipts decreased by 4,200.

The decrease came about as follows:

add:	
conversion of shares into depositary receipts	4,100
less:	
conversion of depositary receipts into shares	8,300

### COMPOSITION AND REMUNERATION BOARD

The members of the Board are appointed by the Board itself for a maximum term of four years and may be reappointed two times. Holders of depositary receipts may make recommendations to the Board on persons to be appointed as members of the Board. The Board informs them for such purpose and in good time when, for what reason and according to which profile a vacancy must be filled and in which manner a recommendation should take place.

The Board currently consists of Jan Veraart, chairman, Mick den Boogert, Paul Frentrop, Herman Hazewinkel and Harrie Noy.

Harrie Noy was appointed as a member of the Board as of 14 June 2012 for a term ending per 14 June 2016.

A profile and an overview of relevant positions held by the members of the Board can be found on the website of ING Trust Office ([www.ingtrustoffice.com](http://www.ingtrustoffice.com)).

All members of the Board stated that they meet the conditions regarding independence as referred to in the Articles of Association and in the Dutch Corporate Governance Code.

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The annual remuneration for the chairman of the Board amounts to EUR 25,000.00 and for the other members of the Board to EUR 20,000.00.

#### **COSTS**

In 2012, the costs of the activities of ING Trust Office amounted to EUR 438,502.

#### **OTHER**

The activities involved in the administration of shares are performed by Administratiekantoor van het Algemeen Administratie- en Trustkantoor B.V., Amsterdam.

#### **CONTACT DETAILS**

The contact details of ING Trust Office are:

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Website: [www.ingtrustoffice.com](http://www.ingtrustoffice.com)

**AMSTERDAM, 18 MARCH 2013**

**BOARD OF STICHTING ING AANDELEN**

# Report of ING Continuity Foundation

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Stichting Continuïteit ING ('ING Continuity Foundation'), a foundation organized under the laws of the Netherlands, established in Amsterdam, was founded on 22 January 1991.

A call-option agreement concluded between ING Continuity Foundation and ING Groep N.V. ('ING Group') vests ING Continuity Foundation with the right to acquire cumulative preference shares in the share capital of ING Group up to a maximum of 4.5 billion cumulative preference shares. The acquisition of cumulative preference shares by ING Continuity Foundation is subject to the restriction that, immediately after the issue of cumulative preference shares, the total amount of cumulative preference shares may not exceed one-third of the total issued share capital of ING Group. If new shares other than cumulative preference shares are subsequently issued, ING Continuity Foundation may again exercise its right, subject to the provisions of the preceding sentence. On acquisition of cumulative preference shares, at least 25% of the nominal value must be paid on said shares.

In 2012 the board of ING Continuity Foundation (the 'Board') held two meetings, on 20 April and 29 November.

The composition of the Board is currently as follows: Bas Kortmann, chairman of the Board, Rob van den Bergh, Allard Metzelaar and Wim van Vonno, who was reappointed as of 1 July 2012.

All members of the Board stated that they meet the conditions regarding independence as referred to in the Articles of Association of ING Continuity Foundation.

**AMSTERDAM, 18 MARCH 2013**  
**BOARD OF STICHTING CONTINUITEIT ING**

# Conformity statement

The Executive Board is required to prepare the Annual Accounts and the Annual Report of ING Groep N.V. for each financial year in accordance with applicable Dutch law and those International Financial Reporting Standards (IFRS) that were endorsed by the European Union.

## CONFORMITY STATEMENT PURSUANT TO SECTION 5:25C PARAGRAPH 2(C) OF THE DUTCH FINANCIAL SUPERVISION ACT (*WET OP HET FINANCIËEL TOEZICHT*)

The Executive 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 judgements 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 Executive 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 Groep N.V. 2012 Annual Accounts give a true and fair view of the assets, liabilities, financial position and profit or loss of ING Groep N.V. and the enterprises included in the consolidation taken as a whole;
- the ING Groep 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 Groep N.V. and the enterprises included in the consolidation taken as a whole, together with a description of the principal risks ING Groep N.V. is being confronted with.

**AMSTERDAM, 18 MARCH 2013**

**J.H.M. Hommen**  
**CEO, CHAIRMAN OF THE EXECUTIVE BOARD**

**P.G. Flynn**  
**CFO, MEMBER OF THE EXECUTIVE BOARD**

**W.F. Nagel**  
**CRO, MEMBER OF THE EXECUTIVE BOARD**

# Section 404 Sarbanes-Oxley Act

## Internal control over financial reporting

Due to the listing of ING shares on the New York Stock Exchange, ING Group is required to comply with the SEC regulations adopted pursuant to Section 404 of the Sarbanes-Oxley Act, or SOX 404. These regulations require that the CEO (the chairman of the Executive Board) and the CFO of ING Group report and certify on an annual basis on the effectiveness of ING Group's internal controls over financial reporting. Furthermore, the external auditors are required to provide an opinion on the effectiveness of ING Group's internal controls over financial reporting.

ING Group has long-established Business Principles and a strong internal control culture, which all staff must adhere to. SOX 404 activities are organised along the lines of the governance structure, and involve the participation of senior management across ING. Following the SOX 404 process, ING is in the position to publish an unqualified statement which denotes that the Company's internal control over financial reporting is effective as of 31 December 2012. The SOX 404 statement by the Executive Board is included on this page, followed by the report of the external auditor.

## REPORT OF THE EXECUTIVE BOARD ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The Executive Board is responsible for establishing and maintaining adequate internal control over financial reporting. ING's 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 the assets of ING;
- 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.

The Executive Board assessed the effectiveness of our internal control over financial reporting as of 31 December 2012. In making this assessment, the Executive Board performed tests based on the criteria of the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control – Integrated Framework. Based on the Executive Board's assessment and those criteria, the Executive Board concluded that the Company's internal control over financial reporting is effective as of 31 December 2012.

Our independent registered public accounting firm has audited and issued their report on ING's internal control over financial reporting, which appears on the following page.

**AMSTERDAM, 18 MARCH 2013**

**J.H.M. Hommen**  
CEO, CHAIRMAN OF THE EXECUTIVE BOARD

**P.G. Flynn**  
CFO, MEMBER OF THE EXECUTIVE BOARD

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

### TO THE SHAREHOLDERS, THE SUPERVISORY BOARD AND THE EXECUTIVE BOARD OF ING GROEP N.V.

We have audited ING Groep N.V.'s internal control over financial reporting as of 31 December 2012, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). ING Groep N.V.'s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Report of the Executive Board on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorisations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorised acquisition, use or disposition of the company's assets that could have a material effect on the 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.

In our opinion, ING Groep N.V. maintained, in all material respects, effective internal control over financial reporting as of 31 December 2012, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of ING Groep N.V. as of 31 December 2012, the consolidated profit and loss account, consolidated statement of comprehensive income, consolidated statement

of cash flows and consolidated statement of changes in equity for the year then ended. Our report dated 18 March 2013 expressed an unqualified opinion thereon.

**AMSTERDAM, 18 MARCH 2013**  
**ERNST & YOUNG ACCOUNTANTS LLP**

# Remuneration report

This chapter sets out the remuneration for the Executive Board and the Supervisory Board. The senior management remuneration policy and remuneration structure are also included.

The remuneration policy for the Executive Board was adopted by the annual General Meeting (AGM) on 27 April 2010, adjustments to the remuneration policy in line with new regulatory developments were adopted by the AGM on 9 May 2011.

In addition, the Remuneration report provides information on the remuneration paid in 2012. ING realises that remuneration in the financial sector continued to be a topic of heated debate, also in 2012. Therefore ING already implemented a new policy in 2010 with an increased emphasis on, among others, creating a moderate and balanced compensation mix, long-term value creation and non-financial targets.

The primary objective of the remuneration policy is to enable ING to retain and recruit qualified and expert leaders, senior staff and other highly qualified employees. In accordance with the Dutch Banking Code ING's remuneration policy for the Executive Board aims for total direct compensation levels slightly below market median levels for comparable positions in the relevant markets. In 2012 the Executive Board did not receive a salary increase and no variable compensation was paid as ING had not completely repaid all outstanding core Tier 1 securities that were issued to the Dutch State. The remuneration policy put in place by the Supervisory Board and adopted by the 2010 AGM has been superseded by legal requirements put in place by the Dutch Legislator that no variable compensation can be paid to the Executive Management as long as financial support from the Dutch State is still outstanding.

The base salary level of the Executive Board remained at the 2010 level and for the fourth consecutive year no variable compensation was paid to the Executive Board. Remuneration of the Executive Board of ING is now in the lowest decile of compensation for managerial positions of equivalent significance and complexity in Europe and the gap between market median levels and total compensation of the Executive Board has become very significant. This could have severe consequences for the ability to attract and retain qualified senior management.

## REMUNERATION POLICY

ING's remuneration policy is an integral part of ING's corporate strategy and risk profile and maintains a sustainable balance between short-term and long-term value creation, building on our long-term responsibility towards society, our clients and all other stakeholders.

Remuneration at ING is appropriately set against a variety of factors, such as the complexity of functions, the scope of responsibilities, market practice and competitiveness, the alignment of risks and rewards, and the long-term objectives of the company and its stakeholders, which is all the more important given the continuously changing regulation and international standards for responsible remuneration. These factors differ for each role, line of business and country. This is especially the case for ING with its operations in more than 40 countries and 84,718 employees of whom around 58,200 are based outside the Netherlands (over 58% of senior management is non-Dutch). As much as possible for a global financial institution of this size, ING aims to take account of all these differences and also of the standards applied within similar financial institutions in the various countries in which it operates.

## PERFORMANCE MANAGEMENT PRINCIPLES

Performance management is a core business process to align individual performance objectives with the long-term strategy of the business of ING Group and to ensure a sustainable and successful business for all its stakeholders. ING Group operates a performance management process linked to remuneration to prevent rewarding for failure and to address the long-term impact of the profitability of the organisation within the risk appetite framework approved by the Supervisory Board of ING Group.

### Performance measurement, ex-ante and post risk adjustment

In determining the overall size of ING's variable remuneration pools, ex-ante measures are applied to adjust for current year and prior year changes in the risk profile, as well as for any known future potential risk profile changes. To determine whether to award any variable remuneration in a given performance year depending on the business activity, the following qualifiers will need to be satisfied: return on equity, core Tier 1 ratio and debt-to-equity ratio.

In 2012, ING fully implemented the required changes to its remuneration policies in order to comply with the Capital Requirements Directive III (CRD III). This includes arrangements to defer, hold back and where necessary claw back variable compensation.

The performance assessment of Identified Staff or ING Group as a whole extends beyond the date that variable remuneration awards are made and continues as part of a multi-year framework. In this way a longer-term horizon is established that ensures that variable remuneration continues to remain 'at risk' due to any issues or staff behaviours (including former staff) that were not apparent (or foreseen) at the time variable remuneration was awarded. In doing so, we have extended the performance assessment of all Identified Staff of ING Group beyond the date that variable awards are made.

## REMUNERATION POLICY FOR THE EXECUTIVE BOARD

The remuneration of Executive Board members consists of a combination of fixed compensation (base salary) and variable remuneration (together, 'total direct compensation'), pension arrangements and benefits as described below.

## Total direct compensation: moderation and reduced emphasis on variable remuneration

Total direct compensation levels are based on market data that include peers both inside and outside the financial sector in the international context in which ING operates. Total direct compensation is benchmarked against a peer group of companies that, in the opinion of the Supervisory Board, are comparable with ING in terms of size and scope. In line with the foregoing, the Supervisory Board has determined that the peer group consists of the companies in the Dow Jones EURO STOXX 50 index. These are 50 companies, in a range of financial and non-financial industries, which are based in countries within the Economic and Monetary Union of the European Union. In accordance with the Dutch Banking Code, ING's remuneration policy for the Executive Board aims for total direct compensation levels slightly below market median levels for comparable positions in the relevant markets.

In addition, the remuneration policy provides for a balanced mix between fixed and variable remuneration. Variable remuneration will not exceed 100% of fixed salary at the time of allocation. Fixed compensation (i.e. the base salary levels) will be determined in line with the relevant market environment as an integral part of total direct compensation, and will be reviewed from time to time by the Supervisory Board. The policy provides for an at target variable remuneration of 40% in cash and 40% in stock (in total 80%) of base salary if performance criteria are met. If performance criteria (as predetermined by the Supervisory Board) are exceeded, the variable component can be increased from target to maximum, not exceeding 100% of base salary at the time of allocation.

### Emphasis on long-term value creation

The remuneration policy for the Executive Board combines the short and long-term variable components into one structure. This structure intends to support both long-term value creation and short-term company objectives. The emphasis on long-term performance indicators within the variable component of the compensation package is increased by means of deferral, a reasonableness test and claw back mechanisms.

The allocation of variable remuneration is conditional on the achievement of a number of performance objectives. The short-term component, at maximum 40% of total variable remuneration, is equally divided between cash and stock and awarded in the year following the performance year. The other 60% of the total variable remuneration is deferred and also equally divided between cash and stock. This long-term component is intended to serve the objective of retaining the members of the Executive Board for a longer period of time. The value of the stock award is set such that total variable remuneration at the time that the maximum number of shares to be granted is determined stays within the 100% limit.

The long-term component, consisting of two equal portions of cash and stock, will be subject to a tiered vesting on the first, second and third anniversary of the grant date (one-third per annum). The entire long-term component is subject to an ex-post performance assessment by the Supervisory Board. The ex-post performance assessment cannot lead to an upward adjustment of the value of the cash deferred portion or the number of deferred shares.

Executive Board members are not allowed to sell depositary receipts for shares, obtained as a member of the Executive Board ING Group, and within a period of five years from the grant date. However, they

are allowed to sell part of their depositary receipts for shares at the date of vesting to pay tax over the vested share award.

## Risk adjusted sustainable and responsible performance

Executive Board members' remuneration is directly linked to the achievement of performance criteria critical to the execution of ING Group's strategy. In 2012, ING took significant steps to further complete the restructuring plans, rebuild customer trust and to deliver strong performance in the Bank and in Insurance. This is reflected in the individual performance criteria set for Executive Board members. The performance of the Executive Board is annually set and measured against different financial and non-financial performance drivers.

The financial targets are built around the priorities to strengthen the capital and funding positions for the banking and insurance entities as we execute on the restructuring of the Group and prepare the businesses for standalone futures. The financial targets related to the banking operations are aligned with the priorities presented in ING's Ambition 2015 priorities, which were communicated to the investor community in January 2012.

Financial performance indicators include:	Non-financial performance indicators include:
<ol style="list-style-type: none"> <li>Underlying net profit for ING Group</li> <li>Reduce double leverage in ING Group</li> <li>Reduce the loan-to-deposit ratio of ING Bank to strengthen liquidity position ahead of Basel III</li> <li>Reduce leverage in Insurance US in preparation for IPO base case</li> <li>Reduce leverage in Insurance EurAsia to prepare for standalone future</li> </ol>	<p><b>The non-financial indicators depend on the specific responsibilities of the individual Executive Board member and typically include:</b></p> <ol style="list-style-type: none"> <li>Improve customer centricity, including full implementation of Net Promoter Score measurement across the Bank and Insurance companies</li> <li>Improve sustainable business practices and corporate responsibility based on the KPIs published annually in the ING Sustainability Report</li> <li>Execute the restructuring and separation plans for the Group and continue repayment of Dutch State</li> <li>Improve employee engagement across the Banking and Insurance operations</li> <li>Improve leadership development, strengthen talent pipeline, retention and diversity</li> <li>Improve operational excellence</li> </ol>

### ING values and leadership

ING leadership behaviours are also evaluated as part of each Executive Board member's annual performance appraisal. The overall appraisal along with performance on predefined indicators is part of ING's Remuneration Committee review in determining variable remuneration.

### Continued focus on risk

Variable remuneration is directly linked to risk and takes into consideration both individual and company performance criteria. Performance measurement accounts for estimated risks and costs of capital.

### Pensions Executive Board members

Members of the Executive Board, who are employed on the basis of a Dutch employment contract, will participate in the defined contribution pension plans introduced in 2010 as part of the

## Remuneration report continued

remuneration policy. Individual Board members participating in the pension plan that existed before the introduction of the 2010 plans were given the choice to keep their existing pension arrangement. This existing pension arrangement, approved by the 2006 AGM, is based on a defined contribution plan. Alternatively, they can switch to the 2010 arrangements.

Members of the Executive Board will be required to pay a contribution to their pension premium in line with the contributions under ING's Collective Labour Agreement (CLA) in the Netherlands.

Members of the Executive Board working on a non-Dutch employment contract will be offered pensions in line with local practices.

### Benefits

Executive Board members will continue to be eligible for a range of additional benefits (e.g. the use of company cars, contributions to company savings plans and, if applicable, expatriate allowances). Executive Board members may obtain banking and insurance services from ING Group subsidiaries in the ordinary course of their business and on terms that apply to most other comparable employees of ING. In addition, tax and financial planning services will be provided to ensure compliance with the relevant legislative requirements.

### Tenure

The contract of employment for Executive Board members provides for an appointment for a period of four years and allows for reappointment by the General Meeting. In the case of an involuntary exit, Executive Board members are eligible to an exit arrangement limited to one year base salary.

### OTHER ITEMS FOR SUPERVISORY BOARD DISCRETION CLAW BACK AND ADJUSTMENTS

The Supervisory Board has the authority to reclaim variable remuneration allocated to a member of the Executive Board based on inaccurate data and/or behaviour that led to significant harm to the company. The Supervisory Board also has the authority to adjust variable remuneration if application of the predetermined performance criteria results in undesired outcomes. Accordingly, the Supervisory Board has decision authority in situations not addressed in the policy.

### SPECIAL EMPLOYMENT CONDITIONS

Special employment conditions, such as commitments made to secure the recruitment of new executives, may be used in exceptional circumstances subject to strict control by the Supervisory Board.

### SUPERVISORY BOARD DISCRETION TO REVIEW THE POLICY AND THE REMUNERATION PAID

ING is expected to undergo significant changes during the coming years. Moreover, the relevant international employment market is very much in flux. In order to ensure that ING can adapt to these two uncertain factors, the Supervisory Board indicated in 2010 and 2011 that it may re-evaluate in 2012 whether the remuneration policy adopted in 2010 and amended on 9 May 2011 will be in line with the long-term objectives of the company, the relevant international context, as well as society's perception of ING as a company. However, as the internal restructuring remains to be completed, as the regulatory environment is still in a state of flux, and as ING is subject to the legislation issued in 2012 by the Dutch Legislator related to variable remuneration for Executive Board

members of financial institutions that receive financial government support, the Supervisory Board has decided to re-evaluate the remuneration policy at a later stage.

Should it become clear, after such re-evaluation, that the new remuneration policy has led to an unintended or inequitable outcome, the Supervisory Board will, in line with the Remuneration Policy agreed for its Executive Board members have the discretion to correct the previously allocated variable remuneration. However, it is understood that any such correction could not lead to a deviation from the requirement that variable remuneration cannot exceed 100% of base salary during any year, as required under the Dutch Banking Code or be in violation of the Capital Requirements Directive III.

ING's remuneration policy is leading the way in moderating pay in the international financial markets. The Supervisory Board and the Executive Board also have an obligation to safeguard the continuity of the company. The Supervisory Board will therefore evaluate from time to time how these two responsibilities relate to each other. If and when appropriate, it can make adjustments.

### 2012 REMUNERATION RESPONSIBLE REMUNERATION

It is the responsibility of ING's Remuneration Committee to take into account the interests of all stakeholders, including shareholders and employees, as well as business continuity and sustainable growth, when overseeing the company's remuneration policy.

### 2012 REMUNERATION EXECUTIVE BOARD

The Executive Board remuneration for 2012 is based on the remuneration policy approved by the 2010 AGM, amended by the 2011 AGM and the legislation of the Dutch Legislator for financial institutions that have received state support for reasons of financial stability such as ING. The legislation prevents these financial institutions from granting variable remuneration (in cash or otherwise) to their Executive Board members. In addition, the legislation contains certain restrictions with respect to the possibility to increase the fixed salary of Executive Board members. It is in accordance with the Dutch Corporate Governance Code, Sound Remuneration Policy ('Regeling Beheerst Beloningsbeleid') and the CEBS guidelines.

### 2012 Executive Board base salary

The base salary of all Executive Board members was set at the time of the introduction of the remuneration policy in 2010. The base salary of the Executive Board has not been raised since 2010 as the Executive Board decided voluntarily to forego any increase until ING has repaid outstanding core Tier 1 securities from the Dutch State along with the restrictions put in force by the new Legislation in 2012. As a consequence the base salary level remained at the 2010 level.

### 2012 Executive Board variable remuneration

In 2011 the Executive Board decided that it will not accept variable remuneration. The Dutch legislation for financial institutions with Government support, which came into force in 2012, prohibits variable remuneration to the Executive Board. As such the Executive Board did not receive any variable remuneration in relation to performance year 2012.

It is noted that the total direct compensation levels of the Executive Board, even if any variable remuneration had been allowed, continue to be significantly below the market median. The Executive Board

base salary has remained unchanged and no variable remuneration has been granted since 2010. This puts the total direct compensation of the Executive Board in the lowest decile of the relevant benchmark and creates a significant gap between ING, the market and its peers in Europe. In the longer term this is not a tenable situation for ING and its market positioning. The Supervisory Board will continue to monitor the Executive Board's total direct

compensation and consider initiatives within the agreed Executive Board Remuneration Policy. When appropriate, the Supervisory Board, with the consent of the shareholders at the AGM, may deviate from the agreed Policy, to address this very significant gap taking into account regulatory requirements, rules and respective Corporate Governance codes.

#### Compensation of the individual members of the Executive Board

amounts in thousands of euros	2012 <sup>(1)</sup>		2011 <sup>(1)</sup>		2010	
	amount	number of shares	amount	number of options/shares	amount	number of options/shares
<b>Jan Hommen</b>						
Base salary	1,353		1,353		1,353	
Variable remuneration in cash	0	0	0	0	0	0
Variable remuneration in stock	0	0	0	0	0	0
<b>Patrick Flynn</b>						
Base salary	750		750		750	
Variable remuneration in cash	0	0	0	0	0	0
Variable remuneration in stock	0	0	0	0	0	0
<b>Wilfred Nagel <sup>(2)</sup></b>						
Base salary	469					
Variable remuneration in cash	0	0				
Variable remuneration in stock	0	0				

<sup>(1)</sup> It is noted that while the 2010 Annual Report indicated that the Board members would receive a salary increase and variable remuneration, they decided to forego the proposed increase in 2011 as well as the variable remuneration in relation to performance year 2010. The above table outlines the actual situation.

<sup>(2)</sup> Wilfred Nagel was appointed to the Executive Board on 14 May 2012. The figures for this member reflect compensation earned in the capacity as an Executive Board member. Thus the figure for 2012 reflects a partial year as an Executive Board member.

Compensation of former members of the Executive Board amounted to nil for 2012, EUR 563 thousand for 2011 and EUR 750 thousand for 2010.

#### One-off crisis levy of taxable income

In 2012, the Dutch Government imposed an additional tax charge of 16% on the income in excess of EUR 150 thousand 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 members of the Executive Board amounts to EUR 0.4 million, which is not included in the figures in the table above.

#### Pension costs

The table below shows the pension costs of the individual members of the Executive Board.

#### Pension costs of the individual members of the Executive Board

amounts in thousands of euros	2012	2011	2010
Jan Hommen <sup>(1)</sup>	0	0	0
Patrick Flynn	179	180	134
Wilfred Nagel <sup>(2)</sup>	132		

<sup>(1)</sup> Jan Hommen does not participate in the pension plan.

<sup>(2)</sup> Wilfred Nagel was appointed to the Executive Board on 14 May 2012. The 2012 pension costs for this member reflect the partial year as an Executive Board member.

Pension costs of former members of the Executive Board amounted to nil for 2012, EUR 135 thousand for 2011, and EUR 158 thousand for 2010.

## Remuneration report continued

### Long-term incentives awarded in previous years

The long-term incentive plan (LTIP) at ING in place until 2010 included both stock options and performance shares. The ING stock options have a total term of ten years and a vesting period of three years after which they can be exercised for the remaining seven years.

Performance shares are shares conditionally granted, with the final shares awarded in three years (tiered) based on ING's performance. The ultimate value of each performance share will be based on ING Group's stock price at the end of each performance cycle. Each one-third of the award will vest in accordance with its own performance measurement and cycle. Deferred shares are shares of which the ultimate value of each deferred share will be based on ING Group's stock price at the vesting date. For the Executive Board members no performance or deferred shares have vested in the period they were a member of the Executive Board ING Group.

Patrick Flynn received a conditional grant of restricted stock in 2009 to a maximum of 130,230 shares. The cumulative value of the conditional share award is capped at EUR 1.3 million. The first vesting in the amount of 39,069 shares occurred at the 2010 AGM. The value at vesting amounted to EUR 288,329. A second vesting of 39,069 shares occurred at the 2011 AGM, the value at vesting amounted to EUR 347,323. The remaining shares in the amount of 52,092 shares vested at the 2012 AGM. The value at vesting amounted

to EUR 263,325. The number of shares reflects the number adjusted for the effects of the rights issue of December 2009.

The Executive Board members are not allowed to sell depositary receipts for shares obtained as a member of the Executive Board ING Group and within a period of five years from the grant date. They are only allowed to sell part of their depositary receipts for shares at the date of vesting to pay tax over the vested performance-share award. Depositary receipts for shares obtained as a member of the Executive Board ING Group and from exercised stock options may only be sold within a period of five years from the grant date of the options to pay tax over the exercised award.

### Benefits

The individual members of the Executive Board receive other emoluments apart from the compensation and pension benefit. These other emoluments are mainly related to long home/work distances and amounted in 2012 (including employer contributions) to EUR 1 thousand, EUR 238 thousand and EUR 12 thousand for Jan Hommen, Patrick Flynn and Wilfred Nagel, respectively.

### Loans and advances to Executive Board members

The table below presents the loans and advances provided to Executive Board members and outstanding on 31 December 2012, 2011 and 2010.

Loans and advances to the individual members of the Executive Board									
amounts in thousands of euros	Amount outstanding	Average	Repayments	Amount outstanding	Average	Repayments	Amount outstanding	Average	Repayments
	31 December	interest rate		31 December	interest rate		31 December	interest rate	
	2012			2011			2010		
Jan Hommen	1,588	3.4%		1,588	3.4%		1,588	3.4%	
Wilfred Nagel <sup>(1)</sup>	750	3.3%							

<sup>(1)</sup> Wilfred Nagel was appointed to the Executive Board on 14 May 2012. The figures for this member reflect the loans and advances received well before his appointment to the Executive Board.

### ING depositary receipts for shares held by Executive Board members

Executive Board members are permitted to hold ING depositary receipts for shares as a long-term investment. The table below shows the holdings by members of the Executive Board.

ING depositary receipts for shares held by members of the Executive Board			
number of shares	2012	2011	2010
Jan Hommen	76,426	76,426	76,426
Patrick Flynn	85,084	51,339	25,793
Wilfred Nagel	15,246		

## 2013 REMUNERATION STRUCTURE EXECUTIVE BOARD

### 2013 EXECUTIVE BOARD TOTAL DIRECT COMPENSATION

The Supervisory Board will continue to monitor the remuneration of the Executive Board members relative to the external market and ING's internal practices to ensure ING sustains the ability to retain and attract highly skilled and experienced Executive Board members. It is in the interest of ING and its various stakeholders that ING pays its Executive Board members a total direct compensation package which is perceived balanced, fair, competitive and incorporates the right risk measurements in the delivery of such offering, to sustain and optimise the long-term value of its business. The Supervisory Board may decide to moderate at any time the remuneration structure of the Executive Board and rebalance fixed to variable when it feels that the total direct compensation packages of the Executive Board are no longer fair and equitable relative to its peers. Such moderation will be done within the agreed Executive Board Remuneration Policy or in consent with shareholders at the annual General Meeting when it deviates from the agreed Policy, underpinned by internal and external advice from remuneration matter experts.

The payment of variable remuneration to the Executive Board will be suspended for as long as the Legislation for financial institutions that have received state support for reasons of financial stability is in force for ING.

### REMUNERATION POLICY FOR SENIOR MANAGEMENT

As much as possible for a global financial institution of this size, ING aims to take account of all the differences and standards applied within similar financial institutions in the various countries in which it operates. The remuneration of members of the Management Boards and senior management will be in line with the general principles of the amended remuneration structure for the Executive Board, taking into account international and local practices.

### TOTAL DIRECT COMPENSATION

Total direct compensation levels will be based on benchmark data in the international context in which ING operates. ING aims for compensation levels to be set at market median levels. Total compensation levels will be determined in line with the relevant market.

### FOCUS ON LONG-TERM VALUE CREATION, RISK AND NON-FINANCIAL PERFORMANCE

Variable remuneration is linked to long-term value creation and risk. It is determined/based on individual, business and company performance criteria. Performance measurement will increasingly account for estimated risks and costs of capital. There will be increased emphasis on long-term value creation by means of long-term incentives, deferral and claw back mechanisms.

Furthermore, and in addition to financial indicators, performance is also assessed based on non-financial drivers. The incorporation of non-financial indicators in the overall assessment is particularly aimed at further improving sustainable business practices within ING. Therefore, a number of targets have been set for ING's performance in several areas, including customer satisfaction, workforce diversity, stakeholder engagement and sustainable business practices.

The 2013 performance management approach for ING Bank will be based on the same core principles of balancing financial and non-financial performance, leadership through living our ING

values, responsibility for risk management and fair evaluation. However, the approach will significantly enhance the role of risk and strengthen the execution of the One Bank strategy. For the members of the Board of ING Bank and its senior management, variable remuneration will be determined by the One Bank Result, personal targets and Business Line Result.

It should be noted that as the execution of our strategy progresses, the banking and insurance businesses may have different financial and non-financial performance drivers.

### 2012 REMUNERATION STRUCTURE SENIOR MANAGEMENT

Given the differences in the regulatory requirements for banking and insurance and the separation of ING's banking and insurance activities, the remuneration structures for senior management in ING's banking and insurance operations were determined separately in 2012, based on internal strategy and external regulatory developments.

The remuneration policy for the Executive Board, which permits a combination of fixed compensation (base salary) and variable remuneration (together 'total direct compensation'), pension arrangements and benefits will apply in full to members of the Management Board Banking. For senior management in banking, a gradual shift to a more balanced mix of fixed and variable remuneration, in line with the remuneration policy for the Executive Board, was initiated in 2010 and will continue during the coming year. During the year 2012, the remuneration structure of senior management in the Netherlands, employed by the Bank, has been further rebalanced with a reduced emphasis on variable remuneration. Exceptions may exist for high value specialists and senior management working in certain divisions and/or geographical areas. In addition, the remuneration policy for senior management has been amended in line with the requirements of the Capital Requirements Directive III.

Furthermore, ING and the Dutch labour unions agreed on a new CLA for ING Bank in the Netherlands. Under the new CLA, employees will no longer receive part of their compensation in the form of variable remuneration. In a number of cases and only if justified by market practice staff may still receive a discretionary variable award.

For the Management Board EurAsia and senior management in ING's EurAsia Insurance operations, remuneration is in line with the general principles of the remuneration policy for the Executive Board and the requirements under the Capital Requirements Directive III.

We have continued to review and amend the remuneration for a select group of ING Bank and Insurance EurAsia employees, in order to comply with the Capital Requirements Directive III. The amendments relate to the allocation of variable remuneration and the ratio between fixed and variable remuneration and are intended to mitigate risk relating to remuneration. Measures include an ex-ante and ex-post assessment of variable remuneration prior to award and vesting respectively, significant deferral of variable remuneration, an equal divide between variable remuneration in cash and in shares, as well as retention periods on all equity remuneration as soon as it becomes unconditional.

## Remuneration report continued

In light of the Capital Requirements Directive III compensation packages related to control functions (such as risk management functions) are structured such that they provide for a reduced emphasis on variable remuneration. To ensure the autonomy of the individual, financial performance metrics are dependent on objectives determined at the divisional level (i.e. not at the level of the relevant business). In addition, performance assessments are not only determined by business management, but also by the functional line.

For the Insurance US operations we have implemented a remuneration policy which fits the local market practise and requirements but also the Capital Requirements Directive III. It allows us to compete locally with our competitors to attract and retain talent, to meet the different regulatory requirements within the US insurance industry and to support the intended separation of these activities from ING.

The regulatory environment is still in development. The structure as set out above is based on information currently available. Should it become clear, after everything has been clarified, that amendments are necessary, ING will amend the structure as deemed appropriate.

### REMUNERATION SUPERVISORY BOARD

The annual remuneration of the Supervisory Board members as adopted by the General Meetings in 2006 and 2008 amounts to: chairman EUR 75,000, vice-chairman EUR 65,000, other members EUR 45,000. In addition to the remuneration each member receives an expense allowance. For the chairman and vice-chairman the annual amount is EUR 6,810. For the other members the amount is EUR 2,270. The remuneration for the membership of committees is as follows: chairman of the Audit Committee EUR 8,000, members of the Audit Committee EUR 6,000, chairmen of other Supervisory Board committees EUR 7,500 and members of other Supervisory Board committees EUR 5,000. In addition to the fixed remuneration, committee members receive a fee for each meeting they attend. For the Audit Committee chairman this fee is EUR 2,000 per meeting and for its members EUR 1,500. For the chairman and members of other committees the attendance fee amounts to EUR 450 per meeting.

Supervisory Board members receive an additional fee of EUR 2,000 per attended Supervisory Board or Committee meeting in the event the meeting is held outside the country of residence of the Supervisory Board member, or an additional amount of EUR 7,500 per attended Supervisory Board or Committee meeting if intercontinental travel is required for attending the meeting.

### 2012 REMUNERATION SUPERVISORY BOARD

Jeroen van der Veer and Peter Elverding have voluntarily requested a lower level of compensation than their annual remuneration as adopted by the AGM and to cap their annual remuneration relating to 2011 inclusive attendance fees at EUR 100,000 and EUR 90,000 respectively. At their request, their compensation was also capped in 2012 at the aforementioned levels.

The table below shows the remuneration, expense allowances and attendance fees per Supervisory Board member for 2012 and previous years.

Compensation of the members of the Supervisory Board			
amounts in thousands of euros	2012 <sup>(1)</sup>	2011 <sup>(1)</sup>	2010 <sup>(1)</sup>
Jeroen van der Veer <sup>(2,3,5)</sup>	86	114	74
Peter Elverding <sup>(3,4,5)</sup>	77	103	84
Tineke Bahlmann	70	70	69
Henk Breukink	71	71	69
Piet Klaver	73	72	68
Aman Mehta <sup>(6)</sup>	59	126	114
Lodewijk de Waal	70	71	66
Sjoerd van Keulen	62	49	
Joost Kuiper	74	46	
Luc Vandewalle	86	58	
Jan Holsboer <sup>(7)</sup>	41		
Yvonne van Rooy <sup>(7)</sup>	37		

<sup>(1)</sup> In 2010 the remuneration and attendance fees for the membership of a committee have not been paid to the chairman and vice-chairman of the Supervisory Board. Effective 2011 remuneration and attendance fees for the membership of a committee are paid to the chairman and vice-chairman of the Supervisory Board.

<sup>(2)</sup> Jeroen van der Veer has been chairman of the Supervisory Board since May 2011. From October 2009 until May 2011 he was vice-chairman of the Supervisory Board.

<sup>(3)</sup> In 2012 compensation was capped at EUR 100,000 and EUR 90,000 for the chairman and vice-chairman respectively. Please see the paragraph above the table.

<sup>(4)</sup> Peter Elverding was chairman of the Supervisory Board from April 2009 until May 2011. He has been vice-chairman since May 2011.

<sup>(5)</sup> The amounts in excess of the aforementioned cap of 2011 amounting to EUR 13,000 for Peter Elverding and EUR 14,000 for Jeroen van der Veer are deducted from their remuneration relating to 2012.

<sup>(6)</sup> Aman Mehta retired in May 2012. The compensation figure for 2012 reflects a partial year as a member of the Supervisory Board.

<sup>(7)</sup> Jan Holsboer and Yvonne van Rooy are members of the Supervisory Board as of May 2012. The compensation figures for 2012 reflect a partial year as a member of the Supervisory Board.

Compensation of former members of the Supervisory Board who are not included in the above table amounted to nil in 2012, EUR 77 thousand in 2011 and EUR 466 thousand in 2010.

## LOANS AND ADVANCES TO SUPERVISORY BOARD MEMBERS

Supervisory Board members may obtain banking and insurance services from ING Group subsidiaries in the ordinary course of their business and on terms that are customary in the sector. The table below presents the loans and advances to Supervisory Board members outstanding on 31 December 2012, 2011 and 2010.

Loans and advances to members of the Supervisory Board									
	Amount outstanding 31 December	Average interest rate	Repayments	Amount outstanding 31 December	Average interest rate	Repayments	Amount outstanding 31 December	Average interest rate	Repayments
amounts in thousands of euros	2012			2011			2010		
Jeroen van der Veer <sup>(1)</sup>	0		282	282	8.6%		282	8.6%	

<sup>(1)</sup> The amount reflects a housing mortgage loan granted in 1992, well before Jeroen van der Veer's appointment to the Supervisory Board (effective as of 1 July 2009).

## ING DEPOSITARY RECEIPTS FOR SHARES AND OPTIONS HELD BY SUPERVISORY BOARD MEMBERS

Supervisory Board members are permitted to hold ING depository receipts for shares as a long-term investment. The table below shows the holdings by members of the Supervisory Board. Supervisory Board members did not hold ING options at year-end 2012.

ING shares and depository receipts for shares held by members of the Supervisory Board <sup>(1)</sup>			
number of shares	2012	2011	2010
Piet Klaver	43,796	43,796	43,796
Jeroen van der Veer	119,469	119,469	99,469
Sjoerd van Keulen <sup>(2)</sup>	1,703	1,703	
Luc Vandewalle <sup>(2)(3)</sup>	85,250	80,000	
Jan Holsboer <sup>(4)</sup>	74,738		

<sup>(1)</sup> The numbers of depository receipts for shares reflect the shares held by the members of the Supervisory Board and their partners.

<sup>(2)</sup> Sjoerd van Keulen and Luc Vandewalle were newly appointed in May 2011.

<sup>(3)</sup> The ING depository receipts for shares held by Luc Vandewalle are currently being held in usufruct.

<sup>(4)</sup> Jan Holsboer was newly appointed in May 2012.

# Works councils

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## **CENTRAL WORKS COUNCIL** **on 31 December 2012**

Rob Eijt, *chairman*  
Hans de Boer, *secretary*  
Alex Hoogendoorn, *secretary*  
Goof Bode, *deputy chairman*  
Rudie van Doorn, *deputy secretary*  
Jaap van Amsterdam, Arno Daams, Jeffrey Dinsbach, Erik Hoijtink,  
Aad Kant, Jan Krutzen, Job van Luyken, Sjaak Muller, Hennie Post,  
Koos Rodenburg, Bram van Tent, Henk Timmer, Cindy Uit de Bulten,  
Gerard Veldman, Katja Vermeulen, Michel Vonk, Bernard Wolters.

## **EUROPEAN WORKS COUNCIL** **on 31 December 2012**

Norbert Lucas, *chairman*, Germany  
Havva Tasgil, *secretary*, the Netherlands

Jean Pierre Lambert, *chairman Bank*, Belgium  
Mihai Alincai, *secretary Bank*, Germany

Aad Kant, *chairman Insurance*, the Netherlands  
Reinoud Rijpkema, *secretary Insurance*, the Netherlands

Otmar Haneder, Austria  
Franck Goethals, René de Meij, Dirk Verstrepen, Belgium  
Nikolay Mladenski, Biliana Petrova, Bulgaria  
Martina Jezkova, Petr Ullmann, Czech Republic  
Mourad Benzaaza, France  
Ulrich Probst, Germany  
Nikolaos Ploumis, Greece  
Géza Bodor, Csilla Dobos, Hungary  
Antonio Talamo, Davide Bosseletti, Italy  
Christophe Guissart, Denis Richard, Luxembourg  
Hans de Boer, Jeffrey Dinsbach, Jelte Wiersinga, Gerard Veldman,  
the Netherlands  
Anna Potajallo, Mieczyslaw Bielawski, Krystov Burnat,  
Mariusz Cieslik, Poland  
Valerica Chirila, Andrei Ciuchilan, Romania  
Marcel Forisek, Lukas Motovsky, Slovakia  
Raul Lopez, Miguel Hernandez, Nadia Belaradj Moya, Spain  
Sam Chaudhuri, Rina Goldenberg, UK.

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# Consolidated balance sheet of ING Group

as at 31 December

amounts in millions of euros	2012	2011
<b>ASSETS</b>		
Cash and balances with central banks <b>1</b>	17,657	31,194
Amounts due from banks <b>2</b>	39,053	45,323
Financial assets at fair value through profit and loss <b>3</b>		
– trading assets	114,895	123,688
– investments for risk of policyholders	98,765	116,438
– non-trading derivatives	13,951	17,159
– designated as at fair value through profit and loss	4,760	5,437
Investments <b>4</b>		
– available-for-sale	193,584	208,539
– held-to-maturity	6,545	8,868
Loans and advances to customers <b>5</b>	563,404	602,525
Reinsurance contracts <b>17</b>	5,290	5,870
Investments in associates <b>6</b>	2,203	2,370
Real estate investments <b>7</b>	1,288	1,670
Property and equipment <b>8</b>	2,674	2,886
Intangible assets <b>9</b>	2,639	3,558
Deferred acquisition costs <b>10</b>	4,549	10,204
Assets held for sale <b>11</b>	68,472	62,483
Other assets <b>12</b>	28,903	31,016
<b>Total assets</b>	<b>1,168,632</b>	<b>1,279,228</b>
<b>EQUITY</b>		
Shareholders' equity (parent) <b>13</b>	54,357	46,663
Non-voting equity securities <b>13</b>	2,250	3,000
	56,607	49,663
Minority interests	1,081	777
<b>Total equity</b>	<b>57,688</b>	<b>50,440</b>
<b>LIABILITIES</b>		
Subordinated loans <b>14</b>	8,786	8,858
Debt securities in issue <b>15</b>	143,436	139,861
Other borrowed funds <b>16</b>	16,723	19,684
Insurance and investment contracts <b>17</b>	229,950	278,833
Amounts due to banks <b>18</b>	38,704	72,233
Customer deposits and other funds on deposit <b>19</b>	455,003	467,547
Financial liabilities at fair value through profit and loss <b>20</b>		
– trading liabilities	83,652	107,682
– non-trading derivatives	18,752	22,165
– designated as at fair value through profit and loss	13,399	13,021
Liabilities held for sale <b>11</b>	69,895	64,265
Other liabilities <b>21</b>	32,644	34,639
<b>Total liabilities</b>	<b>1,110,944</b>	<b>1,228,788</b>
<b>Total equity and liabilities</b>	<b>1,168,632</b>	<b>1,279,228</b>

References relate to the notes starting on page 118. These form an integral part of the consolidated annual accounts.

# Consolidated profit and loss account of ING Group

for the years ended 31 December

amounts in millions of euros	2012	2012	2011	2011	2010	2010
<b>Continuing operations</b>						
Interest income banking operations	60,002		64,649		68,334	
Interest expense banking operations	-48,119		-51,200		-55,011	
Interest result banking operations 36		11,883		13,449		13,323
Gross premium income 37		20,277		20,279		21,279
Investment income 38		7,335		5,329		5,887
Result on disposals of group companies 39		1,604		801		310
Gross commission income	5,116		5,830		5,682	
Commission expense	-1,578		-1,913		-1,664	
Commission income 40		3,538		3,917		4,018
Valuation results on non-trading derivatives 41		-2,919		1,000		-1,240
Net trading income 42		1,202		377		955
Share of result from associates 6		54		221		313
Other income 43		-330		1,318		588
Total income		42,644		46,691		45,433
Gross underwriting expenditure	35,711		27,321		37,419	
Investment result for risk of policyholders	-11,246		186		-10,120	
Reinsurance recoveries	-1,833		-1,760		-1,620	
Underwriting expenditure 44		22,632		25,747		25,679
Addition to loan loss provisions 5		2,125		1,670		1,751
Intangible amortisation and other impairments 45		281		369		1,060
Staff expenses 46		6,803		7,220		7,355
Other interest expenses 47		326		149		183
Other operating expenses 48		6,581		6,116		5,757
Total expenses		38,748		41,271		41,785
Result before tax from continuing operations		3,896		5,420		3,648
Taxation 49		799		1,246		1,146
Net result from continuing operations		3,097		4,174		2,502
<b>Discontinued operations 26</b>						
Net result from discontinued operations		548		684		414
Net result from classification as discontinued operations		-394				
Net result from disposal of discontinued operations		752		995		
Total net result from discontinued operations		906		1,679		414
Net result from continuing and discontinued operations (before minority interests)		4,003		5,853		2,916

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## Consolidated profit and loss account of ING Group continued

for the years ended 31 December

amounts in millions of euros	2012	2011	2010
Net result from continuing and discontinued operations attributable to:			
Equityholders of the parent	<b>3,894</b>	5,766	2,810
Minority interests	<b>109</b>	87	106
	<b>4,003</b>	5,853	2,916
Net result from continuing operations attributable to:			
Equityholders of the parent	<b>2,986</b>	4,093	2,405
Minority interests	<b>111</b>	81	97
	<b>3,097</b>	4,174	2,502
Net result from discontinued operations attributable to:			
Equityholders of the parent	<b>908</b>	1,673	405
Minority interests	<b>-2</b>	6	9
	<b>906</b>	1,679	414

amounts in euros	2012	2011	2010
<b>Earnings per share 50</b>			
Basic earnings per ordinary share	<b>0.86</b>	1.12	0.63
Diluted earnings per ordinary share	<b>0.86</b>	1.12	0.63
<b>Earnings per share from continuing operations 50</b>			
Basic earnings per ordinary share from continuing operations	<b>0.62</b>	0.68	0.52
Diluted earnings per ordinary share from continuing operations	<b>0.62</b>	0.68	0.52
<b>Earnings per share from discontinued operations 50</b>			
Basic earnings per ordinary share from discontinued operations	<b>0.24</b>	0.44	0.11
Diluted earnings per ordinary share from discontinued operations	<b>0.24</b>	0.44	0.11
<b>Dividend per ordinary share 51</b>	<b>0.00</b>	0.00	0.00

References relate to the notes starting on page 118. These form an integral part of the consolidated annual accounts.

# Consolidated statement of comprehensive income of ING Group

for the years ended 31 December

amounts in millions of euros	2012	2011	2010
Net result from continuing and discontinued operations	<b>4,003</b>	5,853	2,916
Unrealised revaluations after taxation <sup>(1)</sup>	<b>6,949</b>	1,139	2,603
Realised gains/losses transferred to profit and loss <sup>(1)</sup>	<b>-840</b>	723	86
Changes in cash flow hedge reserve	<b>737</b>	1,124	475
Transfer to insurance liabilities/DAC	<b>-2,181</b>	-2,004	-1,644
Exchange rate differences	<b>-709</b>	-156	2,859
Other revaluations	<b>39</b>	-2	-1
Total amount recognised directly in equity (other comprehensive income)	<b>3,995</b>	824	4,378
Total comprehensive income	<b>7,998</b>	6,677	7,294
Comprehensive income attributable to:			
Equityholders of the parent	<b>7,807</b>	6,594	7,203
Minority interests	<b>191</b>	83	91
	<b>7,998</b>	6,677	7,294

<sup>(1)</sup> Reference is made to Note 13 'Shareholders' equity (parent)/non-voting equity securities' for a breakdown of the individual components.

Unrealised revaluations after taxation comprises EUR -10 million (2011: EUR -16 million; 2010: EUR -2 million) related to the share of other comprehensive income of associates.

Exchange rate differences comprises EUR -14 million (2011: EUR -35 million; 2010: EUR 251 million) related to the share of other comprehensive income of associates.

Reference is made to Note 49 'Taxation' for the disclosure on the income tax effects on each component of the other comprehensive income.

# Consolidated statement of cash flows of ING Group

for the years ended 31 December

amounts in millions of euros		2012	2011	2010
Result before tax		5,010	7,248	4,196
Adjusted for:				
	– depreciation	777	1,514	1,723
	– deferred acquisition costs and value of business acquired	–484	277	1,159
	– increase in provisions for insurance and investment contracts	–3,174	4,239	4,278
	– addition to loan loss provisions	2,125	1,670	1,751
	– other	5,247	–1,497	3,075
Taxation paid		–745	–1,353	–503
Changes in:				
	– amounts due from banks, not available on demand	5,272	7,188	–4,333
	– trading assets	7,367	1,754	–14,782
	– non-trading derivatives	–1,779	1,988	–1,590
	– other financial assets at fair value through profit and loss	–2,417	474	832
	– loans and advances to customers	531	–25,085	–16,926
	– other assets	–596	–59	2,003
	– amounts due to banks, not payable on demand	–26,459	–6,731	–9,831
	– customer deposits and other funds on deposit	27,718	27,019	21,202
	– trading liabilities	–24,031	–369	9,804
	– other financial liabilities at fair value through profit and loss	–1,376	–207	1
	– other liabilities	–2,246	–3,931	–6,806
Net cash flow from operating activities		–9,260	14,139	–4,747
Investments and advances:				
	– associates	–26	–140	–165
	– available-for-sale investments	–143,681	–223,544	–163,038
	– held-to-maturity investments			–141
	– real estate investments	–60	–32	–73
	– property and equipment	–423	–499	–527
	– assets subject to operating leases		–1,188	–1,284
	– investments for risk of policyholders	–67,986	–57,130	–52,370
	– other investments	–369	–340	–372
Disposals and redemptions:				
	– group companies	–6,536	4,120	1,757
	– associates	92	383	232
	– available-for-sale investments	137,418	219,442	154,640
	– held-to-maturity investments	2,308	2,370	2,620
	– real estate investments	290	118	295
	– property and equipment	71	67	96
	– assets subject to operating leases		43	53
	– investments for risk of policyholders	72,201	61,898	54,817
	– loans	7,268	927	105
	– other investments	9	9	6
Net cash flow from investing activities <b>54</b>		576	6,504	–3,349
Repayments of subordinated loans		–10	–2,356	
Proceeds from borrowed funds and debt securities		332,492	428,381	412,804
Repayments of borrowed funds and debt securities		–333,165	–429,997	–405,120
Repayment of non-voting equity securities		–750	–2,000	
Repurchase premium <sup>(1)</sup>		–375	–1,000	
Payments to acquire treasury shares		–17		–136
Sales of treasury shares		160	41	92
Net cash flow from financing activities		–1,665	–6,931	7,640
Net cash flow <b>55</b>		–10,349	13,712	–456
Cash and cash equivalents at beginning of year		34,280	20,768	20,959
Effect of exchange rate changes on cash and cash equivalents		219	–200	265
Cash and cash equivalents at end of year <b>56</b>		24,150	34,280	20,768

<sup>(1)</sup> 2012 includes the repurchase premium paid on the repayment of EUR 750 million (2011: EUR 2,000 million) non-voting equity securities.

## Consolidated statement of cash flows of ING Group **continued**

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As at 31 December 2012 Cash and cash equivalents includes cash and balances with central banks of EUR 17,657 million (2011: EUR 31,194 million; 2010: EUR 13,072 million). Reference is made to Note 56 'Cash and Cash equivalents'.

References relate to the notes starting on page 118. These form an integral part of the consolidated annual accounts.

# Consolidated statement of changes in equity of ING Group

amounts in millions of euros	Share capital	Share premium	Reserves	Total shareholders' equity (parent)	Non-voting equity securities	Minority interests	Total equity
Balance as at 1 January 2010	919	16,034	16,690	33,643	5,000	915	39,558
Unrealised revaluations after taxation			2,607	2,607		-4	2,603
Realised gains/losses transferred to profit and loss			86	86			86
Changes in cash flow hedge reserve			475	475			475
Transfer to insurance liabilities/DAC			-1,644	-1,644			-1,644
Exchange rate differences			2,867	2,867		-8	2,859
Other revaluations			2	2		-3	-1
Total amount recognised directly in equity (other comprehensive income)			4,393	4,393		-15	4,378
Net result from continuing and discontinued operations			2,810	2,810		106	2,916
Total comprehensive income			7,203	7,203		91	7,294
Employee stock option and share plans			36	36			36
Changes in the composition of the group						-271	-271
Dividend						-6	-6
Purchase/sale of treasury shares			22	22			22
Balance as at 31 December 2010	919	16,034	23,951	40,904	5,000	729	46,633
Unrealised revaluations after taxation			1,138	1,138		1	1,139
Realised gains/losses transferred to profit and loss			723	723			723
Changes in cash flow hedge reserve			1,124	1,124			1,124
Transfer to insurance liabilities/DAC			-2,004	-2,004			-2,004
Exchange rate differences			-153	-153		-3	-156
Other revaluations						-2	-2
Total amount recognised directly in equity (other comprehensive income)			828	828		-4	824
Net result from continuing and discontinued operations			5,766	5,766		87	5,853
Total comprehensive income			6,594	6,594		83	6,677
Employee stock option and share plans			115	115			115
Repayment of non-voting equity securities					-2,000		-2,000
Repurchase premium			-1,000	-1,000			-1,000
Changes in the composition of the group						-1	-1
Dividend						-34	-34
Purchase/sale of treasury shares			50	50			50
Balance as at 31 December 2011	919	16,034	29,710	46,663	3,000	777	50,440

## Consolidated statement of changes in equity of ING Group continued

amounts in millions of euros	Share capital	Share premium	Reserves	Total shareholders' equity (parent)	Non-voting equity securities	Minority interests	Total equity
Balance as at 1 January 2012	919	16,034	29,710	46,663	3,000	777	50,440
Unrealised revaluations after taxation			6,940	6,940		9	6,949
Realised gains/losses transferred to profit and loss			-840	-840			-840
Changes in cash flow hedge reserve			718	718		19	737
Transfer to insurance liabilities/DAC			-2,181	-2,181			-2,181
Exchange rate differences			-724	-724		15	-709
Other revaluations						39	39
Total amount recognised directly in equity (other comprehensive income)			3,913	3,913		82	3,995
Net result from continuing and discontinued operations			3,894	3,894		109	4,003
Total comprehensive income			7,807	7,807		191	7,998
Employee stock option and share plans			7	7		1	8
Repayment of non-voting equity securities					-750		-750
Repurchase premium			-375	-375			-375
Changes in the composition of the group						118	118
Dividend						-6	-6
Purchase/sale of treasury shares			255	255			255
Balance as at 31 December 2012	919	16,034	37,404	54,357	2,250	1,081	57,688

Reserves includes Revaluation reserve of EUR 10,476 million (2011: EUR 5,550 million; 2010: EUR 4,752 million), Currency translation reserve of EUR -841 million (2011: EUR 93 million; 2010: EUR 79 million) and Other reserves of EUR 27,769 million (2011: EUR 24,067 million; 2010: EUR 19,120 million). Changes in individual components are presented in Note 13 'Shareholders' equity (parent) non-voting equity securities'.

# Accounting policies for the consolidated annual accounts of ING Group

## AUTHORISATION OF ANNUAL ACCOUNTS

The consolidated annual accounts of ING Groep N.V. for the year ended 31 December 2012 were authorised for issue in accordance with a resolution of the Executive Board on 18 March 2013. The Executive 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 Groep N.V. is incorporated and domiciled in Amsterdam, the Netherlands. The principal activities of ING Group are described in the section 'ING at a glance' in section 1.

## BASIS OF PRESENTATION

ING Group 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 Group 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 25 'Derivatives and hedge accounting' ING Group applies fair value hedge accounting to portfolio hedges of interest rate risk (macro hedging) under the EU 'carve out' of IFRS-EU;
- Under IFRS 4, an insurer may continue its existing pre-IFRS accounting policies for insurance contracts, provided that certain minimum requirements are met. Upon adoption of IFRS in 2005, ING Group decided to continue the then existing accounting principles for insurance contracts under IFRS. ING Group operates in many different countries and the accounting principles for insurance contracts follow local practice in these countries. ING's businesses in the Netherlands apply accounting standards generally accepted in the Netherlands (Dutch GAAP) for its provisions for liabilities under insurance contracts; similarly, ING's businesses in the United States apply accounting standards generally accepted in the United States (US GAAP);
- 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 Group's 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 Group in 2012. Neither of these has a significant effect on ING Group.

In 2012, changes were made to the segment reporting as disclosed in Note 52 'Segments'. The presentation of Note 56 'Cash and cash equivalents' was changed to separately present the cash amount included in discontinued operations/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 31 'Companies acquired and companies disposed' and by the held for sale classification as disclosed in Note 11 'Assets and liabilities held for sale' and Note 26 'Discontinued operations'. 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's Insurance and investment management businesses in Asia and the reinsured Japan SPVA business in corporate reinsurance ('Asia') and 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.

# Accounting policies for the consolidated annual accounts of ING Group continued

## UPCOMING CHANGES IN IFRS-EU IN 2013

The following new and/or amended IFRS-EU standards will be implemented by ING Group 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; more information is provided in Note 21 'Other liabilities'. As a result, Shareholders' equity will decrease with EUR 2.6 billion (after tax) at 1 January 2013. 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:

Impact of implementing amendments to IAS 19 as at 1 January 2013	
amounts in millions of euros	IAS 19 'Employee Benefits'
Assets held for sale	
Assets – other	-2,440
<b>Impact on Total assets</b>	<b>-2,440</b>
Liabilities held for sale	4
Liabilities – other	136
<b>Impact on Total liabilities</b>	<b>140</b>
<b>Shareholders' equity</b>	<b>-2,580</b>
<b>Impact on Total equity and liabilities</b>	<b>-2,440</b>

### 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 Group'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 Group will implement the new requirements as of 2013.

### **UPCOMING CHANGES IN IFRS-EU AFTER 2013**

The following new standards will become effective for ING Group 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 Group 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.

#### **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 Group 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 Group 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 insurance provisions, deferred acquisition costs and value of business acquired, 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'.

#### **INSURANCE PROVISIONS, DEFERRED ACQUISITION COSTS (DAC) AND VALUE OF BUSINESS ACQUIRED (VOBA)**

The establishment of insurance provisions, DAC and VOBA is an inherently uncertain process, involving assumptions about factors such as court decisions, changes in laws, social, economic and demographic trends, inflation, investment returns, policyholder behaviour and other factors, and, in the life insurance business, assumptions concerning mortality and morbidity trends. Specifically, significant assumptions related to these items that could have a material impact on financial results include interest rates, mortality, morbidity, property and casualty claims, investment yields on equity and real estate, foreign currency exchange rates and reserve adequacy assumptions.

The use of different assumptions about these factors could have a material effect on insurance provisions and underwriting expenditure. Changes in assumptions may lead to changes in the insurance provisions over time. Furthermore, some of these assumptions can be volatile.

In addition, the adequacy of insurance provisions, net of DAC and VOBA, is evaluated regularly. The test involves comparing the established insurance provision with current best estimate assumptions about factors such as court decisions, changes in laws, social, economic and demographic trends, inflation, investment returns, policyholder behaviour, mortality and morbidity trends and other factors. The use of different assumptions in this test could lead to a different outcome.

## Accounting policies for the consolidated annual accounts of ING Group continued

Insurance provisions also include the impact of minimum guarantees which are contained within certain variable annuity products. This impact is dependent upon the difference between the potential minimum benefits payable and the total account balance, expected mortality and surrender rates. The determination of the potential minimum benefits payable also involves the use of assumptions about factors such as inflation, investment returns, policyholder behaviour, and mortality morbidity trends and other factors. The use of different assumptions about these factors could have a material effect on insurance provisions and underwriting expenditure.

The process of defining methodologies and assumptions for insurance provisions, DAC and VOBA is governed by ING Insurance risk management as described in the 'Risk management' section.

Reference is made to the 'Risk management' section for a sensitivity analysis of net result and shareholders' equity to insurance, interest rate, equity, foreign currency and real estate risks. These sensitivities are based on changes in assumptions that management considers reasonably likely at the balance sheet date.

### 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 reported 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.

## Accounting policies for the consolidated annual accounts of ING Group **continued**

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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 35 'Fair value of financial assets and liabilities' and the 'Risk management' section for the basis of the determination of the fair value of financial instruments and related sensitivities.

### **IMPAIRMENTS**

Impairment evaluation is a complex process that inherently involves significant judgements and uncertainties that may have a significant impact on ING Group'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.

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'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 21 'Other liabilities' for the weighted averages of basic actuarial assumptions in connection with pension and other post-employment benefits.

# Accounting policies for the consolidated annual accounts of ING Group continued

## PRINCIPLES OF VALUATION AND DETERMINATION OF RESULTS

### CONSOLIDATION

ING Group ('the Group') comprises ING Groep N.V. ('the Company'), ING Verzekeringen N.V., ING Bank N.V. and all other subsidiaries. The consolidated financial statements of ING Group comprise the accounts of ING Groep 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 30 'Principal subsidiaries'.

The existence and effect of potential voting rights that are currently exercisable or convertible are considered in assessing whether the Group controls another entity. For interests in investment vehicles, the existence of control is determined taking into account both ING Group'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 Group has agreed to sell but is still legally owned by ING Group may still be controlled by ING Group 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.

All intercompany transactions, balances and unrealised surpluses and deficits on transactions between group companies are eliminated. Where necessary, the accounting policies used by subsidiaries are changed to ensure consistency with group policies. In general, the reporting dates of subsidiaries are the same as the reporting date of ING Groep N.V.

ING Groep 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 Group 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 Group's interests in jointly controlled entities are accounted for using proportionate consolidation. ING Group 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 Group's financial statements. ING Group recognises the portion of gains or losses on the sale of assets to the joint venture that is attributable to the other venturers. ING Group does not recognise its share of profits or losses from the joint venture that results from the purchase of assets by ING Group 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 and discontinued operations

Disposal groups held for sale are measured at the lower of their carrying amount or fair value less cost to sell. Disposal groups (and groups of 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. When a group of assets that is classified as held for sale represents a major line of business or geographical area the disposal group classifies as discontinued operations. In the consolidated profit and loss account, the income and expenses from discontinued operations are reported separately from income and expenses from continuing operations, down to the level of result after tax for both the current and for comparative years.

### 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 the Group, 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 the Group engaged in providing products or services within a particular economic environment that is subject to risks and returns that are different from those of segments operating in other economic environments. The geographical analyses are based on the location of the office from which the transactions are originated.

### **ANALYSIS OF INSURANCE BUSINESS**

Where amounts in respect of insurance business are analysed into 'life' and 'non-life', health and disability insurance business which is similar in nature to life insurance business is included in 'life'.

### **FOREIGN CURRENCY TRANSLATION**

Functional and presentation currency

Items included in the financial statements of each of the Group'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 ING Group'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 fair value is determined. Exchange rate differences on non-monetary items measured at fair value through the revaluation reserve are included in the revaluation reserve in equity.

Exchange rate differences in the profit and loss account are generally included in Net trading income. Reference is made to Note 42 '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 also made to Note 13 'Shareholders' equity (parent)/non-voting equity securities', 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 shareholders' 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 the Group is the current bid price; the quoted market price used for financial liabilities is the current ask price.

The fair value of financial instruments that are not traded in an active market are determined using valuation techniques. The Group 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 35 'Fair value of financial assets and liabilities' for the basis of the determination of the fair value 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 (excluding investments for risk of policyholders), held-to-maturity and available-for-sale 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 the Group commits to purchase or sell the asset. Loans and receivables are recognised at settlement date, which is the date on which the Group receives and investments for risk of policyholders 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 the Group has transferred substantially all risks and rewards of ownership. If the Group 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, financial assets designated at fair value through profit and loss by management and investments for risk of policyholders.

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.

Investments for risk of policyholders are investments against insurance liabilities for which all changes in fair value of invested assets are offset by similar changes in insurance liabilities.

Transaction costs on initial recognition are expensed as incurred. Interest income from debt securities and loans and receivables classified as at fair value through profit and loss is recognised in Interest income banking operations and Investment 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. Investment result from investments for risk of policyholders is recognised in investment result for risk of policyholders. 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 banking operations and Investment 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 'Impairments 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 for which the Group has the positive intent and ability to hold to maturity and which are designated by management as held-to-maturity assets are initially recognised at fair value plus transaction costs. Subsequently, they are carried at amortised cost using the effective interest method less any impairment losses. Interest income from debt securities classified as held-to-maturity is recognised in Interest income in the 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 and Investment income in the profit and loss account using the effective interest method.

### **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 Group 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 Group's investment portfolio and mainly relates to the balance sheet classification Investments (available-for-sale and held-to-maturity);
- Money market risk arises when ING Group places short term deposits with a counterparty in order to manage excess liquidity and among others relates to the balance sheet classifications Amounts due from banks and Loans and advances to customers;
- Pre-settlement risk arises when a counterparty defaults on a transaction before settlement and ING Group has to replace the contract by a trade with another counterparty at the then prevailing (possibly unfavourable) market price. The pre-settlement risk 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 securities 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 Group has paid or delivered its side of the trade. Settlement risk mainly relates to the risk arising on disposal of financial instruments that are classified in the 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 28 'Contingent liabilities and commitments' for these off-balance sheet items. Collateral received is not taken into account when determining the maximum credit risk exposure.

The manner in which ING Group manages credit risk and determines credit risk exposures for that purpose is explained in the '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 the Group first becomes party to the contract. A reassessment is carried out only when there is a change in the terms of the contract that significantly modifies the expected cash flows.

The method of recognising the resulting fair value gain or loss depends on whether the derivative is designated as a hedging instrument and, if so, the nature of the item being hedged. The Group designates certain derivatives as hedges of the fair value of recognised assets or liabilities or firm commitments (fair value hedge), hedges of highly probable future cash flows attributable to a recognised asset or liability or a forecast transaction (cash flow hedge), or hedges of a net investment in a foreign operation. Hedge accounting is used for derivatives designated in this way provided certain criteria are met.

At the inception of the transaction ING Group documents the relationship between hedging instruments and hedged items, its risk management objective, together with the methods selected to assess hedge effectiveness. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of the hedged items.

ING Group applies fair value hedge accounting to portfolio hedges of interest rate risk (macro hedging) under the EU 'carve out' 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 Group applies fair value hedge accounting for portfolio hedges of interest rate risk (macro hedging) under the EU 'carve-out' to its retail operations. The net exposures of retail funding (savings and current accounts) and retail lending (mortgages) are hedged. The hedging activities are designated under a portfolio fair value hedge on the mortgages. Changes in the fair value of the derivatives are recognised in the 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 and 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 the Group as part of its risk management strategies, but which do not qualify for hedge accounting under ING Group's accounting policies, are presented as non-trading derivatives. Non-trading derivatives are measured at fair value with changes in the fair value taken to the 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 the Group 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-EU.

### REPURCHASE TRANSACTIONS AND REVERSE REPURCHASE TRANSACTIONS

Securities sold subject to repurchase agreements ('repos') are retained in the consolidated financial statements. The counterparty liability is included in Amounts due to banks, Other borrowed funds, 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.

### **IMPAIRMENTS OF LOANS AND ADVANCES TO CUSTOMERS (LOAN LOSS PROVISIONS)**

ING Group 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 Group has granted concessions, for economic or legal reasons relating to the borrower's financial difficulty, the effect of which is a reduction in the expected future cash flows of the financial asset; and
- Historical experience, updated for current events where necessary, provides evidence that a proportion of a group of assets is impaired although the related events that represent impairment triggers are not yet captured by the Group's credit risk systems.

In certain circumstances ING grants borrowers postponement and/or reduction of loan principal and/or interest payments for a temporary period of time to maximise collection opportunities and, if possible, avoid default, foreclosure or repossession. When such postponement and/or reduction of loan principal and/or interest payments is executed based on credit concerns it is also referred to as 'forbearance'. In 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.

The Group 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.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and then individually or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on an asset carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account ('Loan loss provision') and the amount of the loss is recognised in the 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 the Group'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 the Group's loan loss provision. Although the loss confirmation periods are inherently uncertain, the Group 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 the Group's account managers. 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, the Group 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 6 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 net result - is removed from equity and recognised in the profit and loss account. Impairment losses recognised 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 the Group 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.

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

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group'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 the Group. The reporting dates of all material associates are consistent with the reporting date of the Group.

For interests in investment vehicles the existence of significant influence is determined taking into account both the Group'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.

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 Group 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

## Accounting policies for the consolidated annual accounts of ING Group **continued**

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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 Group 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 Group 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 shareholders' equity. Decreases in the carrying amount that offset previous increases of the same asset are charged against the revaluation reserve directly in equity; all other decreases are charged to the 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 values of land and buildings are 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 the Group 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 Group has the intention to sell the property after its completion is included in Other assets - Property development and obtained from foreclosures.

Property developed and under development for which ING Group 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 Group'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 Group 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 percentage of total estimated costs for each contract.

Property under development is stated at fair value (with changes in fair value recognised in the profit and loss account) if ING Group 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 Group 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 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 Group as the lessee**

The leases entered into by ING Group 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 to be made to the lessor is recognised as an expense in the period in which termination takes place.

#### **ING Group 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 Group'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 the Group'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.

Where a business combination is achieved in stages, ING Group'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 Group 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.

## Accounting policies for the consolidated annual accounts of ING Group **continued**

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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 shareholders' 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 group companies, the difference between the sale proceeds and carrying value (including goodwill) and the unrealised results (including the currency translation reserve in equity) is included in the 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.

### **Value of business acquired (VOBA)**

VOBA is an asset that reflects the present value of estimated net cash flows embedded in the insurance contracts of an acquired company, which existed at the time the company was acquired. It represents the difference between the fair value of insurance liabilities and their carrying value. VOBA is amortised in a similar manner to the amortisation of deferred acquisition costs as described in the section 'Deferred acquisition costs'.

### **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.

### **DEFERRED ACQUISITION COSTS**

Deferred acquisition costs (DAC) are an asset and represent costs of acquiring insurance and investment contracts that are deferred and amortised. The deferred costs, all of which vary with (and are primarily related to) the production of new and renewal business, consist principally of commissions, certain underwriting and contract issuance expenses, and certain agency expenses.

For traditional life insurance contracts, certain types of flexible life insurance contracts, and non-life contracts, DAC is amortised over the premium payment period in proportion to the premium revenue recognised.

For other types of flexible life insurance contracts DAC is amortised over the lives of the policies in relation to the emergence of estimated gross profits. Amortisation is adjusted when estimates of current or future gross profits, to be realised from a group of products, are revised. The estimates and the assumptions are reassessed at the end of each reporting period. Higher/lower expected profits (e.g. reflecting stock market performance or a change in the level of assets under management) may cause a lower/higher balance of DAC due to the catch-up of amortisation in previous and future years. This process is known as DAC unlocking. The impact of the DAC unlocking is recognised in the profit and loss account of the period in which the unlocking occurs. Effective as of 2011, the estimate for the short-term equity growth assumption used to calculate the amortisation of DAC in the United States (Insurance US) was changed to a mean reversion assumption.

DAC is evaluated for recoverability at issue. Subsequently it is tested on a regular basis together with the provision for life insurance liabilities and VOBA. The test for recoverability is described in the section 'Insurance, Investment and Reinsurance Contracts'.

For certain products DAC is adjusted for the impact of unrealised results on allocated investments through equity.

### **TAXATION**

Income tax on the 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 the Group and it is probable that the difference will not

## Accounting policies for the consolidated annual accounts of ING Group continued

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.

### 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.

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 the Group 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 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 Group has designated an insignificant part of the issued debt, related 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 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.

### INSURANCE, INVESTMENT AND REINSURANCE CONTRACTS

Provisions for liabilities under insurance contracts are established in accordance with IFRS 4 'Insurance Contracts'. Under IFRS 4, an insurer may continue its existing pre-IFRS accounting policies for insurance contracts, provided that certain minimum requirements are met. Upon adoption of IFRS in 2005, ING Group decided to continue the then existing accounting principles for insurance contracts under IFRS. ING Group operates in many different countries and the accounting principles for insurance contracts follow local practice in these countries. ING's businesses in the Netherlands apply accounting standards generally accepted in the Netherlands (Dutch GAAP) for its provisions for liabilities under insurance contracts; similarly, ING's businesses in the United States apply accounting standards generally accepted in the United States (US GAAP).

Changes in those local accounting standards (including Dutch GAAP and US GAAP) subsequent to the adoption of IFRS are considered for adoption on a case-by-case basis. If adopted, the impact thereof is accounted for as a change in accounting policy under IFRS.

In addition, for certain specific products or components thereof, ING applies the option in IFRS 4 to measure (components of) the provisions for liabilities under insurance contracts using market consistent interest rates and other current estimates and assumptions. This relates mainly to Guaranteed Minimum Withdrawal Benefits for Life on the Insurance US Closed Block VA book and certain guarantees embedded in insurance contracts in Japan.

#### Insurance contracts

Insurance policies which bear significant insurance risk and/or contain discretionary participation features are presented as insurance contracts. Provisions for liabilities under insurance contracts represent estimates of future payouts that will be required for life and non-life insurance claims, including expenses relating to such claims. For some insurance contracts the measurement reflects current market assumptions. Unless indicated otherwise below all changes in the insurance provisions are recognised in the profit and loss account.

#### Provision for life insurance

The Provision for life insurance is calculated on the basis of a prudent prospective actuarial method, taking into account the conditions for current insurance contracts. Specific methodologies may differ between business units as they may reflect local regulatory requirements and local practices for specific product features in the local markets.

## Accounting policies for the consolidated annual accounts of ING Group **continued**

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Insurance provisions on traditional life policies are calculated using various assumptions, including assumptions on mortality, morbidity, expenses, investment returns and surrenders. Assumptions for insurance provisions on traditional life insurance contracts, including traditional whole life and term life insurance contracts, are based on best estimate assumptions including margins for adverse deviations. Generally, the assumptions are set initially at the policy issue date and remain constant throughout the life of the policy.

Insurance provisions for universal life, variable life and annuity contracts, unit-linked contracts, etc. are generally set equal to the balance that accrues to the benefit of the policyholders. Certain variable annuity products contain minimum guarantees on the amounts payable upon death and/or maturity. The insurance provisions include the impact of these minimum guarantees, taking into account the difference between the potential minimum benefit payable and the total account balance, expected mortality and surrender rates.

The as yet unamortised interest rate rebates on periodic and single premium contracts are deducted from the Provision for life insurance. Interest rate rebates granted during the year are capitalised and amortised in conformity with the anticipated recovery pattern and are recognised in the profit and loss account.

### **Provision for unearned premiums and unexpired insurance risks**

The provision is calculated in proportion to the unexpired periods of risk. For insurance policies covering a risk increasing during the term of the policy at premium rates independent of age, this risk is taken into account when determining the provision. Further provisions are made to cover claims under unexpired insurance contracts, which may exceed the unearned premiums and the premiums due in respect of these contracts.

### **Claims provision**

The claims provision is calculated on a case-by-case basis or by approximation on the basis of experience. Provisions have also been made for claims incurred but not reported (IBNR) and for future claims handling expenses. The adequacy of the Claims provision is evaluated each year using standard actuarial techniques. In addition, IBNR reserves are set to recognise the estimated cost of losses that have occurred but which have not yet been notified to the Group.

### **Deferred profit sharing**

For insurance contracts with discretionary participation features a deferred profit sharing amount is recognised for the full amount of the unrealised revaluation on allocated investments. Upon realisation, the profit sharing on unrealised revaluation is reversed and a deferred profit sharing amount is recognised for the share of realised results on allocated investments that is expected to be shared with policyholders. The deferred profit sharing amount is reduced by the actual allocation of profit sharing to individual policyholders. The change in the deferred profit sharing amount on unrealised revaluation (net of deferred tax) is recognised in equity in the Revaluation reserve.

### **Provisions for life insurance for risk of policyholders**

For insurance contracts for risk of policyholders the provisions are generally shown at the balance sheet value of the related investments.

### **Reinsurance contracts**

Reinsurance premiums, commissions and claim settlements, as well as the reinsurance element of technical provisions are accounted for in the same way as the original contracts for which the reinsurance was concluded. If the reinsurers are unable to meet their obligations, the Group remains liable to its policyholders for the portion reinsured. Consequently, provisions are made for receivables on reinsurance contracts which are deemed uncollectable.

### **Adequacy test**

The adequacy of the provision for life insurance, net of unamortised interest rate rebates, DAC and VOBA (the net insurance liabilities), is evaluated regularly by each business unit for the business originated in that business unit. The test considers current estimates of all contractual and related cash flows, and future developments. It includes investment income on the same basis as it is included in the profit and loss account.

If, for any business unit, it is determined, using a best estimate (50%) confidence level, that a shortfall exists, and there are no offsetting amounts within other business units in the Business Line, the shortfall is recognised immediately in the profit and loss account.

If, for any business unit, the net insurance liabilities are not adequate using a prudent (90%) confidence level, but there are offsetting amounts within other Group business units, then the business unit is allowed to take measures to strengthen the net insurance liabilities over a period no longer than the expected life of the policies. To the extent that there are no offsetting amounts within other Group business units, any shortfall at the 90% confidence level is recognised immediately in the profit and loss account.

If the net insurance liabilities are determined to be adequate at above the 90% confidence level, no reduction in the net insurance liabilities is recognised.

The adequacy test continues to be applied to businesses that are presented as discontinued operations; the relevant businesses continue to be evaluated as part of the adequacy test of the business line in which these were included before classification as discontinued operations.

## Accounting policies for the consolidated annual accounts of ING Group continued

Since 2009, the Closed Block Variable Annuity business in the United States is inadequate at the 90% confidence level. As there are offsetting amounts within other Group business units, the Group remains adequate at the 90% confidence level. In line with the above policy, specific measures were defined to mitigate the inadequacy in the Closed Block Variable Annuity business in the United States. These specific measures are effective as of 2010 and result in a limitation of additions to DAC that would otherwise result from negative amortisation and unlocking. This limitation of DAC is applied on a quarterly basis and in any year if and when a reserve inadequacy existed at the start of the year. Net result in 2011 includes a charge to restore the adequacy of the Insurance US Closed Block VA segment to the 50% confidence level. Reference is made to Note 44 'Underwriting expenditure'.

### Investment contracts

Insurance policies without discretionary participation features which do not bear significant insurance risk are presented as Investment contracts. Provisions for liabilities under investment contracts are determined either at amortised cost, using the effective interest method (including certain initial acquisition expenses) or at fair value.

### OTHER LIABILITIES

#### Employee benefits – pension obligations

Group companies operate various pension schemes. The schemes are generally funded through payments to insurance companies or trustee-administered funds, determined by periodic actuarial calculations. The Group 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 the 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 deferred 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. 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 benefits available in the form of refunds from the plan or reductions in the future contributions to the plan.

For defined contribution plans, the Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group 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.

#### Other post-employment obligations

Some group companies provide post-employment healthcare and other benefits to certain employees and former employees. The entitlement to these benefits is usually conditional on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment using an accounting methodology similar to that for defined benefit pension plans.

#### 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 the Group is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal, or providing termination benefits as a result of an offer made to encourage voluntary redundancy.

### INCOME RECOGNITION

#### Gross premium income

Premiums from life insurance policies are recognised as income when due from the policyholder. For non-life insurance policies, gross premium income is recognised on a pro-rata basis over the term of the related policy coverage. Receipts under investment contracts are not recognised as gross premium income.

### **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, the Group 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 an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

All interest income and expenses from trading positions and non-trading derivatives are classified as interest income and interest expenses in the 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 the Group 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 and investment contract fees are recognised on a pro-rata basis over the period the service is provided. The same principle is applied for wealth management, financial planning and custody services that are continuously provided over an extended period of time. Fees received and paid between banks for payment services are classified as commission income and expenses.

### **Lease income**

The proceeds from leasing out assets under operating leases are recognised on a straight-line basis over the life of the lease agreement. Lease payments received in respect of finance leases when ING Group is the lessor are divided into an interest component (recognised as interest income) and a repayment component.

### **EXPENSE RECOGNITION**

Expenses are recognised in the 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.

### **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. A liability is recognised for cash-settled share-based payment transactions. The fair value of equity-settled share-based payment transactions is measured at the grant date and the fair value of cash-settled share-based payment transactions is measured at each balance sheet 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.

### **EARNINGS PER ORDINARY SHARE**

Earnings per ordinary share is calculated on the basis of the weighted average number of ordinary shares outstanding. In calculating the weighted average number of ordinary shares outstanding:

- Own shares held by group companies are deducted from the total number of ordinary shares in issue;
- The computation is based on daily averages; and
- In case of exercised warrants, the exercise date is taken into consideration.

The non-voting equity securities are not ordinary shares, because their terms and conditions (especially with regard to coupons and voting rights) are significantly different. Therefore, the weighted average number of ordinary shares outstanding during the period is not impacted by the non-voting equity securities.

## Accounting policies for the consolidated annual accounts of ING Group continued

Diluted earnings per share data are computed as if all convertible instruments outstanding at year-end were exercised at the beginning of the period. It is also assumed that ING Group uses the assumed proceeds thus received to buy its own shares against the average market price in the financial year. The net increase in the number of shares resulting from the exercise is added to the average number of shares used to calculate diluted earnings per share.

Share options with fixed or determinable terms are treated as options in the calculation of diluted earnings per share, even though they may be contingent on vesting. They are treated as outstanding on the grant date. Performance-based employee share options are treated as contingently issuable shares because their issue is contingent upon satisfying specified conditions in addition to the passage of time.

### FIDUCIARY ACTIVITIES

The Group 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 the Group.

### 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 provision 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 for separately 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 Group

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	13,847	26,481
Cash and bank balances	3,671	3,974
Short term deposits insurance operations	139	739
	17,657	31,194

Amounts held at central banks reflect on demand balances. In the last quarter of 2012, excess cash in the banking operations 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 provisions			-28	-7	-28	-7
	15,754	15,074	23,299	30,249	39,053	45,323

Loans and advances to banks include 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 24 '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 affect the amount, timing or certainty of consolidated cash flows of the Group. 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	114,895	123,688
Investment for risk of policyholders	98,765	116,438
Non-trading derivatives	13,951	17,159
Designated as at fair value through profit and loss	4,760	5,437
	232,371	262,722

Reference is made to Note 24 'Transfer of financial assets' for information on securities lending as well as sale and repurchase transactions.

Trading assets by type		
	2012	2011
Equity securities	5,307	3,732
Debt securities	17,472	18,251
Derivatives	55,166	59,139
Loans and receivables	36,950	42,566
	114,895	123,688

## Notes to the consolidated annual accounts of ING Group continued

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 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 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 20 'Financial liabilities at fair value through profit and loss' for information on trading liabilities.

Investments for risk of policyholders by type		
	2012	2011
Equity securities	89,994	105,580
Debt securities	6,940	9,612
Loans and receivables	1,831	1,246
	<b>98,765</b>	116,438

In 2012, the change in Investments for risk of policyholders is mainly the result of the income for the year as well as the classification as held for sale of ING's Insurance and investment management business in Asia. Reference is made to Note 11 'Assets and liabilities held for sale'.

Investments in investment funds (with underlying investments in debt, equity securities, real estate and derivatives) are included under equity securities.

Non-trading derivatives by type		
	2012	2011
Derivatives used in:		
– fair value hedges	2,926	3,192
– cash flow hedges	7,471	6,641
– hedges of net investments in foreign operations	49	141
Other non-trading derivatives	3,505	7,185
	<b>13,951</b>	17,159

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	45
Debt securities	2,682	2,967
Loans and receivables	1,169	1,000
Other	896	1,425
	<b>4,760</b>	5,437

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 was EUR –6 million (2011: EUR –1 million) and the change for the current year was 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.

Other includes investments in private equity funds, hedge funds, other non-traditional investment vehicles and limited partnerships.

## Notes to the consolidated annual accounts of ING Group continued

### 4 INVESTMENTS

Investments by type		
	2012	2011
<b>Available-for-sale</b>		
– equity securities	7,707	9,305
– debt securities	185,877	199,234
	193,584	208,539
<b>Held-to-maturity</b>		
– debt securities	6,545	8,868
	6,545	8,868
	200,129	217,407

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 Group's exposure to debt securities is included in the following balance sheet lines:

Debt securities		
	2012	2011
Available-for-sale investments	185,877	199,234
Held-to-maturity investments	6,545	8,868
Loans and advances to customers	26,945	29,117
Amounts due from banks	3,386	7,321
Available-for-sale investments and Assets at amortised cost	222,753	244,540
Trading assets	17,472	18,251
Investments for risk of policyholders	6,940	9,612
Designated as at fair value through profit and loss	2,682	2,967
Financial assets at fair value through profit and loss	27,094	30,830
	249,847	275,370

ING Group's total exposure to debt securities included in available-for-sale investments and assets at amortised cost of EUR 222,753 million (2011: EUR 244,540 million) is specified as follows by type of exposure and by banking and insurance operations:

Debt securities by type and balance sheet lines – Available-for-sale investments and Assets at amortised cost (banking operations)										
	Available-for-sale investments		Held-to-maturity investments		Loans and advances to customers		Amounts due from banks		Total Banking operations	
	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011
Government bonds	48,007	47,256	330	881	7,641	1,081			55,978	49,218
Covered bonds	7,363	6,537	5,558	7,209	5,408	7,468	3,249	6,591	21,578	27,805
Corporate bonds	900	1,088			438	425			1,338	1,513
Financial Institutions bonds	14,094	15,192	301	421	91	134	137	736	14,623	16,483
Bond portfolio (excluding ABS)	70,364	70,073	6,189	8,511	13,578	9,108	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	1,127			4,970	9,551		–6	5,256	10,672
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	2,396	356	357	7,044	13,328		–6	8,681	16,075
	71,645	72,469	6,545	8,868	20,622	22,436	3,386	7,321	102,198	111,094

## Notes to the consolidated annual accounts of ING Group continued

### Debt securities by type and balance sheet lines – Available-for-sale investments and Assets at amortised cost (insurance operations)

	Available-for-sale investments		Held-to-maturity investments		Loans and advances to customers		Amounts due from banks		Total Insurance operations	
	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011
Government bonds	49,420	54,732							49,420	54,732
Covered bonds	996	1,118							996	1,118
Corporate bonds	43,072	45,260							43,072	45,260
Financial Institutions bonds	9,037	11,700							9,037	11,700
Bond portfolio (excluding ABS)	102,525	112,810							102,525	112,810
US agency RMBS	4,216	5,228							4,216	5,228
US prime RMBS	1,025	1,380							1,025	1,380
US Alt-A RMBS	284	295							284	295
US subprime RMBS	733	752							733	752
Non-US RMBS	215	513			3,745	4,515			3,960	5,028
CDO/CLO	129	183			290	505			419	688
Other ABS	1,441	1,459			1,997	1,346			3,438	2,805
CMBS	3,664	4,145			291	315			3,955	4,460
ABS portfolio	11,707	13,955			6,323	6,681			18,030	20,636
	114,232	126,765			6,323	6,681			120,555	133,446

### 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 Banking and Insurance operations	
	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011
Government bonds	97,427	101,988	330	881	7,641	1,081			105,398	103,950
Covered bonds	8,359	7,655	5,558	7,209	5,408	7,468	3,249	6,591	22,574	28,923
Corporate bonds	43,972	46,348			438	425			44,410	46,773
Financial Institutions bonds	23,131	26,892	301	421	91	134	137	736	23,660	28,183
Bond portfolio (excluding ABS)	172,889	182,883	6,189	8,511	13,578	9,108	3,386	7,327	196,042	207,829
US agency RMBS	4,642	5,630							4,642	5,630
US prime RMBS	1,037	1,398							1,037	1,398
US Alt-A RMBS	440	451							440	451
US subprime RMBS	756	774							756	774
Non-US RMBS	501	1,640			8,715	14,066		-6	9,216	15,700
CDO/CLO	291	238			290	921			581	1,159
Other ABS	1,548	1,900	356	357	3,786	3,536			5,690	5,793
CMBS	3,773	4,320			576	1,486			4,349	5,806
ABS portfolio	12,988	16,351	356	357	13,367	20,009		-6	26,711	36,711
	185,877	199,234	6,545	8,868	26,945	29,117	3,386	7,321	222,753	244,540

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 31 'Companies acquired and companies disposed' and Note 34 '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 Group continued

	31 December 2012				Change in 2012		31 December 2011	
	Balance sheet value <sup>(1)</sup>	Pre-tax revaluation reserve	Changes through equity (pre-tax)	Changes through profit and loss (pre-tax)	Other changes	Balance sheet value <sup>(1)</sup>	Pre-tax revaluation reserve	
US subprime RMBS	756	-35	155		-173	774	-190	
US Alt-A RMBS	457	59	74	-9	-109	501	-15	
CDO/CLO	804	21	80		-666	1390	-59	
CMBS	4,437	38	502	2	-1,968	5,901	-464	
<b>Total</b>	<b>6,454</b>	<b>83</b>	<b>811</b>	<b>-7</b>	<b>-2,916</b>	<b>8,566</b>	<b>-729</b>	

<sup>(1)</sup> 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 35 'Fair value of financial assets and liabilities' for disclosure by fair value hierarchy and Note 38 '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 Group'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 Group's main focus is on exposure to Government bonds and Unsecured Financial institutions' bonds.

At 31 December 2012, ING Group'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 <sup>(1)</sup>					
2012	Balance sheet value	Pre-tax revaluation reserve	Pre-tax impairments	Amortised cost value	Fair value of investments held-to-maturity
<b>Greece</b>					
Government bonds available-for-sale	76	31		45	
<b>Italy</b>					
Government bonds available-for-sale	2,337	-63		2,400	
Government bonds at amortised cost (loans)	104	-1		104	
Financial institutions available-for-sale	498	-7		505	
Financial institutions at amortised cost (held-to-maturity)	30			30	31
<b>Ireland</b>					
Government bonds available-for-sale	55	1		54	
Financial institutions available-for-sale	30			30	
Financial institutions at amortised cost (held-to-maturity)	34			34	34
<b>Portugal</b>					
Government bonds available-for-sale	627	-17		644	
Financial institutions available-for-sale	77	1		76	
<b>Spain</b>					
Government bonds available-for-sale	1,151	-201		1,352	
Government bonds at amortised cost (held-to-maturity)	50			50	52
Financial institutions available-for-sale	99		-11	110	
<b>Cyprus</b>					
Government bonds available-for-sale	13	-5		18	
<b>Total</b>	<b>5,181</b>	<b>-261</b>	<b>-11</b>	<b>5,452</b>	<b>117</b>

<sup>(1)</sup> 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.

The revaluation reserve on debt securities includes EUR 7,977 million (pre-tax) related to Government bonds. This amount comprises EUR 255 million negative revaluation reserve for Government bonds from Greece, Italy, Ireland, Portugal, Spain and Cyprus, which is more than offset by EUR 8,232 million positive revaluation reserves for Government bonds from other countries.

## Notes to the consolidated annual accounts of ING Group continued

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 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 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 15 million (Bank: EUR 22 million; Insurance: EUR -7 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'.

### 2011 – Greece, Italy, Ireland, Portugal, Spain and Cyprus

At 31 December 2011, ING Group'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 <sup>(1)</sup>					
2011	Balance sheet value	Pre-tax revaluation reserve	Pre-tax impairments <sup>(2)</sup>	Amortised cost value	Fair value of investments held-to-maturity
<b>Greece</b>					
Government bonds available-for-sale	255		-940	1,195	
<b>Italy</b>					
Government bonds available-for-sale	2,033	-443		2,476	
Government bonds at amortised cost (loans)	97			97	
Financial institutions available-for-sale	632	-62		694	
Financial institutions at amortised cost (held-to-maturity)	30			30	28
Financial institutions at amortised cost (loans)	131			131	
<b>Ireland</b>					
Government bonds available-for-sale	43	-10		53	
Financial institutions available-for-sale	59	-1		60	
Financial institutions at amortised cost (held-to-maturity)	34			34	35
Financial institutions at amortised cost (loans)	122			122	
<b>Portugal</b>					
Government bonds available-for-sale	533	-299		832	
Financial institutions available-for-sale	125	-32		157	
<b>Spain</b>					
Government bonds available-for-sale	1,190	-203		1,393	
Government bonds at amortised cost (held-to-maturity)	170			170	170
Financial institutions available-for-sale	258	-35		293	
Financial institutions at amortised cost (loans)	85	-1		86	
<b>Cyprus</b>					
Government bonds available-for-sale	12	-7		19	
<b>Total</b>	<b>5,809</b>	<b>-1,093</b>	<b>-940</b>	<b>7,842</b>	<b>233</b>

<sup>(1)</sup> Exposures are included based on the country of residence.

<sup>(2)</sup> Pre-tax impairments relate to bonds held at 31 December 2011. In addition, EUR 38 million and EUR 189 million impairments were recognised in 2011 on Greek government bonds and Irish unsecured Financial institutions' bonds that were no longer held at 31 December 2011. The total amount of impairments recognised on Greek Government bonds and Irish unsecured Financial institutions' bonds in 2011 is therefore EUR 978 million and EUR 189 million as explained below.

The impact on ING Group'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 Group reduced its sovereign debt exposure to these countries.

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 Group impaired its Greek government bonds maturing up to 2020 in the second quarter of 2011 (Bank: EUR 187 million, Insurance: EUR 123 million). The decrease in market value in the third quarter of 2011 of these impaired bonds was recognised as re-impairment (Bank: EUR 91 million, Insurance: EUR 70 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 (Bank: EUR 177 million, Insurance: EUR 130 million). ING Group 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 200 million (Bank: EUR 133 million, Insurance:

## Notes to the consolidated annual accounts of ING Group continued

EUR 67 million), bringing the total impairments on Greek government bonds to EUR 978 million (Bank: EUR 588 million, Insurance: EUR 390 million). The total Greek government bond portfolio was written down by approximately 80%.

In 2011, ING Insurance recognised a total impairment of EUR 189 million on subordinated debt from Irish banks.

Reference is made to Note 35 'Fair value of financial assets and liabilities' for disclosure by fair value hierarchy and Note 38 'Investment income' for impairments on available-for-sale debt securities.

Further information on ING Group'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	
Opening balance	9,305	9,754	199,234	212,793	8,868	11,693	217,407	234,240
Additions	3,563	1,525	141,430	222,020			144,993	223,545
Amortisation			-371	-226	-15	-14	-386	-240
Transfers and reclassifications		1,288						1,288
Changes in the composition of the group and other changes	-1,327	-188	-30,920	-23,232		-444	-32,247	-23,864
Changes in unrealised revaluations	1,082	-845	10,346	5,645			11,428	4,800
Impairments	-181	-253	-64	-1,485			-245	-1,738
Reversals of impairments			8	79			8	79
Disposals and redemptions	-4,737	-2,023	-132,681	-219,023	-2,308	-2,370	-139,726	-223,416
Exchange rate differences	2	47	-1,105	2,663		3	-1,103	2,713
Closing balance	7,707	9,305	185,877	199,234	6,545	8,868	200,129	217,407

In 2012, Changes in the composition of the group and other changes relates mainly to the classification of ING's Insurance and investment management businesses in Asia as a disposal group held for sale and the disposal of ING Direct Canada. Reference is made to Note 11 'Assets and liabilities held for sale' and Note 31 '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 11 'Assets and liabilities held for sale'.

Reference is made to Note 38 '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	
To/from investment in associates		1,288						1,288
		1,288						1,288

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 second and first quarter of 2009 and in the fourth quarter of 2008 ING Group reclassified certain financial assets from Investments available-for-sale to Loans and advances to customers and Amounts due from banks. The Group 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 three reclassifications made in the fourth quarter of 2008 and the first and second quarter of 2009. Information is provided for each of the three 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.

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'.

## Notes to the consolidated annual accounts of ING Group continued

Reclassifications to Loans and advances to customers and Amounts due from banks			
	Q2 2009	Q1 2009	Q4 2008
<b>As per reclassification date</b>			
Fair value	6,135	22,828	1,594
Range of effective interest rates (weighted average)	1.4%–24.8%	2.1%–11.7%	4.1%–21%
Expected recoverable cash flows	7,118	24,052	1,646
Unrealised fair value losses in shareholders' equity (before tax)	–896	–1,224	–69
Recognised fair value gains (losses) in shareholders' equity (before tax) between the beginning of the year in which the reclassification took place and the reclassification date	173	nil	–79
Recognised fair value gains (losses) in shareholders' equity (before tax) in the year prior to reclassification	–971	–192	–20
Recognised impairment (before tax) between the beginning of the year in which the reclassification took place and the reclassification date	nil	nil	nil
Recognised impairment (before tax) in the year prior to reclassification	nil	nil	nil
<b>Impact on the financial years after reclassification:</b>			
<b>2012</b>			
Carrying value as at 31 December	<b>1,694</b>	<b>8,707</b>	<b>443</b>
Fair value as at 31 December	<b>1,667</b>	<b>8,379</b>	<b>512</b>
Unrealised fair value losses recognised in shareholders' equity (before tax) as at 31 December	<b>–186</b>	<b>–221</b>	<b>–2</b>
Effect on shareholders' equity (before tax) as at 31 December if reclassification had not been made	<b>–27</b>	<b>–328</b>	<b>69</b>
Effect on result (before tax) if reclassification had not been made	<b>nil</b>	<b>nil</b>	<b>nil</b>
Effect on result (before tax) for the year (interest income and sales result)	<b>–47</b>	<b>–164</b>	<b>22</b>
Recognised impairments (before tax)	<b>nil</b>	<b>nil</b>	<b>nil</b>
Recognised provision for credit losses (before tax)	<b>nil</b>	<b>nil</b>	<b>nil</b>
<b>2011</b>			
Carrying value as at 31 December	3,057	14,419	633
Fair value as at 31 December	2,883	13,250	648
Unrealised fair value losses recognised in shareholders' equity (before tax) as at 31 December	–307	–446	–8
Effect on shareholders' equity (before tax) as at 31 December if reclassification had not been made	–174	–1,169	15
Effect on result (before tax) if reclassification had not been made	nil	nil	nil
Effect on result (before tax) for the year (mainly interest income)	90	390	28
Recognised impairments (before tax)	nil	nil	nil
Recognised provision for credit losses (before tax)	nil	nil	nil
<b>2010</b>			
Carrying value as at 31 December	4,465	16,906	857
Fair value as at 31 December	4,594	16,099	889
Unrealised fair value losses recognised in shareholders' equity (before tax) as at 31 December	–491	–633	–65
Effect on shareholders' equity (before tax) as at 31 December if reclassification had not been made	129	–807	32
Effect on result (before tax) if reclassification had not been made	nil	nil	nil
Effect on result (before tax) for the year (mainly interest income)	89	467	34
Recognised impairments (before tax)	nil	nil	nil
Recognised provision for credit losses (before tax)	nil	nil	nil
<b>2009</b>			
Carrying value as at 31 December	5,550	20,551	1,189
Fair value as at 31 December	5,871	20,175	1,184
Unrealised fair value losses recognised in shareholders' equity (before tax) as at 31 December	–734	–902	–67
Effect on shareholders' equity (before tax) as at 31 December if reclassification had not been made	321	–376	–5
Effect on result (before tax) if reclassification had not been made	nil	nil	nil
Effect on result (before tax) after the reclassification until 31 December (mainly interest income)	121	629	n/a
Effect on result (before tax) for the year (mainly interest income)	n.a	n.a	47
Recognised impairments (before tax)	nil	nil	nil
Recognised provision for credit losses (before tax)	nil	nil	nil

## Notes to the consolidated annual accounts of ING Group continued

Reclassifications to Loans and advances to customers and Amounts due from banks (continued)			
	Q2 2009	Q1 2009	Q4 2008
<b>2008</b>			
Carrying value as at 31 December			1,592
Fair value as at 31 December			1,565
Unrealised fair value losses recognised in shareholders' equity (before tax) as at 31 December			-79
Effect on shareholders' equity (before tax) as at 31 December if reclassification had not been made			-27
Effect on result (before tax) if reclassification had not been made			nil
Effect on result (before tax) after the reclassification until 31 December (mainly interest income)			9
Recognised impairments (before tax)			nil
Recognised provision for credit losses (before tax)			nil

Available-for-sale equity securities by banking and insurance operations						
	Listed		Unlisted		Total	
	2012	2011	2012	2011	2012	2011
Banking operations	1,944	1,722	690	744	2,634	2,466
Insurance operations	2,297	3,807	2,776	3,032	5,073	6,839
	4,241	5,529	3,466	3,776	7,707	9,305

Debt securities by banking and insurance operations						
	Available-for-sale		Held-to-maturity		Total	
	2012	2011	2012	2011	2012	2011
Banking operations	71,645	72,469	6,545	8,868	78,190	81,337
Insurance operations	114,232	126,765			114,232	126,765
	185,877	199,234	6,545	8,868	192,422	208,102

Reference is made to Note 24 '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: EUR 466 million).

Investments in connection with the insurance operations with a combined carrying value of nil (2011: nil) did not produce any income for the year ended 31 December 2012.

### 5 LOANS AND ADVANCES TO CUSTOMERS

Loans and advances to customers by banking and insurance operations		
	2012	2011
Banking operations	543,104	577,919
Insurance operations	25,866	32,972
	568,970	610,891
Eliminations	-5,566	-8,366
	563,404	602,525

Loans and advances to customers by type – banking operations						
	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	42,891	48,851	104,644	103,709	147,535	152,560
	244,008	251,905	304,573	330,957	548,581	582,862
Loan loss provisions	-2,445	-2,002	-3,032	-2,941	-5,477	-4,943
	241,563	249,903	301,541	328,016	543,104	577,919

The decrease in Loans and advances to customers, for the banking operations 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 Group continued

### Loans and advances to customers analysed by subordination – banking operations

	2012	2011
Non-subordinated	542,894	572,320
Subordinated	210	5,599
	<b>543,104</b>	577,919

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

Reference is made to Note 24 'Transfer of financial assets' for information on securities lending as well as sale and repurchase transactions.

### Loans and advances to customers by type – insurance operations

	Netherlands		International		Total	
	2012	2011	2012	2011	2012	2011
Policy loans	38	44	1,704	3,308	1,742	3,352
Loans secured by mortgages	6,376	6,450	7,327	7,692	13,703	14,142
Unsecured loans	2,113	2,187	1,231	5,135	3,344	7,322
Asset backed securities	6,323	6,681			6,323	6,681
Other	338	355	527	1,244	865	1,599
	<b>15,188</b>	15,717	<b>10,789</b>	17,379	<b>25,977</b>	33,096
Loan loss provisions	-68	-80	-43	-44	-111	-124
	<b>15,120</b>	15,637	<b>10,746</b>	17,335	<b>25,866</b>	32,972

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 the Group. 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
	<b>19,392</b>	20,668
Unearned future finance income on finance leases	-2,996	-3,228
Net investment in finance leases	<b>16,396</b>	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
	<b>16,396</b>	17,440
Included in Amounts due from banks	133	76
Included in Loans and advances to customers	<b>16,263</b>	17,364
	<b>16,396</b>	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 materially affect the amount, timing or certainty of the consolidated cash flows of the Group.

## Notes to the consolidated annual accounts of ING Group continued

### Loan loss provisions analysed by type – banking operations

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

### Changes in loan loss provisions

	Banking operations		Insurance operations		Total
	2012	2011	2012	2011	2011
Opening balance	4,950	5,195	124	117	5,312
Changes in the composition of the group	-13	-568	-4	-2	-570
Write-offs	-1,682	-1,304	-39	-24	-1,721
Recoveries	142	112		2	142
Increase in loan loss provisions	2,125	1,670	29	33	2,154
Exchange rate differences	20	-83	1	-2	-85
Other changes	-37	-72			-72
Closing balance	5,505	4,950	111	124	5,616

'Increase in loan loss provisions' relating to insurance operations is presented under Investment income. The 'Increase in the loan loss provisions' relating to banking operations is presented under Addition to loan loss provisions on the face of the profit and loss account. Reference is made to the section 'Risk management'.

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 11 'Assets and liabilities held for sale'.

## 6 INVESTMENTS IN ASSOCIATES

### Investments in associates

2012	Interest held (%)	Fair value of listed investment	Balance sheet value	Total assets	Total liabilities	Total income	Total expenses
TMB Public Company Limited	30	607	595	16,474	15,118	433	339
Sul America S.A.	36	674	366	5,037	4,048	4,285	3,969
CBRE Retail Property Fund Iberica LP	29		129	1,423	964	-22	75
ING Real Estate Asia Retail Fund Ltd	26		107	475	50	62	1
CBRE Lionbrook Property Partnership LP	20		102	577	77	31	23
CBRE Property Fund Central Europe LP	25		97	907	519	66	30
CBRE French Residential Fund C.V.	42		76	253	71	11	8
CBRE Retail Property Fund France Belgium C.V.	15		76	1,388	882	123	78
CBRE Nordic Property Fund FGR	14		55	1,057	674	19	68
Other investments in associates			600				
			2,203				

Other investments in associates represents a large number of associates with an individual balance sheet value of less than EUR 50 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 Group's accounting principles.

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

## Notes to the consolidated annual accounts of ING Group continued

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.

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	30	509	580	16,100	14,847	377	301
Sul America S.A.	36	641	394	5,353	4,292	3,941	3,662
CBRE Retail Property Fund Iberica LP	29		147	1,666	1,146	96	65
CBRE Lionbrook Property Partnership LP	20		102	604	92	50	17
CBRE Property Fund Central Europe LP	25		90	897	536	87	4
ING Real Estate Asia Retail Fund	26		87	868	512	81	37
CBRE French Residential Fund C.V.	42		78	249	65	24	8
The Capital (London) Fund	20		77	387	3	14	3
CBRE Retail Property Fund France Belgium C.V.	15		73	1,374	889	117	57
CBRE Nordic Property Fund FGR	14		60	1,079	662	92	67
CBRE Property Fund Central and Eastern Europe	21		51	747	509	122	57
Other investments in associates			631				
			<u>2,370</u>				

Changes in Investments in associates		
	2012	2011
Opening balance	2,370	3,925
Additions	26	140
Changes in the composition of the group	-40	16
Transfers to and from Investments		-1,288
Revaluations	-10	-19
Share of results	55	241
Dividends received	-82	-174
Disposals	-92	-383
Impairments	-1	-20
Exchange rate differences	-23	-68
Closing balance	<u>2,203</u>	2,370

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 31 'Companies acquired and companies disposed'.

In 2012, share of results of EUR 55 million (2011: EUR 241 million) and impairments of EUR 1 million (2011 EUR 20 million) are presented in the profit and loss account in Share of result from associates for EUR 54 million (2011 EUR 221 million).

### 7 REAL ESTATE INVESTMENTS

Changes in real estate investments		
	2012	2011
Opening balance	1,670	1,900
Additions	60	32
Changes in the composition of the group	-92	-88
Transfers to and from Property in own use		-31
Transfers to and from Other assets	-2	
Fair value gains/(losses)	-59	-19
Disposals	-290	-118
Exchange rate differences	1	-6
Closing balance	<u>1,288</u>	1,670

Real estate investments by banking and insurance operations		
	2012	2011
Banking operations	483	716
Insurance operations	805	954
	<u>1,288</u>	1,670

## Notes to the consolidated annual accounts of ING Group continued

The total amount of rental income recognised in the profit and loss account for the year ended 31 December 2012 is EUR 162 million (2011: EUR 184 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 77 million (2011: EUR 101 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 15 million (2011: EUR 3 million).

Real estate investments by year of most recent appraisal by independent qualified valuers		
in percentages	2012	2011
Most recent appraisal in the current year	99	93
Most recent appraisal one year ago		7
Most recent appraisal two years ago	1	
	<b>100</b>	100

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

Real estate exposure		
	2012	2011
Real estate investments	1,288	1,670
Investments in associates	1,053	1,193
Other assets – property development and obtained from foreclosures	1,220	1,584
Property and equipment – property in own use	1,423	1,535
Investments – available-for-sale	1,649	1,773
	<b>6,633</b>	7,755

Furthermore, the exposure is impacted by third party interests, leverage in funds and off-balance commitments, resulting in an overall exposure of EUR 8.7 billion (2011: EUR 10.0 billion) of which EUR 3.3 billion (2011: EUR 4.1 billion) relates to banking operations and EUR 5.4 billion (2011: EUR 5.9 billion) relates to insurance operations. Reference is made to the section 'Risk management'.

## Notes to the consolidated annual accounts of ING Group continued

### 8 PROPERTY AND EQUIPMENT

Property and equipment by type		
	2012	2011
Property in own use	1,423	1,535
Equipment	1,246	1,345
Assets under operating leases	5	6
	<b>2,674</b>	<b>2,886</b>

Property in own use by banking and insurance operations		
	2012	2011
Banking operations	1,203	1,244
Insurance operations	220	291
	<b>1,423</b>	<b>1,535</b>

Changes in property in own use		
	2012	2011
Opening balance	1,535	1,642
Additions	30	41
Changes in the composition of the group	-25	-28
Transfers to and from Real estate investments		31
Transfers to and from Other assets	-1	-31
Depreciation	-25	-28
Revaluations	-30	-21
Impairments	-24	-29
Reversal of impairments	7	11
Disposals	-49	-27
Exchange rate differences	5	-26
Closing balance	<b>1,423</b>	<b>1,535</b>

Gross carrying amount as at 31 December	2,276	2,366
Accumulated depreciation as at 31 December	-682	-674
Accumulated impairments as at 31 December	-171	-157
Net carrying value as at 31 December	<b>1,423</b>	<b>1,535</b>

Revaluation surplus		
	2012	2011
Opening balance	498	528
Revaluation in year	-27	-28
Released in year	-1	-2
Closing balance	<b>470</b>	<b>498</b>

The cost or the purchase price amounted to EUR 1,806 million (2011: EUR 1,868 million). Cost or the purchase price less accumulated depreciation and impairments would have been EUR 953 million (2011: EUR 1,036 million) had property in own use been valued at cost instead of at fair value.

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	63	54
Most recent appraisal one year ago	11	13
Most recent appraisal two years ago	13	10
Most recent appraisal three years ago	8	15
Most recent appraisal four years ago	5	8
	<b>100</b>	<b>100</b>

## Notes to the consolidated annual accounts of ING Group continued

### Changes in equipment

	Data processing equipment		Fixtures and fittings and other equipment		Total
	2012	2011	2012	2011	2011
Opening balance	363	376	982	1,059	1,435
Additions	187	191	206	267	458
Changes in the composition of the group	-25	-11	-31	-29	-40
Disposals	-7	-16	-15	-24	-40
Depreciation	-181	-176	-226	-236	-412
Impairments	-1		-1	-1	-1
Exchange rate differences	4	-6	6	-14	-20
Other changes	-2	5	-13	-40	-35
Closing balance	338	363	908	982	1,345
Gross carrying amount as at 31 December	1,623	1,659	2,579	2,620	4,279
Accumulated depreciation as at 31 December	-1,284	-1,295	-1,671	-1,638	-2,933
Accumulated impairments as at 31 December	-1	-1			-1
Net carrying value as at 31 December	338	363	908	982	1,345

### Changes in assets under operating leases

	Cars		Other leased-out assets		Total
	2012	2011	2012	2011	2011
Opening balance	6	3,053		2	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	-596
Exchange rate differences		-12			-12
Transfer and other changes		-336			-336
Closing balance	5	6		0	6
Gross carrying amount as at 31 December	9	16			16
Accumulated depreciation as at 31 December	-4	-10			-10
Net carrying value as at 31 December	5	6		0	6

In 2011, Changes in the composition of the group comprises the sale of ING Car Lease. Reference is made to Note 31 'Companies acquired and companies disposed'.

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.

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

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

The Group 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

# Notes to the consolidated annual accounts of ING Group continued

## 9 INTANGIBLE ASSETS

Changes in intangible assets										
	2012	Value of business acquired 2011	2012	Goodwill 2011	2012	Software 2011	2012	Other 2011	2012	Total 2011
Opening balance	871	1,320	1,794	2,765	611	754	282	533	3,558	5,372
Additions					222	207		2	222	209
Capitalised expenses	83	81			146	131			229	212
Amortisation and unlocking	-207	-244			-274	-391	-59	-87	-540	-722
Impairments			-48	-32	-4	-49	-3	-1	-55	-82
Effect of unrealised revaluations in equity	-140	-250							-140	-250
Changes in the composition of the group and other changes	-89	-43	-485	-727	-65	-24	-33	-139	-672	-933
Exchange rate differences	-5	7	43	-212	6	-8	2	-26	46	-239
Disposals					-9	-9			-9	-9
Closing balance	513	871	1,304	1,794	633	611	189	282	2,639	3,558
Gross carrying amount as at 31 December	1,977	2,244	1,966	2,436	2,144	2,597	493	570	6,580	7,847
Accumulated amortisation as at 31 December	-1,464	-1,373			-1,476	-1,926	-256	-242	-3,196	-3,541
Accumulated impairments as at 31 December			-662	-642	-35	-60	-48	-46	-745	-748
Net carrying value as at 31 December	513	871	1,304	1,794	633	611	189	282	2,639	3,558

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. Amortisation of VOBA is included in Underwriting expenditure.

### Goodwill

#### Changes in Goodwill

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

#### 2012 – Impairment

In 2012, a goodwill impairment of EUR 48 million is recognised relating to the reporting unit Insurance Benelux. The reporting unit Insurance Benelux equals the segment Insurance Benelux. In the impairment test of Insurance Benelux, the IFRS book value (including goodwill) is compared to a valuation based on the surplus in the market consistent balance sheet and the market value of new business. These are commonly used metrics in the European insurance industry. During 2012, the book value of Insurance Benelux increased, mainly as a result of declining interest rates being reflected in the fair value of assets but with no corresponding increase in the IFRS book value of insurance liabilities. As the market value surplus (MVS) of Insurance Benelux did not increase similarly, the margin of MVS over IFRS book value, which supported the goodwill, became negative and, as a result, goodwill was fully impaired. This charge is included in the profit and loss account in the line 'Intangible amortisation and other impairments'. Goodwill is recognised in the Corporate Line and, therefore, this charge is included in the segment reporting in Corporate Line Insurance.

#### 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 52 '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.

## Notes to the consolidated annual accounts of ING Group continued

### 2010 – Impairment

Due to the unfavourable market circumstances for Insurance, including the low interest rate environment, there were indications in the third quarter of 2010 that the recoverable amount of the reporting unit Insurance US had fallen below carrying value. As a result, a full goodwill impairment review was performed for the reporting unit Insurance US in the third quarter of 2010. The reporting unit Insurance US equals the segment Insurance US as disclosed in Note 52 'Segments'. The 2009 impairment test for Insurance US showed that the recoverable amount based on fair value (using market multiples for Price/Book and Price/Earnings of listed peer companies) was at least equal to carrying value. The outcome of the impairment test performed in the third quarter of 2010 indicated that the fair value had become less than carrying value by an amount that exceeded the goodwill of Insurance US, indicating that the full amount of goodwill relating to Insurance US was impaired. Further analysis of the recoverable amount confirmed the impairment. As a result, the goodwill of EUR 540 million (pre-tax) was written down. 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 Insurance.

### 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, the amount is EUR 485 million and relates to Insurance Korea (EUR 200 million), Investment Management Korea (EUR 180 million), Insurance India (EUR 41 million) and Investment Management Taiwan (EUR 48 million) for the insurance operations and ING Direct UK (EUR 16 million) for the banking operations. As businesses to which these goodwill amounts relate to are 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 11 '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 the disposal of the Latin American operations. Furthermore, it includes 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 goodwill 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		48
Commercial Banking	24	15
Insurance Benelux		25
Insurance Central & Rest of Europe	114	112
Insurance Asia/Pacific – South Korea		192
Insurance Asia/Pacific – Rest of Asia		44
ING Investment Management		220
	<b>1,304</b>	1,794

The allocation of goodwill to reporting units was changed in 2012 as a consequence of the changes in segments as disclosed in Note 52 '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.

## Notes to the consolidated annual accounts of ING Group continued

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 DEFERRED ACQUISITION COSTS

Changes in deferred acquisition costs						
	Life insurance		Non-life insurance		Total	
	2012	2011	2012	2011	2012	2011
Opening balance	10,165	10,457	39	42	10,204	10,499
Capitalised	1,659	1,575	15	12	1,674	1,587
Amortisation and unlocking	-1,051	-1,689	-15	-13	-1,066	-1,702
Effect of unrealised revaluations in equity	-251	-526			-251	-526
Changes in the composition of the group	-5,765	44	-3	-2	-5,768	42
Exchange rate differences	-244	304			-244	304
Closing balance	4,513	10,165	36	39	4,549	10,204

For flexible life insurance contracts the growth rate assumption used to calculate the amortisation of the deferred acquisition costs for 2012 is 8.1% gross and 7.3% net of investment management fees (2011: 8.1% gross and 7.4% net of investment management fees). Percentages are based on the portfolios from continuing operations.

In 2012, Changes in the composition of the group relates mainly to the classification of ING's Insurance and investment management businesses in Asia as a disposal group held for sale. Reference is made to Note 11 'Assets and liabilities held for sale'.

In 2011, Amortisation and unlocking includes EUR 488 million relating to the assumption review for the Insurance US Closed Block Variable Annuity (VA) business. Reference is made to Note 44 'Underwriting expenditure'.

### 11 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 to ING's Insurance and investment management businesses in Asia and the reinsured Japan SPVA businesses in corporate reinsurance ('Asia') and 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 31 'Companies acquired and companies disposed'.

The classification in 2012 of 'Asia' as held for sale and discontinued operations relates to all of ING's Insurance and investment management businesses in Asia and the reinsured Japan SPVA businesses in corporate reinsurance. During 2012, the divestment of ING's insurance business in Malaysia was closed; as a result the insurance business in Malaysia is no longer consolidated as at 31 December 2012. Furthermore, several divestments were agreed that are expected to close or closed in 2013, including ING's insurance businesses in Hong Kong, Macau and Thailand and ING's investment management businesses in Thailand and Malaysia; these remain to be classified as held for sale as at 31 December 2012. 'Reference is made to Note 31 'Companies acquired and companies disposed'. In addition, several other businesses remain in held for sale, for which no divestments have yet been concluded; this includes mainly ING's Japanese, Korean and Taiwanese insurance and investment management businesses.

## Notes to the consolidated annual accounts of ING Group continued

ING continues to discuss various options for ING Life Japan, including its closed block VA business. However, the closing of sales of ING's other Asian insurance units may trigger a charge to strengthen reserves for the Japanese closed block VA under ING's reserve adequacy policy. ING measures reserve adequacy at the business line level, where excess reserves in other Asian business units currently offset a shortfall related to the Japanese closed block VA. As transactions close, if the aggregate reserves for the remaining businesses fall below a 50% confidence level, the shortfall must be recognised immediately in the profit and loss account. The reserve inadequacy for the Japanese insurance business, including the VA guarantees reinsured to ING Re, was approximately EUR 0.4 billion at the 50% confidence level at 31 December 2012. This is an inadequacy of approximately EUR 0.9 billion for the closed block VA, offset by a sufficiency of EUR 0.5 billion for the corporate-owned life insurance business. The nature and timing of any profit and loss charge from such reserve inadequacy depends on the closing of other divestments in Asia as well as various options currently under investigation for ING Life Japan. Further announcements will be made if and when appropriate. The above mentioned amounts refer to ING's reserve adequacy policy under IFRS which does not affect the local solvency positions of ING Life Japan nor ING Re.

<b>Assets held for sale</b>		
	<b>2012</b>	2011
Cash and balances with central banks	<b>1,342</b>	4,980
Amounts due from banks	<b>123</b>	314
Financial assets at fair value through profit and loss	<b>26,688</b>	3
Available-for-sale investments	<b>24,805</b>	22,605
Held-to-maturity investments		444
Loans and advances to customers	<b>8,705</b>	31,805
Reinsurance contracts	<b>98</b>	
Investments in associates	<b>37</b>	
Property and equipment	<b>56</b>	75
Intangible assets	<b>176</b>	166
Deferred acquisition costs	<b>5,124</b>	
Other assets	<b>1,318</b>	2,091
	<b>68,472</b>	62,483

<b>Liabilities held for sale</b>		
	<b>2012</b>	2011
Insurance and investments contracts	<b>51,198</b>	
Customer deposits and other funds on deposit	<b>14,207</b>	64,103
Financial liabilities at fair value through profit and loss	<b>2,081</b>	
Other liabilities	<b>2,409</b>	162
	<b>69,895</b>	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 34 '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.

## Notes to the consolidated annual accounts of ING Group continued

### Goodwill

Intangible assets under Assets held for sale includes goodwill that relates to businesses that are classified as held for sale. In 2012, EUR 485 million goodwill was reclassified to Assets held for sale. This relates to Insurance Korea (EUR 200 million), Investment Management Korea (EUR 180 million), Insurance India (EUR 41 million) and Investment Management Taiwan (EUR 48 million) for the insurance operations and ING Direct UK (EUR 16 million) for the banking operations.

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 180 million in Investment Management Korea, EUR 200 million in ING Life Korea, EUR 15 million in ING Vysya Life Insurance and EUR 16 million in ING Direct UK was written off, as the related businesses have been or are expected to be sold below IFRS book value. The related charge is included in the profit and loss account in Net result from classification as discontinued operation (for the Insurance and Investment Management businesses in Asia) and in Result on disposals of group companies (for ING Direct UK).

Remaining goodwill in Assets held for sale amounts to EUR 75 million and relates mainly to Investment Management Taiwan and ING Vysya Life Insurance. This goodwill is expected to be recovered through divestments at or above IFRS book value.

### Fair value measurement

The fair value hierarchy of financial assets and liabilities (measured at fair value), which are presented as held for sale is included below. The fair value hierarchy consists of three levels, depending upon whether fair values were determined based on 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). Reference is made to Note 35 'Fair value of financial assets and liabilities' for more details on the fair value hierarchy.

Methods applied in determining fair values of financial assets and liabilities – Held for sale				
2012	Level 1	Level 2	Level 3	Total
<b>Assets</b>				
Trading assets	18			18
Investments for risk of policyholders	22,452		116	22,568
Non-trading derivatives		1,447		1,447
Financial assets designated as at fair value through profit and loss		2,640	15	2,655
Available-for-sale investments	16,180	8,386	239	24,805
	38,650	12,473	370	51,493
<b>Liabilities</b>				
Non-trading derivatives	287	1,786		2,073
Financial liabilities designated as at fair value through profit and loss		8		8
Investment contracts (for contracts carried at fair value)	95			95
	382	1,794		2,176

In 2012, there were no significant changes in Level 3 assets and liabilities.

### 12 OTHER ASSETS

Other assets by type		
	2012	2011
Reinsurance and insurance receivables	1,763	1,971
Deferred tax assets	1,653	2,801
Property development and obtained from foreclosures	1,220	1,584
Income tax receivable	558	542
Accrued interest and rents	12,356	14,387
Other accrued assets	1,542	2,200
Pension assets	4,622	3,762
Other	5,189	3,769
	<b>28,903</b>	31,016

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 21 'Other liabilities'.

Accrued interest and rents includes EUR 5,491 million (2011: EUR 6,388 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).

Reinsurance and insurance receivables		
	2012	2011
Receivables on account of direct insurance from		
– policyholders	1,083	1,238
– intermediaries	50	67
Reinsurance receivables	630	666
	<b>1,763</b>	1,971

The allowance for uncollectable reinsurance and insurance receivables amounts to EUR 50 million as at 31 December 2012 (2011: EUR 66 million). The allowance is deducted from this receivable.

Property development and obtained from foreclosures		
	2012	2011
Property under development	163	400
Property developed	927	1,055
Property obtained from foreclosures	130	129
	<b>1,220</b>	1,584
Gross carrying amount as at 31 December	2,297	2,720
Accumulated impairments as at 31 December	-1,077	-1,136
Net carrying value	<b>1,220</b>	1,584

# Notes to the consolidated annual accounts of ING Group continued

## EQUITY

### 13 SHAREHOLDERS' EQUITY (PARENT)/NON-VOTING EQUITY SECURITIES

Shareholders' equity (parent)			
	2012	2011	2010
Share capital	919	919	919
Share premium	16,034	16,034	16,034
Revaluation reserve	10,476	5,550	4,752
Currency translation reserve	-841	93	79
Other reserves	27,769	24,067	19,120
Shareholders' equity (parent)	54,357	46,663	40,904

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

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 the former Stichting Vakbondsspaarbank SPN.

Share capital	Ordinary shares (par value EUR 0.24)					
	Number x1,000			Amount		
	2012	2011	2010	2012	2011	2010
Authorised share capital	14,500,000	14,500,000	4,500,000	3,480	3,480	1,080
Unissued share capital	10,668,439	10,668,439	668,439	2,561	2,561	161
Issued share capital	3,831,561	3,831,561	3,831,561	919	919	919

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

#### Ordinary shares

All ordinary shares are in registered form. No share certificates have been issued. Ordinary shares may be transferred by means of a deed of transfer. A transfer of ordinary shares requires written acknowledgement by ING Groep N.V. The par value of ordinary shares is EUR 0.24. The authorised ordinary share capital of ING Groep N.V. currently consists of 14,500 million ordinary shares. It increased in 2011 from 4,500 million ordinary shares to 14,500 million ordinary shares as a result from an amendment made to the Articles of Association on 15 June 2011. As at 31 December 2012, 3,832 million of ordinary shares were issued and fully paid.

#### Depository receipts for ordinary shares

More than 99.9% of the ordinary shares issued by ING Groep N.V. is held by Stichting ING Aandelen (ING Trust Office). In exchange for these shares, ING Trust Office has issued depository receipts in bearer form for these shares. The depository receipts are listed on various stock exchanges. Depository receipts can be exchanged upon request of the holders of depository receipts for (non-listed) ordinary shares without any restriction, other than payment of an administrative fee of EUR 0.01 per depository receipt with a minimum of EUR 25 per exchange transaction.

The holder of a depository receipt is entitled to receive from ING Trust Office payment of dividends and distributions corresponding to the dividends and distributions received by ING Trust Office on an ordinary share.

In addition, the holder of a depository receipt is entitled to attend and to speak at the General Meeting of Shareholders of ING Groep N.V. either in person or by proxy. A holder of a depository receipt, who thus attends the General Meeting of Shareholders, is entitled to vote as a proxy of the ING Trust Office but entirely at his own discretion for a number of shares equal to the number of his depository receipts.

A holder of depository receipts who does not attend the General Meeting of Shareholders in person or by proxy is entitled to give a binding voting instruction to the Trust Office for a number of shares equal to the number of his depository receipts.

#### Depository receipts for ordinary shares held by ING Group (Treasury shares)

As at 31 December 2012, 30.1 million (2011: 49.3 million; 2010: 51.3 million) depository receipts for ordinary shares ING Groep N.V. with a par value of EUR 0.24 are held by ING Groep N.V. or its subsidiaries. These depository receipts for ordinary shares were purchased to hedge option rights granted to the Executive Board members and other employees. In December 2010 ING Groep N.V. announced that it will no longer rebalance its hedge 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 out of exercise and vesting. Once all shares in the hedge portfolio are used ING will fund these obligations by issuing new shares (subject to approval by Executive Board and Supervisory Board).

## Notes to the consolidated annual accounts of ING Group continued

### Restrictions with respect to dividend and repayment of capital

ING Groep N.V. is subject to legal restrictions regarding the amount of dividends it can pay to the holders of its ordinary shares. Pursuant to the Dutch Civil Code, 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.

Moreover, ING Groep N.V.'s ability to pay dividends is dependent on the dividend payment ability of its subsidiaries and associates. ING Groep N.V. is legally required to create a non-distributable reserve insofar profits of its subsidiaries and associates are subject to dividend payment restrictions which apply to those subsidiaries and associates themselves. Such restrictions may among others be of a similar nature as the restrictions which apply to ING Groep N.V.

Legally non-distributable reserves from ING Group's subsidiaries and associates are as follows:

2012	ING Bank	ING Insurance	Other	Total
Equity invested	36,659	27,281	177	64,117
Non-distributable reserves	4,007	9,221		13,228
	32,652	18,060	177	50,889

2011	ING Bank	ING Insurance	Other	Total
Equity invested	34,345	23,465	139	57,949
Non-distributable reserves	2,172	5,792		7,964
	32,173	17,673	139	49,985

2010	ING Bank	ING Insurance	Other	Total
Equity invested	34,451	20,134	9	54,594
Non-distributable reserves	2,756	4,004		6,760
	31,695	16,130	9	47,834

Furthermore there are restrictions to the ability of subsidiaries and associates to distribute reserves to ING Groep N.V. as a result of minimum capital requirements that are imposed by industry regulators in the countries in which the subsidiaries operate.

Minimum capital requirements for ING Group's subsidiaries and associates are as follows:

2012	ING Bank	ING Insurance	Other	Total
Equity invested	36,659	27,281	177	64,117
Regulatory capital invested	47,116	23,322		70,438
Required minimum regulatory capital	28,767	9,523		38,290
	18,349	13,799		32,148

2011	ING Bank	ING Insurance	Other	Total
Equity invested	34,345	23,465	139	57,949
Regulatory capital invested	47,123	21,406		68,529
Required minimum regulatory capital	31,107	9,515		40,622
	16,016	11,891		27,907

2010	ING Bank	ING Insurance	Other	Total
Equity invested	34,451	20,134	9	54,594
Regulatory capital invested	49,145	20,335		69,480
Required minimum regulatory capital	29,860	8,826		38,686
	19,285	11,509		30,794

## Notes to the consolidated annual accounts of ING Group continued

In addition to the legal and regulatory restrictions on distributing dividends from subsidiaries and associates to ING Groep N.V. there are various other considerations and limitations that are taken into account in determining the appropriate levels of equity in the Group's subsidiaries and associates. These considerations and limitations include, but are not restricted to, rating agency and regulatory views, which can change over time; it is not possible to disclose a reliable quantification of these limitations. Reference is also made to the 'Capital Management' section.

Without prejudice to the authority of the Executive Board to allocate profits to reserves and to the fact that the ordinary shares are the most junior securities issued by ING Groep N.V., no specific dividend payment restrictions with respect to ordinary shares exist.

Furthermore, ING Groep N.V. is subject to legal restrictions with respect to repayment of capital to holders of ordinary shares. Capital may be repaid to the holders of ordinary shares pursuant to an amendment of ING Groep N.V.'s Articles of Association whereby the ordinary shares are written down.

Pursuant to the Dutch Civil Code, capital may only be repaid if none of ING Groep N.V.'s creditors opposes such a repayment within two months following the announcement of a resolution to that effect.

On a distribution of a dividend ING Groep N.V. is in principle required to withhold an income tax on dividends at a rate of 15%.

### Changes in revaluation reserve

2012	Property revaluation reserve	Available-for-sale reserve	Cash flow hedge reserve	Total
Opening balance	367	3,212	1,971	5,550
Unrealised revaluations after taxation	-22	7,183		7,161
Realised gains/losses transferred to profit and loss		-772		-772
Changes in cash flow hedge reserve			718	718
Transfer to insurance liabilities/DAC		-2,181		-2,181
Closing balance	345	7,442	2,689	10,476

### Changes in revaluation reserve

2011	Property revaluation reserve	Available-for-sale reserve	Cash flow hedge reserve	Total
Opening balance	379	3,526	847	4,752
Unrealised revaluations after taxation	-12	967		955
Realised gains/losses transferred to profit and loss		723		723
Changes in cash flow hedge reserve			1,124	1,124
Transfer to insurance liabilities/DAC		-2,004		-2,004
Closing balance	367	3,212	1,971	5,550

### Changes in revaluation reserve

2010	Property revaluation reserve	Available-for-sale reserve	Cash flow hedge reserve	Total
Opening balance	411	1,683	372	2,466
Unrealised revaluations after taxation	-32	3,401		3,369
Realised gains/losses transferred to profit and loss		86		86
Changes in cash flow hedge reserve			475	475
Transfer to insurance liabilities/DAC		-1,644		-1,644
Closing balance	379	3,526	847	4,752

Transfer to insurance liabilities/DAC includes the change in the deferred profit sharing liability (net of deferred tax). Reference is made to Note 17 'Insurance and investment contracts, reinsurance contracts'.

### Changes in currency translation reserve

	2012	2011	2010
Opening balance	93	79	-2,011
Unrealised revaluations after taxation	-142	167	-777
Realised gains/losses transferred to profit and loss	-68		
Exchange rate differences	-724	-153	2,867
Closing balance	-841	93	79

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

## Notes to the consolidated annual accounts of ING Group continued

### Changes in other reserves

2012	Retained earnings	Share of associates reserve	Treasury shares	Other reserves	Total
Opening balance	28,803	1,290	-665	-5,361	24,067
Result for the year	3,894				3,894
Unrealised revaluations after taxation	-79				-79
Changes in treasury shares			255		255
Transfer to share of associates reserve	-236	236			
Employee stock options and share plans	7				7
Repurchase premium	-375				-375
Closing balance	32,014	1,526	-410	-5,361	27,769

The repurchase premium of EUR 375 million is paid in relation to the repayment of the EUR 750 million non-voting equity securities.

### Changes in other reserves

2011	Retained earnings	Share of associates reserve	Treasury shares	Other reserves	Total
Opening balance	24,289	907	-715	-5,361	19,120
Result for the year	5,766				5,766
Unrealised revaluations after taxation	16				16
Changes in treasury shares			50		50
Transfer to share of associates reserve	-383	383			
Employee stock options and share plans	115				115
Repurchase premium	-1,000				-1,000
Closing balance	28,803	1,290	-665	-5,361	24,067

The repurchase premium of EUR 1 billion is paid in relation to the repayment of the EUR 2 billion non-voting equity securities.

### Changes in other reserves

2010	Retained earnings	Share of associates reserve	Treasury shares	Other reserves	Total
Opening balance	21,688	645	-737	-5,361	16,235
Result for the year	2,810				2,810
Unrealised revaluations after taxation	-156	171			15
Changes in treasury shares			22		22
Transfer to share of associates reserve	-91	91			
Employee stock options and share plans	36				36
Other	2				2
Closing balance	24,289	907	-715	-5,361	19,120

### Changes in treasury shares

	Amount		Number	
	2012	2011	2012	2011
Opening balance	665	715	49,305,917	51,300,101
Purchased/sold	-86	-17	-14,554,460	-625,803
Share-based payments	-67	-19	-4,638,786	-1,368,381
Other	-102	-14		
Closing balance	410	665	30,112,671	49,305,917

### Non-voting equity securities (Core Tier 1 securities)

On 12 November 2008, ING Groep N.V. issued one billion non-voting equity securities to the Dutch State at EUR 10 per non-voting equity security, resulting in an increase of ING Group's core Tier 1 capital of EUR 10 billion. The nominal value of each security is EUR 0.24. The non-voting equity securities do not form part of ING Groep N.V.'s share capital; accordingly they do not carry voting rights in the General Meeting.

These non-voting equity securities are deeply subordinated and rank pari-passu with ordinary shares in a winding up of ING Groep N.V. On these non-voting equity securities a coupon was and is payable of the higher of EUR 0.85 per security and 125% of the dividend paid on each ordinary share over 2011 onwards (payable in 2012 onwards).

Further coupons are to be paid on 12 May of each year (the coupon date) in cash if the dividend on ordinary shares is paid in cash or to be paid in scrip securities in the event of a scrip dividend on ordinary shares. Coupons are only due and payable, on a non-cumulative basis and if a dividend is paid on ordinary shares over the financial year preceding the coupon date, either on an interim or a final dividend basis, provided that ING Group's capital adequacy position is and remains satisfactory both before and after payment in the opinion of the Dutch central bank.

In December 2009, ING repaid the first half of the non-voting equity securities (core Tier 1 securities) of EUR 5 billion plus a total premium of EUR 605 million. On 13 May 2011 ING exercised its option for early repayment of EUR 2 billion of the remaining non-voting equity securities (core Tier 1 securities). The total payment in May 2011 amounted EUR 3 billion and included a 50% repurchase premium. On 26 November 2012 ING repaid another EUR 1.125 billion also including a 50% repurchase premium. ING funded these repayments from retained earnings. ING intends to repay the remaining EUR 2.250 billion non-voting equity securities (core Tier 1 securities) in three equal tranches over the next 3 years. While ING has committed to redeem these securities per the defined schedule, ING has the ability to defer a repayment in full or in part, in which case the subsequent tranche will be increased with a corresponding amount. In the event that ING does not repay in full 2 consecutive repayment tranches or does not pay in total EUR 4.5 billion by 15 May 2015 (including the EUR 1.125 billion paid in 2012), the Dutch State will re-notify to the Commission who may in principle require compensatory measures. All repayments are conditional upon the approval of the Dutch central bank (DNB). The terms for the remaining non-voting equity securities, including restrictions on remuneration and corporate governance, remained unchanged. Reference is made to Note 34 'Related parties'.

### Cumulative preference shares

Pursuant to the Articles of Association of ING Groep N.V. the authorised cumulative preference share capital consists of 4.5 billion cumulative preference shares, of which none have been issued. The par value of these cumulative preference shares is EUR 0.24.

The cumulative preference shares rank before the ordinary shares in entitlement to dividend and to distributions upon liquidation of ING Groep N.V.

The dividend on the cumulative preference shares will be equal to a percentage, calculated on the amount compulsorily paid up or yet to be paid up. This percentage shall be equal to the average of the Euro OverNight Index Average (EONIA) as calculated by the European Central Bank. During the financial year for which the distribution is made, this percentage is weighted on the basis of the number of days for which it applies, increased by 2.5 percentage points.

If and to the extent that the profit available for distribution is not sufficient to pay the dividend referred to above in full, the shortfall will be made up from the reserves insofar as possible. If, and to the extent that, the dividend distribution cannot be made from the reserves, the profits earned in subsequent years shall first be used to make up the shortfall before any distribution may be made on shares of any other category.

ING Groep N.V.'s Articles of Association make provision for the cancellation of cumulative preference shares. Upon cancellation of cumulative preference shares and upon liquidation of ING Groep N.V., the amount paid up on the cumulative preference shares will be repaid together with the dividend shortfall in preceding years, insofar as this shortfall has not yet been made up.

### Cumulative preference shares – Restrictions with respect to dividend and repayment of capital

ING Groep N.V. is subject to legal restrictions regarding the amount of dividends it can pay to the holders of its cumulative preference shares, when issued. Pursuant to the Dutch Civil Code, 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.

Moreover, ING Groep N.V.'s ability to pay dividends is dependent on the dividend payment ability of its subsidiaries. ING Groep N.V. is legally required to create a non-distributable reserve insofar profits of its subsidiaries are subject to dividend payment restrictions which apply to those subsidiaries themselves. Such restrictions may among others be of a similar nature as the restrictions which apply to ING Groep N.V. or may be the result of minimum capital requirements that are imposed by industry regulators in the countries in which the subsidiaries operate, or other limitations which may exist in certain countries.

Without prejudice to the fact that the cumulative preference shares, when issued, will be junior securities of ING Groep N.V., no specific dividend payment restrictions with respect to the cumulative preference shares exist.

Furthermore, ING Groep N.V. is subject to legal restrictions with respect to repayment of capital to holders of cumulative preference shares. Capital may be repaid to the holders of cumulative preference shares pursuant to (i) an amendment of ING Groep N.V.'s articles of association whereby the cumulative preference shares are written down or (ii) a resolution to redeem and cancel the cumulative preference shares.

Pursuant to the Dutch Civil Code, capital may only be repaid if none of ING Groep N.V.'s creditors opposes such a repayment within two months following the announcement of a resolution to that effect.

## Notes to the consolidated annual accounts of ING Group continued

### LIABILITIES

#### 14 SUBORDINATED LOANS

Subordinated loans					Notional amount in original currency		Balance sheet value	
Interest rate	Year of issue	First call date	Step-up	Total	Lent on to ING Bank	Lent on to ING Insurance	2012	2011
9.000%	2008	None		EUR 10			10	10
8.500%	2008	15 September 2013	No	USD 2,000	2,000		1,508	1,527
8.000%	2008	18 April 2013	No	EUR 1,500	1,050	450	1,502	1,500
7.375%	2007	15 October 2012	No	USD 1,500	500	1,000	1,137	1,176
6.375%	2007	15 June 2012	No	USD 1,045	1,045		792	804
5.140%	2006	17 March 2016	Yes	GBP 66	66		81	79
5.775%	2005	8 December 2015	Yes	USD 364	364		288	292
6.125%	2005	15 January 2011	No	USD 700	400	300	529	533
4.176%	2005	8 June 2015	Yes	EUR 169		169	168	168
Variable	2004	30 June 2014	No	EUR 555	555		558	527
6.200%	2003	15 January 2009	No	USD 500	500		369	376
Variable	2003	30 June 2013	No	EUR 430	430		427	424
7.200%	2002	15 December 2007	No	USD 1,100		1,100	820	839
7.050%	2002	15 September 2007	No	USD 800	800		597	603
							<b>8,786</b>	8,858

Subordinated loans consist of perpetual subordinated bonds issued by ING Groep N.V. These bonds have been issued to raise hybrid capital for ING Verzekeringen N.V. and Tier 1 capital for ING Bank N.V. Under IFRS-EU these bonds are classified as liabilities. They are considered capital for regulatory purposes.

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. Of this amount, EUR 4.8 billion relates to securities issued by ING Groep N.V. and EUR 1.0 billion issued by ING Verzekeringen N.V. 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 0.9 billion intercompany debt from ING Bank N.V. to ING Groep N.V. was repaid. In addition, ING Groep N.V. issued one new senior bond with a nominal value of EUR 0.7 billion and 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 955 million (EUR 716 million after tax), including related hedge results and transaction costs. This gain is recognised in Other income. From this amount, EUR 767 million (EUR 574 million after tax) relates to ING Groep N.V., EUR 93 million (EUR 71 million after tax) to ING Bank N.V. and EUR 95 million (EUR 71 million after tax) to ING Verzekeringen N.V. This affects the subordinated securities as disclosed in this note and in Note 16 'Other borrowed funds'.

Subordinated loans provided by ING Groep N.V. to ING Bank N.V. and ING Verzekeringen N.V.		
	2012	2011
ING Bank N.V.	6,352	6,190
ING Verzekeringen N.V.	2,424	2,658
	<b>8,776</b>	8,848

## Notes to the consolidated annual accounts of ING Group continued

### 15 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 floating interest rate levels, such as certificates of deposit and accepted bills issued by ING Group, except for subordinated items. Debt securities in issue do not include debt securities presented as Financial liabilities at fair value through profit and loss. ING Group 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
<b>Fixed rate debt securities</b>		
Within 1 year	40,486	52,308
More than 1 year but less than 2 years	10,681	6,914
More than 2 years but less than 3 years	11,194	10,347
More than 3 years but less than 4 years	8,955	5,943
More than 4 years but less than 5 years	7,189	7,541
More than 5 years	29,191	20,655
Total fixed rate debt securities	107,696	103,708
<b>Floating rate debt securities</b>		
Within 1 year	19,954	15,871
More than 1 year but less than 2 years	5,766	8,590
More than 2 years but less than 3 years	1,845	3,569
More than 3 years but less than 4 years	1,374	1,207
More than 4 years but less than 5 years	1,548	162
More than 5 years	5,253	6,754
Total floating rate debt securities	35,740	36,153
Total debt securities	143,436	139,861

As at 31 December 2012, ING Group has unused lines of credit available including the payment of commercial paper borrowings relating to debt securities in issue of EUR 13,129 million (2011: EUR 8,178 million).

On 8 March 2012, ING launched three separate exchange offers and consent solicitations on a total of three series of senior debt securities of ING Verzekeringen N.V. with a total nominal value of EUR 2.6 billion. Holders had the possibility to exchange the original securities into new securities issued by ING Group and/or consent to a modification of existing terms. On average 64% of the holders have accepted the offer to exchange into new securities issued by ING Group. The total nominal amount of the new securities issued by ING Group in exchange for the existing ING Verzekeringen N.V. securities is EUR 1,654 million. Approximately 6% of the holders, representing EUR 151 million, accepted a modification of the existing terms of the securities. The transactions were completed on 30 March 2012. A charge of EUR 39 million (EUR 30 million after tax) was recognised in the first quarter of 2012. The settlement date of the exchange offers and consent solicitations was on 4 April 2012.

ING U.S., Inc. (ING U.S.) announced on 16 July 2012 that it completed a private debt offering of USD 850 million principal amount of its 5.5% Senior Notes due in 2022.

The following bonds are all issued under the Credit Guarantee Scheme of the State of the Netherlands. ING Group 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 Group continued

### 16 OTHER BORROWED FUNDS

Other borrowed funds by remaining term							
2012	2013	2014	2015	2016	2017	Years after 2017	Total
Subordinated loans of group companies	678	88	872	2,055	2,062	3,249	9,004
Preference shares of group companies						396	396
Loans contracted	430	814			4	1,806	3,054
Loans from credit institutions	3,284	57		60		868	4,269
	4,392	959	872	2,115	2,066	6,319	16,723

Other borrowed funds by remaining term							
2011	2012	2013	2014	2015	2016	Years after 2016	Total
Subordinated loans of group companies	2,907	1,181	81	918	2,309	4,752	12,148
Preference shares of group companies						404	404
Loans contracted	428		76			1,783	2,287
Loans from credit institutions	4,052	28	29	28	28	680	4,845
	7,387	1,209	186	946	2,337	7,619	19,684

Subordinated loans of group companies relate to capital debentures and private loans which are subordinated to all current and future liabilities of ING Bank N.V.

Preference shares of group companies comprises non-cumulative guaranteed Trust Preference Securities which are issued by wholly owned subsidiaries of ING Groep N.V. These securities have a liquidation preference of a certain amount plus any accrued interest and unpaid dividend. Dividends with regard to these preference securities are presented as an interest expense in the profit and loss account. These trust preference securities have no voting rights.

### 17 INSURANCE AND INVESTMENT CONTRACTS, REINSURANCE CONTRACTS

The Provision for insurance and investment contracts, net of reinsurance (i.e. the provision for ING Group's own account) is presented gross in the balance sheet as 'Insurance and investment contracts'. The related reinsurance is presented as 'Reinsurance contracts' under Assets in the balance sheet.

	Provision net of reinsurance		Reinsurance contracts		Insurance and investment contracts	
	2012	2011	2012	2011	2012	2011
Provision for non-participating life policy liabilities	62,797	88,492	5,065	5,534	67,862	94,026
Provision for participating life policy liabilities	47,801	52,753	87	102	47,888	52,855
Provision for (deferred) profit sharing and rebates	7,236	5,623	3	2	7,239	5,625
Life insurance provisions excluding provisions for risk of policyholders	117,834	146,868	5,155	5,638	122,989	152,506
Provision for life insurance for risk of policyholders	90,754	109,487	49	136	90,803	109,623
Life insurance provisions	208,588	256,355	5,204	5,774	213,792	262,129
Provision for unearned premiums and unexpired risks	265	297	2	4	267	301
Reported claims provision	2,621	2,620	82	89	2,703	2,709
Claims incurred but not reported (IBNR)	558	493	2	3	560	496
Claims provisions	3,179	3,113	84	92	3,263	3,205
Total provisions for insurance contracts	212,032	259,765	5,290	5,870	217,322	265,635
Investment contracts for risk of company	4,561	6,259			4,561	6,259
Investment contracts for risk of policyholders	8,067	6,939			8,067	6,939
Total provisions for investment contracts	12,628	13,198			12,628	13,198
Total	224,660	272,963	5,290	5,870	229,950	278,833

## Notes to the consolidated annual accounts of ING Group continued

The deferred profit sharing amount on unrealised revaluation is included in Provision for (deferred) profit sharing and rebates and amounts to EUR 6,304 million as at 31 December 2012 (2011: EUR 3,721 million).

	Provision net of reinsurance (excluding provision for life insurance for risk of policyholders)		Provision for life insurance for risk of policyholders (net of reinsurance)		Reinsurance contracts		Life insurance provisions	
	2012	2011	2012	2011	2012	2011	2012	2011
Opening balance	146,868	135,314	109,487	114,603	5,774	5,685	262,129	255,602
Changes in the composition of the group and other	-31,577	-335	-23,852	-1,781	-244	-65	-55,673	-2,181
	115,291	134,979	85,635	112,822	5,530	5,620	206,456	253,421
Current year provisions	13,221	13,774	9,122	7,623	381	636	22,724	22,033
Change in deferred profit sharing liability	2,889	1,963					2,889	1,963
Prior year provisions								
- benefit payments to policyholders	-16,074	-13,872	-14,919	-12,548	-668	-700	-31,661	-27,120
- interest accrual and changes in fair value of liabilities	4,651	6,302			38	35	4,689	6,337
- valuation changes for risk of policyholders			13,909	-1,190			13,909	-1,190
- effect of changes in other assumptions	-275	635	-77	-17	16	-2	-336	616
	-11,698	-6,935	-1,087	-13,755	-614	-667	-13,399	-21,357
Exchange rate differences	-1,869	3,087	-2,916	2,797	-93	185	-4,878	6,069
Closing balance	117,834	146,868	90,754	109,487	5,204	5,774	213,792	262,129

Where discounting is used in the calculation of life insurance provisions, the rate is within the range 3.0% to 5.1% (2011: 2.8% to 5.5%) based on weighted averages. The change is mainly due to a change in the composition of the portfolio.

Insurance provisions include a provision for the estimated cost of the agreement with regard to unit-linked policies. For more information reference is made to Note 32 'Legal proceedings'.

In 2012, 'Changes in the composition of the group and other changes' relates mainly to the classification of ING's Insurance and investment management businesses in Asia as a disposal group held for sale. Reference is made to Note 11 'Assets and liabilities held for sale'.

In 2011, 'Changes in the composition and other changes' includes the transfers of certain insurance contracts outside ING.

In 2012, 'Effect of changes in other assumptions' includes EUR -104 million relating to the assumptions refinement for the Insurance US Closed Block Variable Annuity (VA) business. Reference is made to Note 44 'Underwriting expenditure'.

In 2011, 'Effect of changes in other assumptions' includes EUR 611 million relating to the assumption review for the Insurance US Closed Block Variable Annuity (VA) business. Reference is made to Note 44 'Underwriting expenditure'.

ING transferred part of its life insurance business to Scottish Re in 2004 by means of a co-insurance contract. This business continues to be included in Life insurance provisions. The related asset from the co-insurance contract is recognised under Reinsurance contracts. On 23 January 2009, Hannover Re and Scottish Re announced that Hannover Re has agreed to assume the ING individual life reinsurance business originally transferred to Scottish Re in 2004.

ING transferred its US group reinsurance business to Reinsurance Group of America Inc. in 2010 by means of a reinsurance agreement. This business continues to be included in Life insurance provisions. The related asset from the reinsurance contract is recognised under Reinsurance contracts.

To the extent that the assuming reinsurers are unable to meet their obligations, the Group is liable to its policyholders for the portion reinsured. Consequently, provisions are made for receivables on reinsurance contracts which are deemed uncollectable. The life reinsurance market is highly concentrated and, therefore, diversification of exposure is inherently difficult. To minimise its exposure to significant losses from reinsurer insolvencies, the Group evaluates the financial condition of its reinsurers, monitors concentrations of credit risk arising from similar geographical regions, activities or economic characteristics of the reinsurer and maintains collateral. Reference is also made to the 'Risk management' section.

## Notes to the consolidated annual accounts of ING Group continued

As at 31 December 2012, the total Reinsurance exposure, including Reinsurance contracts and Receivables from reinsurers (presented in Other assets) amounts to EUR 5,920 million (2011: EUR 6,536 million). There was no provision for uncollectable reinsurance in 2012 and 2011.

	Provision net of reinsurance		Reinsurance contracts		Provision for unearned premiums and unexpired risks	
	2012	2011	2012	2011	2012	2011
Opening balance	297	345	4	4	301	349
Changes in the composition of the group	-12	-8	-2		-14	-8
	285	337	2	4	287	341
Premiums written	1,693	1,682	40	43	1,733	1,725
Premiums earned during the year	-1,715	-1,708	-40	-43	-1,755	-1,751
Exchange rate differences		1				1
Other changes	2	-15			2	-15
Closing balance	265	297	2	4	267	301

	Provision net of reinsurance		Reinsurance contracts		Claims provisions	
	2012	2011	2012	2011	2012	2011
Opening balance	3,113	3,103	92	100	3,205	3,203
Changes in the composition of the group	-15	-7	-1		-16	-7
	3,098	3,096	91	100	3,189	3,196
Additions						
– for the current year	1,213	1,166	6	10	1,219	1,176
– for prior years	-39	-71	2	-11	-37	-82
– interest accrual of provision	45	40			45	40
	1,219	1,135	8	-1	1,227	1,134
Claim settlements and claim settlement costs						
– for the current year	-473	-472	-1	-1	-474	-473
– for prior years	-643	-665	-13	-6	-656	-671
	-1,116	-1,137	-14	-7	-1,130	-1,144
Exchange rate differences	-1	2			-1	2
Other changes	-21	17	-1		-22	17
Closing balance	3,179	3,113	84	92	3,263	3,205

ING Group has an outstanding balance of EUR 36 million as at 31 December 2012 (2011: EUR 35 million) relating to environmental and asbestos claims of the insurance operations. In establishing the liability for unpaid claims and claims adjustment expenses related to asbestos related illness and toxic waste clean-up, management of ING Group considers facts currently known including current legislation and coverage litigation. Liabilities are recognised for IBNR claims and for known claims (including the costs of related litigation) when sufficient information has been obtained to indicate the involvement of a specific insurance policy, and management can reasonably estimate its liability. In addition, liabilities are reviewed and updated regularly.

Where discounting is used in the calculation of the claims provisions, based on weighted averages, the rate is within the range of 3.0% to 4.0% (2011: 3.0% to 4.0%).

## Notes to the consolidated annual accounts of ING Group continued

Changes in investment contracts liabilities		
	2012	2011
Opening balance	13,198	11,974
Changes in the composition of the group	-187	
	13,011	11,974
Current year liabilities	8,865	7,867
Prior year provisions		
- payments to contract holders	-9,471	-7,709
- interest accrual	30	39
- valuation changes investments	129	-55
	-9,312	-7,725
Exchange rate differences	-176	380
Other changes	240	702
Closing balance	12,628	13,198

Gross claims development table										
	Underwriting year									
	2004	2005	2006	2007	2008	2009	2010	2011	2012	Total
Estimate of cumulative claims:										
At the end of underwriting year	1,040	1,109	1,100	1,020	1,078	1,200	1,169	1,218	1,232	
1 year later	913	1,041	1,057	923	1,060	1,213	1,198	1,245		
2 years later	789	940	978	859	1,030	1,153	1,159			
3 years later	773	911	962	856	1,029	1,146				
4 years later	777	896	969	836	1,020					
5 years later	770	889	954	831						
6 years later	763	870	959							
7 years later	757	870								
8 years later	751									
Estimate of cumulative claims	751	870	959	831	1,020	1,146	1,159	1,245	1,232	9,213
Cumulative payments	-695	-751	-812	-647	-780	-827	-813	-720	-464	-6,509
	56	119	147	184	240	319	346	525	768	2,704
Effect of discounting	-7	-16	-18	-28	-34	-38	-48	-57	-32	-278
Liability recognised	49	103	129	156	206	281	298	468	736	2,426
Liability relating to underwriting years prior to 2004										837
Total amount recognised in the balance sheet										3,263

The Group applies the exemption in IFRS-EU not to present Gross claims development for annual periods beginning before 1 January 2004 (the date of transition to IFRS-EU) as it is impracticable to obtain such information.

## Notes to the consolidated annual accounts of ING Group continued

### 18 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 24 'Transfer of financial assets' for information on securities lending as well as sale and repurchase transactions.

### 19 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	120,708	114,867
Corporate deposits	55,268	49,668
Other	1,261	11,496
	455,003	467,547

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	142,074	134,412	291,103	310,394	433,177	444,806
	155,012	147,706	299,991	319,841	455,003	467,547

The decrease in Customer deposits and other funds on deposit 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 43.6 billion.

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

Reference is made to Note 24 '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.

### 20 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	18,752	22,165
Designated as at fair value through profit and loss	13,399	13,021
	115,803	142,868

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 24 'Transfer of financial assets' for information on securities lending as well as sale and repurchase transactions.

## Notes to the consolidated annual accounts of ING Group continued

Non-trading derivatives by type		
	2012	2011
Derivatives used in:		
– fair value hedges	9,037	9,478
– cash flow hedges	6,439	6,462
– hedges of net investments in foreign operations	71	159
Other non-trading derivatives	3,205	6,066
	<b>18,752</b>	22,165

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
	<b>13,399</b>	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 Group 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).

### 21 OTHER LIABILITIES

Other liabilities by type		
	2012	2011
Deferred tax liabilities	3,157	3,679
Income tax payable	956	858
Pension benefits	358	378
Post-employment benefits	183	179
Other staff-related liabilities	650	1,111
Other taxation and social security contributions	918	898
Deposits from reinsurers	869	1,015
Accrued interest	10,569	11,698
Costs payable	2,161	2,400
Amounts payable to brokers	50	72
Amounts payable to policyholders	2,138	2,173
Reorganisation provision	919	599
Other provisions	625	638
Share-based payment plan liabilities	47	39
Prepayments received under property under development	21	83
Amounts to be settled	4,831	5,442
Other	4,192	3,377
	<b>32,644</b>	34,639

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

Other staff-related liabilities includes 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.

## Notes to the consolidated annual accounts of ING Group continued

### Changes in deferred tax

	Net liability 2011	Change through equity	Change through net result	Changes in the composition of the group	Exchange rate differences	Other	Net liability 2012
Investments	1,625	2,749	95	-661	-48	9	3,769
Real estate investments	381		-23			-8	350
Financial assets and liabilities at fair value through profit and loss	-725		-366	1	9	-6	-1,087
Deferred acquisition costs and VOBA	2,731	-147	166	-1,301	-98		1,351
Depreciation	40		1	1		-1	41
Insurance provisions	-3,350	-803	-292	406	52	1	-3,986
Cash flow hedges	640	224	1	-1	1	-1	864
Pension and post-employment benefits	552		160	24	8	15	759
Other provisions	-256		346	-108	21	-22	-19
Receivables	-74		-8	-6			-88
Loans and advances to customers	885	-82	155	2	2		962
Unused tax losses carried forward	-1,298		-228	93	-6	4	-1,435
Other	-273	79	25	177	13	2	23
	878	2,020	32	-1,373	-46	-7	1,504
Comprising:							
– deferred tax liabilities	3,679						3,157
– deferred tax assets	-2,801						-1,653
	878						1,504

In 2012, Changes in the composition of the group relates mainly to the classification of ING's Insurance and investment management businesses in Asia as a disposal group held for sale. Reference is made to Note 11 'Assets and liabilities held for sale'.

### 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	-296	1,188	452	208	74	-1	1,625
Real estate investments	383		-10	9	1	-2	381
Financial assets and liabilities at fair value through profit and loss	-527		-175	-9	6	-20	-725
Deferred acquisition costs and VOBA	3,111	-272	-194	-57	131	12	2,731
Fiscal reserve	1		-1				
Depreciation	4	1	24	9	2		40
Insurance provisions	-1,866	-572	-773	-7	-130	-2	-3,350
Cash flow hedges	263	373	4				640
Pension and post-employment benefits	503	1	68	-12	-10	2	552
Other provisions	-655		379	25	16	-21	-256
Receivables	-51		-8	-12	-1	-2	-74
Loans and advances to customers	473	97	213	97	6	-1	885
Unused tax losses carried forward	-1,851	-1	305	258	20	-29	-1,298
Other	-299	-65	27	-32	-17	113	-273
	-807	750	311	477	98	49	878
Comprising:							
– deferred tax liabilities	2,618						3,679
– deferred tax assets	-3,425						-2,801
	-807						878

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 11 'Assets and liabilities held for sale'.

## Notes to the consolidated annual accounts of ING Group continued

Deferred tax in connection with unused tax losses carried forward		
	2012	2011
Total unused tax losses carried forward	8,806	9,093
Unused tax losses carried forward not recognised as a deferred tax asset	-3,303	-4,529
Unused tax losses carried forward recognised as a deferred tax asset	5,503	4,564
Average tax rate	26.1%	28.4%
Deferred tax asset	1,435	1,298

The following tax losses carried forward and tax credits will expire as follows as 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	38	30	18	49
More than 1 year but less than 5 years	427	378	198	539
More than 5 years but less than 10 years	157	774	3,227	1,971
More than 10 years but less than 20 years	2,397	3,185	12	192
Unlimited	284	162	2,048	1,813
	3,303	4,529	5,503	4,564

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 year or the preceding year. The aggregate amount for the most significant entities where this applies is EUR 409 million (2011: EUR 490 million).

This can be specified by jurisdiction as follows:

Breakdown by jurisdiction						
	Banking operations		Insurance operations		Total	
	2012	2011	2012	2011	2012	2011
United States				120		120
Great Britain	17	116			17	116
Belgium			73	70	73	70
Australia	24	36			24	36
Spain	32		56	19	88	19
Germany	1	5			1	5
France	59	66			59	66
Mexico	4	32			4	32
Luxembourg	7				7	
Italy	136	26			136	26
	280	281	129	209	409	490

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.

As at 31 December 2012 and 31 December 2011, ING Group 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

## Notes to the consolidated annual accounts of ING Group continued

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	599	434
Changes in the composition of the group		-1
Additions	838	531
Interest		5
Releases	-23	-14
Charges	-485	-358
Exchange rate differences	1	1
Other changes	-11	1
Closing balance	919	599

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

A reorganisation provision of EUR 233 million is recognised in the segment Retail Netherlands (Bank) 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.

A reorganisation provision of EUR 172 million is recognised in the segment Insurance Benelux and EUR 27 million is recognised in the Corporate line Insurance following the initiative to accelerate the transformation program in preparation for the stand-alone future of Insurance Eurasia. In response to changing customer preferences and market dynamics, Insurance Eurasia is undertaking actions to increase its agility in the current operating environment by delaying the support staff structure in the Netherlands and sharpen the strategic focus of its business units, in particular Nationale-Nederlanden (NN). These measures are expected to result in a reduction of the workforce of around 1,350 FTE's over a period of two years.

An additional reorganisation provision of EUR 55 million is recognised in the segment Insurance Benelux for the strategic initiatives announced in 2011. The main goals of the strategic initiative are to regain customer trust, diversify distribution channels, implement a new product range and increase efficiency. In 2012, the reorganisation measures resulted in a reduction of the workforce of 470 FTE's.

Each of these initiatives will be implemented over a period of several year and the estimate of the reorganisation provisions is inherently uncertain. However, the provision 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 457 million relates to termination benefits, relates to Dutch Retail Banking activities as well as other restructuring activities.

Changes in other provisions						
	2012	Litigation		Other		Total 2011
		2011	2012	2011	2012	
Opening balance	297	304	341	229	638	533
Changes in the composition of the group	-3	-3	-118	-12	-121	-15
Additions	9	19	249	162	258	181
Releases	-27	-7	-39	-2	-66	-9
Charges	-40	-21	-33	-56	-73	-77
Exchange rate differences	-1	-5	-6	3	-7	-2
Other changes	-16	10	12	17	-4	27
Closing balance	219	297	406	341	625	638

The provision for the estimated cost of the agreement with regard to unit-linked policies is included in 'Insurance and investment contracts' as disclosed in Note 17.

## Notes to the consolidated annual accounts of ING Group continued

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.

### Pension and post-employment benefits

Summary of pension benefits					
	2012	2011	2010	2009	2008
Defined benefit obligation	22,079	16,212	16,183	14,209	14,271
Fair value of plan assets	22,869	20,077	17,364	15,310	13,366
	-790	-3,865	-1,181	-1,101	905
Unrecognised past service costs		-2	-3	-3	-5
Unrecognised actuarial gains/(losses)	-3,474	483	-1,731	-1,450	-2,072
Restrictions on pension asset recognised					
Net liability (asset) recognised in the balance sheet	-4,264	-3,384	-2,915	-2,554	-1,172
Presented as:					
- Other liabilities	358	378	543	589	609
- Other assets	-4,622	-3,762	-3,458	-3,143	-1,781
	-4,264	-3,384	-2,915	-2,554	-1,172
Summary of post-employment benefits					
	2012	2011	2010	2009	2008
Defined benefit obligation	190	176	168	156	210
	190	176	168	156	210
Unrecognised past service costs	2	3	3	8	2
Unrecognised actuarial gains/(losses)	-9		1	11	7
	183	179	172	175	219

The Group 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.

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.

The Group 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 Group'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 include EUR 1,743 million (2011: EUR 1,760 million; 2010: EUR 1,085 million; 2009: EUR 387 million; 2008: EUR -2,647 million) experience gain adjustments for assets and EUR -85 million (2011: EUR 10 million; 2010: EUR 154 million; 2009: EUR 172 million; 2008: EUR -70 million) experience gain adjustments for liabilities.

## Notes to the consolidated annual accounts of ING Group continued

Changes in defined benefit obligation				
	Pension benefits		Post-employment benefits other than pensions	
	2012	2011	2012	2011
Opening balance	16,212	16,183	176	168
Current service cost	283	324	5	8
Interest cost	847	851	7	8
Employer's contribution				4
Participants contributions	2	2		
Benefits paid	-617	-666	-4	-5
Actuarial gains and losses	5,921	-455	8	-3
Past service cost	-2	-8		-4
Changes in the composition of the group and other changes	-80	13		-2
Effect of curtailment or settlement	-468	-110	-1	
Exchange rate differences	-19	78	-1	2
Closing balance	22,079	16,212	190	176
Relating to:				
– funded plans	21,954	16,111		
– unfunded plans	125	101	190	176
	22,079	16,212	190	176

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 Bank and Insurance/IM 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 305 million (EUR 407 million 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 and a curtailment in relation to a change in one of the pension plans in the United States.

The estimated unrecognised past service cost and unrecognised actuarial gains and losses for the defined benefit plans will be deducted from Shareholders' 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 99.

## Notes to the consolidated annual accounts of ING Group continued

Changes in fair value of plan assets		
	Pension benefits	
	2012	2011
Opening balance	20,077	17,364
Expected return on plan assets	870	877
Employer's contribution	746	623
Participants contributions	18	15
Benefits paid	-613	-627
Actuarial gains and losses	1,790	1,746
Changes in the composition of the group and other changes	-32	7
Exchange rate differences	13	72
Closing balance	22,869	20,077

The actual return on the plan assets amounts to EUR 2,660 million (2011: EUR 2,623 million).

No plan assets are expected to be returned to ING Group 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' portfolios 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	2012	2011	2012
Equity securities	34	26	27		6.0
Debt securities	51	64	60		2.8
Other	15	10	13		4.3
	100	100	100		4.2

Equity securities include ING Groep N.V. ordinary shares of nil (0.00% of total plan assets) as at 31 December 2012 (2011: nil, 0.00% of total plan assets). Debt securities include investments in ING Group of EUR 44 million (0.20% of total plan assets) as at 31 December 2012 (2011: EUR 42 million, 0.30% of total plan assets). Other includes mainly real estate. Real estate occupied by ING Group as at 31 December 2012 which is included in Other includes nil (0.00% of total plan assets) (2011: nil, 0.00% of total plan assets).

### 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 allocations, 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 that the long-term asset mixes will be consistent with the current mixes. Changes in the asset mixes could have an impact on the amount of recognised pension income or expense, the funded status of the Plans, and the need for future cash contributions.

## Notes to the consolidated annual accounts of ING Group 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	4.70
Mortality rates	0.80	1.00	0.80	1.00
Expected rates of salary increases (excluding promotion increases)	2.30	2.20	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 Group 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 6 billion, which includes EUR -1.5 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 Shareholders' 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 Group 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 1 million as at 31 December 2012 (2011: EUR 5 million) and no increase in the charge for the year (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 1 million as at 31 December 2012 (2011: EUR 5 million) and no decrease in the charge for the year (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 679 million.

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

	Pension benefits	Post-employment benefits other than pensions
2013	583	15
2014	568	14
2015	571	14
2016	598	14
2017	640	14
Years 2018 – 2022	3,710	47

## Notes to the consolidated annual accounts of ING Group continued

### 22 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 <sup>(1)</sup>	1-3 months	3-12 months	1-5 years	Over 5 years	Maturity not applicable	Total
Cash and balances with central banks	17,657						17,657
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	29,791	31,820	582	114,895
– investments for risk of policyholders <sup>(2)</sup>						98,765	98,765
– non-trading derivatives	360	196	860	5,236	7,299		13,951
– designated as at fair value through profit and loss	281	52	840	964	1,517	1,106	4,760
Investments							
– available-for-sale	3,672	4,337	17,579	51,887	97,207	18,902	193,584
– held-to-maturity	1,267	1,168	1,007	2,774	329		6,545
Loans and advances to customers	61,733	13,909	32,494	127,836	325,490	1,942	563,404
Reinsurance contracts	19	49	281	1,277	1,992	1,672	5,290
Intangible assets	2	5	212	509	44	1,867	2,639
Deferred acquisition costs	19	18	77	158	316	3,961	4,549
Assets held for sale <sup>(3)</sup>		12,334				56,138	68,472
Other assets	10,659	2,759	5,995	3,946	5,214	330	28,903
Remaining assets (for which maturities are not applicable) <sup>(4)</sup>						6,165	6,165
<b>Total assets</b>	<b>155,182</b>	<b>46,060</b>	<b>74,461</b>	<b>229,975</b>	<b>471,524</b>	<b>191,430</b>	<b>1,168,632</b>

<sup>(1)</sup> Includes assets on demand.

<sup>(2)</sup> Investments for risk of policyholders are managed on behalf of policyholders on a fair value basis. Although individual instruments may (or may not) have a maturity depending on their nature, this does not impact the liquidity position of ING.

<sup>(3)</sup> Assets held for sale consist of the assets of the disposal groups classified as held for sale as disclosed in Note 11 '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'.

<sup>(4)</sup> 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 <sup>(1)</sup>	1-3 months	3-12 months	1-5 years	Over 5 years	Maturity not applicable	Total
Cash and balances with central banks	31,194						31,194
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	12,068	25,751	37,572	463	123,688
– investments for risk of policyholders <sup>(2)</sup>						116,438	116,438
– non-trading derivatives	637	521	1,789	5,913	8,299		17,159
– designated as at fair value through profit and loss	52	78	790	1,212	1,565	1,740	5,437
Investments							
– available-for-sale	3,860	3,578	15,025	58,620	105,429	22,027	208,539
– held-to-maturity	285	999	1,029	6,314	241		8,868
Loans and advances to customers	71,742	13,229	34,457	147,566	331,381	4,150	602,525
Reinsurance contracts	17	39	234	1,026	2,656	1,898	5,870
Intangible assets	4	8	239	487	166	2,654	3,558
Deferred acquisition costs	19	22	98	698	3,630	5,737	10,204
Assets held for sale <sup>(3)</sup>		62,483					62,483
Other assets	10,857	3,190	7,407	4,094	4,969	499	31,016
Remaining assets (for which maturities are not applicable) <sup>(4)</sup>						6,926	6,926
<b>Total assets</b>	<b>184,872</b>	<b>96,364</b>	<b>78,347</b>	<b>259,827</b>	<b>497,286</b>	<b>162,532</b>	<b>1,279,228</b>

<sup>(1)</sup> Includes assets on demand.

<sup>(2)</sup> Investments for risk of policyholders are managed on behalf of policyholders on a fair value basis. Although individual instruments may (or may not) have a maturity depending on their nature, this does not impact the liquidity position of ING.

<sup>(3)</sup> Assets held for sale consist of the assets of the disposal groups classified as held for sale as disclosed in Note 11 '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'.

<sup>(4)</sup> 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.

## Notes to the consolidated annual accounts of ING Group continued

### 23 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 is included in a separate line and in the relevant maturity bucket. Derivative liabilities are included on a net basis if cash flows are settled net. 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 <sup>(1)</sup>	1-3 months	3-12 months	1-5 years	Over 5 years	Maturity not applicable	Adjustment <sup>(2)</sup>	Total
Subordinated loans						8,817	-31	8,786
Debt securities in issue	12,521	22,543	25,373	48,562	30,626		3,811	143,436
Other borrowed funds	3,971	32	256	5,551	6,348	13	552	16,723
Amounts due to banks	24,016	3,875	3,305	2,757	4,751			38,704
Customer deposits and other funds on deposit	380,810	27,364	38,098	6,239	2,034		458	455,003
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	810	842	3,716	12,070	8,847	1,146	-8,679	18,752
– designated as at fair value through profit and loss	494	242	938	6,303	5,356		66	13,399
Financial liabilities	445,596	61,082	83,455	110,652	83,744	9,976	-16,050	778,455
Insurance and investment contracts	1,646	1,951	9,156	36,050	79,065	102,082		229,950
Liabilities held for sale <sup>(3)</sup>		18,900				50,995		69,895
Other liabilities	10,686	3,170	8,282	6,088	3,923	495		32,644
Non-financial liabilities	12,332	24,021	17,438	42,138	82,988	153,572		332,489
Total liabilities	457,928	85,103	100,893	152,790	166,732	163,548	-16,050	1,110,944
Coupon interest due on financial liabilities	1,748	957	4,226	9,169	42,409			58,509

<sup>(1)</sup> Includes liabilities on demand.

<sup>(2)</sup> 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 that the contractual cash flows are presented on a gross basis (unless the cash flows are actually settled net).

<sup>(3)</sup> Liabilities held for sale consist of the liabilities of the disposal groups classified as held for sale as disclosed in Note 11 '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 Group continued

Liabilities by maturity								
2011	Less than 1 month <sup>(1)</sup>	1-3 months	3-12 months	1-5 years	Over 5 years	Maturity not applicable	Adjustment <sup>(2)</sup>	Total
Subordinated loans						8,939	-81	8,858
Debt securities in issue	28,883	24,725	13,570	49,469	21,072		2,142	139,861
Other borrowed funds	5,710	93	47	4,156	9,131	12	535	19,684
Amounts due to banks	49,608	11,691	3,825	1,808	5,317		-16	72,233
Customer deposits and other funds on deposit	385,934	25,895	40,658	12,205	2,079		776	467,547
Financial liabilities at fair value through profit and loss								
– other trading liabilities	38,507	3,109	907	2,773	5,706		633	51,635
– trading derivatives	3,026	4,373	11,493	26,834	23,103		-12,782	56,047
– non-trading derivatives	891	828	4,335	12,536	9,529	1,130	-7,084	22,165
– designated as at fair value through profit and loss	301	398	2,062	6,007	4,525		-272	13,021
Financial liabilities	512,860	71,112	76,897	115,788	80,462	10,081	-16,149	851,051
Insurance and investment contracts	2,788	1,788	10,345	39,034	105,512	119,366		278,833
Liabilities held for sale <sup>(3)</sup>		64,265						64,265
Other liabilities	9,064	2,964	10,402	7,130	3,957	1,122		34,639
Non-financial liabilities	11,852	69,017	20,747	46,164	109,469	120,488		377,737
<b>Total liabilities</b>	<b>524,712</b>	<b>140,129</b>	<b>97,644</b>	<b>161,952</b>	<b>189,931</b>	<b>130,569</b>	<b>-16,149</b>	<b>1,228,788</b>
Coupon interest due on financial liabilities	6,799	1,088	4,185	10,651	41,831			64,554

<sup>(1)</sup> Includes liabilities on demand.

<sup>(2)</sup> 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 that the contractual cash flows are presented on a gross basis (unless the cash flows are actually settled net).

<sup>(3)</sup> Liabilities held for sale consist of the liabilities of the disposal groups classified as held for sale as disclosed in Note 11 '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'.

### 24 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 29 'Special purpose entities and securitisations'.

2012	Securities lending		Sale and repurchase	
	Equity	Debt	Equity	Debt
<b>Transferred assets at carrying amount</b>				
Amounts due from banks				1,321
Financial assets at fair value through profit and loss <sup>(1)</sup>	167	39	8,808	29,904
Investments		2,625		14,118
Loans and advances to customers				5,527
<b>Associated liabilities at carrying amount</b>				
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

<sup>(1)</sup> Including assets obtained in Reverse repurchase transactions.

## Notes to the consolidated annual accounts of ING Group continued

Transfer of financial assets				
2011	Securities lending		Sale and repurchase	
	Equity	Debt	Equity	Debt
<b>Transferred assets at carrying amount</b>				
Amounts due from banks				5,192
Financial assets at fair value through profit and loss <sup>(1)</sup>	591	47	12,258	30,398
Investments		8,888		21,183
Loans and advances to customers				3,006
<b>Associated liabilities at carrying amount</b>				
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

<sup>(1)</sup> 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 34 'Related parties' for detailed disclosure on the facility.

### 25 DERIVATIVES AND HEDGE ACCOUNTING

#### Use of derivatives and hedge accounting

As described in the 'Risk management' section, ING Group 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 Group's hedging activities is to optimise the overall cost to the Group 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 for 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 Group 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 is possible 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 Group 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 Group'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.

For the year ended 31 December 2012, ING Group recognised EUR –410 million (2011: EUR –1,028 million) of fair value changes on derivatives designated under fair value hedge accounting in the profit and loss account. This amount was partly offset by EUR 511 million (2011: EUR 1,047 million) fair value changes recognised on hedged items. This resulted in EUR 101 million (2011: EUR 19 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 –6,111 million (2011: EUR –6,286 million), presented in the balance sheet as EUR 2,926 million (2011: EUR 3,192 million) positive fair values under assets and EUR 9,037 million (2011: EUR 9,478 million) negative fair values under liabilities.

ING Group applies fair value hedge accounting for 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 Group 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 Group'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 Shareholders' 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 Group recognised EUR 716 million (2011: EUR 1,124 million) after tax in equity as effective fair value changes on derivatives under cash flow hedge accounting. As a consequence, the balance of the cash flow hedge reserve in equity as at 31 December 2012 was EUR 3,558 million (2011: EUR 2,611 million) gross and EUR 2,689 million (2011: EUR 1,971 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 45 years for insurance operations and 29 years for banking operations, with the largest concentrations in the range of 1 to 9 years for insurance operations and 1 to 5 years for banking operations. Accounting ineffectiveness on derivatives designated under cash flow hedge accounting resulted in a gain of EUR 6 million (2011: EUR 11 million loss) which 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 1,032 million (2011: EUR 179 million), presented in the balance sheet as EUR 7,471 million (2011: EUR 6,641 million) positive fair values under assets and EUR 6,439 million (2011: EUR 6,462 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: EUR –21 million).

Included in Interest income and interest expense on non-trading derivatives is EUR 2,598 million (2011: EUR 2,966 million) and EUR 2,620 million (2011: EUR 2,959 million), respectively, relating to derivatives used in cash flow hedges.

### Hedges of net investments in foreign operations

ING Group'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 Shareholders' 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.

As at 31 December 2012, the fair value of outstanding derivatives designated under net investment hedge accounting was EUR –22 million (2011: EUR –18 million), presented in the balance sheet as EUR 49 million (2011: EUR 141 million) positive fair values under assets and EUR 71 million (2011: EUR 159 million) negative fair values under liabilities.

As at 31 December 2012, the fair value of outstanding non-derivatives designated under net investment hedge accounting was EUR –1,133 million (2011: EUR –335 million).

## Notes to the consolidated annual accounts of ING Group continued

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).

### 26 DISCONTINUED OPERATIONS

#### General

ING's Insurance and investment management businesses in Asia and the reinsured Japan SPVA businesses in corporate reinsurance ('Asia') are classified as discontinued operations.

In 2011, ING's pension, life insurance and investment management activities in Latin America ('Latin America') were classified as discontinued operations. The divestment of Latin America was completed in December 2011.

Total net result from discontinued operations			
	2012	2011	2010
Asia	548	570	198
Latin America		114	216
Net result from discontinued operations	548	684	414
Net result from classification as discontinued operations Asia	-394		
Net result from disposal of discontinued operations <sup>(1)</sup>	752	995	
Total net result from discontinued operations	906	1,679	414

<sup>(1)</sup> The tax effect on the result on disposal of discontinued operations is nil.

In 2012 and 2011, Net result from discontinued operations includes the net result (after tax) of the businesses classified as discontinued operations and is presented separately in the profit and loss account. Result from discontinued operations was as follows:

Result from discontinued operations 2012 - Asia (2011 and 2010: Asia and Latin America)			
	2012	2011	2010
Total income	8,388	10,085	9,726
Total expenses	7,632	9,252	9,178
Result before tax from discontinued operations	756	833	548
Tax	208	149	134
Net result from discontinued operations	548	684	414

In 2012, Net result from classification as discontinued operations Asia includes goodwill write-offs of EUR 200 million in ING Life Korea, EUR 180 million in Investment Management Korea and EUR 15 million in ING Vysya Life Insurance. Reference is made to Note 11 'Assets and liabilities held for sale'.

In 2012, Net result from disposal of discontinued operations includes the divestment gain on the sale of the Insurance businesses in Malaysia. In 2011, Net result from disposal of discontinued operations includes the divestment gain on the sale of Latin America. Reference is made to Note 31 'Companies acquired and companies disposed'.

The net cash flow from discontinued operations was as follows:

Net cash flow from discontinued operations 2012 - Asia (2011 and 2010: Asia and Latin America)			
	2012	2011	2010
Operating cash flow	3,181	2,038	1,239
Investing cash flow	-3,022	-2,156	-2,138
Financing cash flow	-142	-200	1,406
Net cash flow	17	-318	507

Sales proceeds in cash in 2012 of EUR 1,332 million (2011: EUR 2,572 million) is presented in the consolidated statement of cash flows under 'Net cash flow from investment activities - Disposals and redemptions: group companies' and is not included in the table above.

ING's Insurance and investment management businesses in Asia and the reinsured Japan SPVA businesses in corporate reinsurance were previously included respectively in the segments Insurance Asia/Pacific, ING Investment Management and in the Corporate Line Insurance before they were classified as discontinued operations and held for sale. The segment Insurance Asia/Pacific ceased to exist, following the classification as discontinued operations, as all activities previously included in this segment are now discontinued operations.

## Notes to the consolidated annual accounts of ING Group continued

### 27 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 or are used for other purposes required by law. The assets not freely disposable are as follows:

Assets not freely disposable		
	2012	2011
Investments	970	1,610
Loans and advances to customers	25,375	29,800
Banks	16,420	18,033
Other assets	1,223	4,431
	<b>43,988</b>	<b>53,874</b>

Banks includes 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 of EUR 0 billion (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 34 'Related parties'.

The table does not include assets relating to securities lending as well as sale and repurchase transactions. Reference is made to Note 24 'Transfer of financial assets'.

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

### 28 CONTINGENT LIABILITIES AND COMMITMENTS

In the normal course of business the Group is party to 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 Group 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	Maturity not applicable	Total
<b>Banking operations</b>							
Contingent liabilities in respect of							
– discounted bills	1						1
– guarantees	17,427	387	924	1,140	4,156		24,034
– irrevocable letters of credit	7,220	5,747	1,266	312	7		14,552
– other	376	29	90	3			498
	<b>25,024</b>	<b>6,163</b>	<b>2,280</b>	<b>1,455</b>	<b>4,163</b>		<b>39,085</b>
<b>Insurance operations</b>							
Commitments	556	229	134	188	68	69	1,244
Guarantees				6	9	1	16
	<b>556</b>	<b>229</b>	<b>134</b>	<b>194</b>	<b>77</b>	<b>70</b>	<b>1,260</b>
Irrevocable facilities	34,380	17,582	2,697	26,128	5,762		86,549
	<b>59,960</b>	<b>23,974</b>	<b>5,111</b>	<b>27,777</b>	<b>10,002</b>	<b>70</b>	<b>126,894</b>

## Notes to the consolidated annual accounts of ING Group continued

Contingent liabilities and commitments							
2011	Less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Maturity not applicable	Total
<b>Banking operations</b>							
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
<b>Insurance operations</b>							
Commitments	1,148	158	174	227	3	115	1,825
Guarantees				9	10	5	24
	1,148	158	174	236	13	120	1,849
Irrevocable facilities	35,972	14,858	5,211	24,354	5,793		86,188
	65,458	22,085	7,839	26,275	9,655	120	131,432

Guarantees relate both to credit and non-credit substitute guarantees. Credit substitute guarantees are guarantees given by ING Group 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 Group has issued guarantees as a participant in collective arrangements of national industry bodies and as a participant in government required collective guarantee schemes which apply in different countries.

Irrevocable letters of credit mainly secure payments to third parties for a customer's foreign and domestic trade transactions in order to finance a shipment of goods. ING Group'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 Group'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 Group 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	241
2014	182
2015	165
2016	140
2017	104
Years after 2017	207

## 29 SPECIAL PURPOSE ENTITIES AND SECURITISATION

### Securitisation

#### ING Group as originator

ING Group enters into synthetic securitisation programmes in order to reduce credit risk on certain assets. In synthetic securitisations, ING Group enters into a credit default swap with securitisation Special Purpose Entities (SPEs), in relation to which ING Group 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 Group 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 Group.

## Notes to the consolidated annual accounts of ING Group continued

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

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 Group as sponsor of multi-seller conduit**

In the normal course of business, ING Group 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 Group, in its role as administrative agent, facilitates these transactions by providing structuring, accounting, funding and operations services.

ING Group 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 Group 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 Group 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 Group 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 Group. 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 Group as investor**

As part of its investment activities, ING Group 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 Group acts as a market maker and holds limited positions in this capacity.

### **Other entities**

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

### **Investment funds**

#### **ING Group as fund manager and investor**

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

#### **ING Group as fund manager**

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

## Notes to the consolidated annual accounts of ING Group continued

### 30 PRINCIPAL SUBSIDIARIES

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

<b>Companies treated as part of the banking operations</b>	
ING Bank N.V.	The Netherlands
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
<b>Companies treated as part of the insurance operations</b>	
ING Verzekeringen N.V.	The Netherlands
Nationale-Nederlanden Levensverzekering Maatschappij N.V.	The Netherlands
Nationale-Nederlanden Schadeverzekering Maatschappij N.V.	The Netherlands
ING Insurance Eurasia N.V.	The Netherlands
Parcom Capital B.V.	The Netherlands
Nationale-Nederlanden Services N.V.	The Netherlands
Movir N.V.	The Netherlands
ING Re (Netherlands) N.V.	The Netherlands
ING Fund Management B.V.	The Netherlands
REI Fund Netherlands B.V.	The Netherlands
ING Životná poisťovňa a.s.	Slovakia
ING Usługi Finansowe S.A.	Poland
ING Powszechnie Towarzystwo Emerytalne S.A.	Poland
ING Asigurari de Viata S.A.	Romania
ING Greek Life Insurance Company S.A.	Greece
ING Biztosító Zártkörűen Működő Részvénytársaság	Hungary
Nationale-Nederlanden Vida, Compañía de Seguros y Reaseguros S.A.	Spain
Nationale-Nederlanden Generales, Compañía de Seguros y Reaseguros S.A.	Spain
ING U.S., Inc.	United States of America
ING International Nominee Holdings, Inc.	United States of America
ING Life Insurance and Annuity Company	United States of America
ING North America Insurance Corporation	United States of America
Lion Connecticut Holdings Inc.	United States of America
ReliaStar Life Insurance Company	United States of America
ReliaStar Life Insurance Company of New York	United States of America
Security Life of Denver Insurance Company	United States of America
ING USA Annuity and Life Insurance Company	United States of America
ING Investment Management Co	United States of America
Security Life of Denver International Limited	Cayman Islands
ING Life Insurance Company Limited	Japan
ING Life Insurance Company Korea, Ltd.	South Korea
ING Life Insurance Company (Bermuda) Limited	Hong Kong

## 31 COMPANIES ACQUIRED AND COMPANIES DISPOSED

### Acquisitions effective in 2012

There were no significant acquisitions in 2012.

### Disposals announced in 2013

#### *ING Vysya Life Insurance*

In January 2013, ING announced it has agreed to sell its full interest in ING Vysya Life Insurance Company Ltd. to its joint venture partner Exide Industries Ltd. ING's exit from the Indian life insurance joint venture is part of the previously announced intended divestment of ING's Insurance and investment management businesses in Asia. The transaction is expected to result in a loss and therefore, the related goodwill has been reduced by EUR 15 million in the fourth quarter of 2012. Subject to regulatory approvals, the transaction is expected to close in the first half of 2013.

### Disposals effective in 2012

#### *Insurance businesses in Malaysia*

In October 2012, ING announced that it has reached an agreement with AIA Group Ltd. on the sale of ING's insurance operations in Malaysia, which include its life insurance business, its market-leading employee benefits business and its 60% stake in ING Public Takaful Ehsan Berhad. ING received a total cash consideration of EUR 1.3 billion. In December 2012, ING announced that it has completed the sale with a net transaction gain of EUR 745 million after tax.

#### *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 led 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 redemptions – 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 38 '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 34 'Related parties' for details on the original agreement and the amendments made.

### Disposals announced in 2012 but not closed in 2012

#### *ING's Insurance and investment management businesses in Asia*

In 2012, ING's Insurance and investment management businesses in Asia ('Asia') were classified as held for sale and discontinued operations. In 2012 various individual divestment transactions were agreed. The specifics of these transactions are included below. The Asian Insurance and Investment Management businesses and the reinsured Japan SPVA businesses in Corporate Reinsurance were previously included respectively in the segments Insurance Asia/Pacific and ING Investment Management and in the Corporate Line Insurance before they were classified as discontinued operations. Reference is made to Note 11 'Assets and liabilities held for sale' and Note 26 'Discontinued operations'.

#### *ING's investment management business in Thailand*

In November 2012, ING announced that it has reached an agreement to sell its investment management business in Thailand to UOB Asset Management Ltd. Under the terms agreed, ING will receive a total cash consideration of EUR 10 million for the investment management business in Thailand. The transaction is subject to regulatory approvals and is expected to close in the first half of 2013.

## Notes to the consolidated annual accounts of ING Group *continued*

### *Insurance in Hong Kong, Macau, Thailand*

In October 2012, ING announced that it has reached an agreement to sell its life insurance, general insurance, pension and financial planning units in Hong Kong and Macau, and its life insurance operation in Thailand to Pacific Century Group for a combined consideration of USD 2.1 billion (approximately EUR 1.6 billion) in cash. The transaction closed on 28 February 2013. A net gain of approximately EUR 950 million will be recognised in 2013. ING Investment Management's funds management businesses in Hong Kong and Thailand are outside the scope of this transaction.

### *China Merchants Fund*

In October 2012, ING announced that it has reached an agreement for the sale of its 33.3% stake in China Merchants Fund, an investment management joint venture, to its joint venture partners China Merchants Bank Co., Ltd., and China Merchants Securities Co., Ltd. Under the terms agreed, ING will receive a total cash consideration of approximately EUR 98 million. At closing of the transaction, ING expects the transaction to realise a net gain of approximately EUR 64 million which will be recognised on closing of the transaction. This transaction is subject to regulatory approvals and is expected to close in the second quarter of 2013.

### *ING's Malaysian investment management business*

In December 2012, ING announced that it has reached an agreement to sell its 70%-stake in ING Funds Berhad (IFB), ING's investment management business in Malaysia, to Kenanga Investors Berhad (Kenanga Investors), a wholly owned subsidiary of K & N Kenanga Holdings Berhad (Kenanga). Tab Inter-Asia Services Sdn Berhad has also agreed to sell its 30% stake in IFB to Kenanga Investors. This transaction will not have a material impact on ING's results and is subject to regulatory approvals. The transaction does not impact ING's other businesses in the region and is expected to close in the first quarter of 2013.

### *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.

<b>Most significant companies disposed in 2012</b>				
	<b>ING Direct USA</b>	<b>ING Direct Canada</b>	<b>Insurance Malaysia</b>	<b>Total</b>
<b>General</b>				
Primary line of business	<b>Bank</b>	<b>Bank</b>	<b>Insurance</b>	
<b>Sales proceeds</b>				
Cash proceeds <sup>(1)</sup>	<b>4,777</b>	<b>2,448</b>	<b>1,332</b>	<b>8,557</b>
Non-cash proceeds <sup>(2)</sup>	<b>2,012</b>			<b>2,012</b>
Sales proceeds	<b>6,789</b>	<b>2,448</b>	<b>1,332</b>	<b>10,569</b>
<b>Assets</b>				
Cash assets	<b>15,092</b>	<b>1</b>	<b>86</b>	<b>15,179</b>
Investments	<b>22,874</b>	<b>3,871</b>	<b>3,293</b>	<b>30,038</b>
Loans and advances to customers	<b>30,546</b>	<b>26,362</b>	<b>539</b>	<b>57,447</b>
Amounts due from banks	<b>268</b>	<b>773</b>		<b>1,041</b>
Financial assets at fair value through profit and loss	<b>3</b>	<b>17</b>	<b>224</b>	<b>244</b>
Real estate investments			<b>87</b>	<b>87</b>
Property and equipment	<b>76</b>			<b>76</b>
Miscellaneous other assets	<b>2,103</b>	<b>186</b>	<b>899</b>	<b>3,188</b>
<b>Liabilities</b>				
Insurance and investment contracts			<b>3,964</b>	<b>3,964</b>
Amounts due to banks	<b>5</b>	<b>253</b>		<b>258</b>
Customer deposits and other funds on deposit	<b>63,744</b>	<b>29,383</b>		<b>93,127</b>
Miscellaneous other liabilities	<b>132</b>	<b>148</b>	<b>512</b>	<b>792</b>
Net assets	<b>7,081</b>	<b>1,426</b>	<b>652</b>	<b>9,159</b>
% disposed	<b>100%</b>	<b>100%</b>	<b>100%</b>	
Net assets disposed	<b>7,081</b>	<b>1,426</b>	<b>652</b>	<b>9,159</b>
Gain/loss on disposal <sup>(3)</sup>	<b>743</b>	<b>1,124</b>	<b>745</b>	<b>2,612</b>

<sup>(1)</sup> 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.

<sup>(2)</sup> Non-Cash proceeds include the shares in Capital One Financial Corporation received.

<sup>(3)</sup> 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

#### ***Pacific Antai Life Insurance Company Ltd.***

In June 2011 ING completed the sale of its entire stake in China's Pacific Antai Life Insurance Company Ltd. (PALIC) to China Construction Bank for a consideration of EUR 82 million, and a net profit of EUR 28 million. This is the outcome of a strategic review announced in April 2009 as part of ING's Back to Basics program. The stake in PALIC was previously included in the segment Insurance Asia/Pacific. The deal had been announced in 2009 and was presented as held for sale since 2009 until the sale was completed.

#### ***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. REIM's 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 Investment Management Australia***

In October 2011 ING completed the sale of ING Investment Management (ING IM) Australia to UBS AG. ING IM Australia's business provided a number of investment strategies and products directly to the Australian institutional and wholesale markets. This transaction supported ING's objective to actively manage its capital and portfolio of businesses to ensure an attractive and coherent combination for the announced divestment of its insurance and investment management activities. ING IM Australia was previously included in the segment ING Investment Management.

#### ***Latin American pensions, life insurance and investment management operations***

In December 2011 ING completed the sale of its Latin American pensions, life insurance and investment management operations ('Latin American operations') for a total consideration of EUR 2,637 million to Grupo de Inversiones Suramericana ('GRUPOSURA'). The sale was the first major step in the divestment of ING's insurance and investment management activities. Under the terms of the agreement, ING received EUR 2,572 million in cash and GRUPOSURA assumed EUR 65 million in debt. The sale resulted in a net profit of EUR 995 million. Included in the transaction were the mandatory pension and voluntary savings businesses in Chile, Colombia, Mexico, Uruguay and ING's 80% stake in AFP Integra S.A. in Peru; the life insurance businesses in Chile and Peru; As part of this transaction ING sold its 33.7% stake in Peruvian InVita Seguros de Vida S.A. to the Wiese Family. The transaction also included the local investment management capabilities in these five countries. Not included in the transaction was ING's 36% stake in the leading Brazilian insurer Sul America SA. ING's Commercial Banking activities in Mexico, Brazil and Argentina were not affected by the announcement. ING's Mortgage and ING's Leasing businesses in Mexico were also not part of the transaction.

The Latin American operations were previously included in the segments Insurance Latin America and ING Investment Management before they were classified as discontinued operations. The segment Insurance Latin America has ceased to exist following this transaction as the majority of assets and liabilities have been sold. The net result from discontinued operations is presented separately in the consolidated profit and loss account. Reference is made to Note 26 'Discontinued operations' for more detailed disclosures.

#### ***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 and Retail Banking.

## Notes to the consolidated annual accounts of ING Group continued

### Most significant companies disposed in 2011

	Clarion Partners	Clarion Real Estate securities	ING REIM Asia and Europe	ING Car Lease	Pacific Antai Life Insurance Company Ltd	Latin American operations	Total
<b>General</b>							
Primary line of business	Bank	Bank	Bank	Bank	Insurance	Insurance	
<b>Sales proceeds</b>							
Cash proceeds <sup>(1)</sup>	69	224	365	696	82	2,572	4,008
Non-cash proceeds						65	65
Sales proceeds	69	224	365	696	82	2,637	4,073
<b>Assets</b>							
Cash assets					7	80	87
Investments					146	644	790
Loans and advances to customers			1	104	54	6	165
Amounts due from banks	1	3	94	103			201
Financial assets at fair value through profit and loss	5				10	679	694
Real estate investments							
Property and equipment				3,275			3,275
Miscellaneous other assets	20	44	82	341	48	1,491	2,026
<b>Liabilities</b>							
Insurance and investment contracts					205	715	920
Amounts due to banks				101			101
Customer deposits and other funds on deposit				3,028		66	3,094
Miscellaneous other liabilities	10	19	116	333	14	563	1,055
Net assets	16	28	61	361	46	1,556	2,068
% disposed	100%	100%	100%	100%	80%	Various <sup>(2)</sup>	
Net assets disposed	16	28	61	361	37	1,478	1,981
Gain/loss on disposal <sup>(3)</sup>	39	182	245	347	28	995	1,836

<sup>(1)</sup> Cash outflow/inflow on group companies in the cash flow statement includes cash outflows/inflows on individually immaterial disposals in addition to the cash flows presented.

<sup>(2)</sup> Comprises various entities as explained in the description of the disposal.

<sup>(3)</sup> 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.

### 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 previously 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 Group continued

Furthermore there were some disposals that did not have a significant impact on ING's balance sheet and profit and loss account. In November 2009 ING reached an agreement to sell three of its United States independent retail broker-dealer units to Lightyear Capital LLC for a total consideration of EUR 96 million. The transaction concerns Financial Network Investment Corporation, based in El Segundo, California, Multi-Financial Securities Corporation, based in Denver, Colorado, PrimeVest Financial Services, Inc., based in St. Cloud, Minnesota, and ING Brokers Network LLC, the holding company and back-office supporting those broker dealers, which collectively do business as ING Advisors Network. The sale was completed in February 2010. The three United States independent retail broker-dealer units were previously included in the segment Insurance US.

In December 2009 ING reached an agreement to sell the non-life insurance operations in Greece for a total consideration of EUR 4 million. The sale was completed in July 2010.

### Most significant companies disposed in 2010

	Asia Private Banking business <sup>(3)</sup>	Swiss Private Banking business <sup>(3)</sup>	ING Summit Industrial Fund LP	Total
<b>General</b>				
Primary line of business	Bank	Bank	Bank	
<b>Sales proceeds</b>				
Cash proceeds <sup>(1)</sup>	985	345	333	1,663
Sales proceeds	985	345	333	1,663
<b>Assets</b>				
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
<b>Liabilities</b>				
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% <sup>(4)</sup>	
Net assets disposed	653	272	359	1,284
Gain/loss on disposal <sup>(2)</sup>	332	73	-26	379

<sup>(1)</sup> Cash outflow/inflow on group companies in the cash flow statement includes cash outflows/inflows on individually immaterial disposals in addition to the cash flows presented.

<sup>(2)</sup> 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.

<sup>(3)</sup> As per 31 December 2009 recognised as a disposal group held for sale.

<sup>(4)</sup> After disposal of the 50% stake ING has no remaining stake in Summit.

### 32 LEGAL PROCEEDINGS

ING Group 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.

Proceedings in which ING is involved, include complaints and lawsuits concerning the performance of certain interest sensitive products that were sold by a former subsidiary of ING in Mexico. Proceedings also include lawsuits that have been filed by former employees of an Argentinean subsidiary, whose employment was terminated as a result of the Republic of Argentina's nationalisation of the pension fund system. Litigation has been filed by the purchaser of certain ING Mexican subsidiaries who claims that the financial condition of the subsidiaries was not accurately depicted. Further, 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. An administrator of an ERISA plan has filed a lawsuit seeking to represent a class of ERISA plan administrators claiming that an ING subsidiary has breached certain of its ERISA duties. The District Court has granted the Administrator's motion for class certification. These matters are being defended vigorously; however, at this time, ING is unable to assess their final outcome. Therefore at this moment it is not practicable to provide an estimate of the (potential) financial effect. An additional purported class litigation challenges the operation of the ING Americas Savings Plan and ESOP and the ING 401(k) Plan for ILIAC Agents. The District Court dismissed the case and plaintiffs appealed. The parties have reached an agreement on the terms of settlement of all claims in this case on a class-wide basis. The District Court must approve the settlement before it becomes effective. The current expectation is that the outcome will not have a significant impact on the net result.

Since the end of 2006, unit-linked products (commonly referred to in Dutch as 'beleggingsverzekeringen') have received negative attention in the Dutch media, from the Dutch Parliament, the AFM and consumer protection organisations. Costs of unit-linked products sold in the past are perceived as too high and insurers are in general being accused of being less transparent in their offering of unit-linked products. The criticism on unit-linked products led to the introduction of compensation schemes by Dutch insurance companies that have offered unit-linked products. In 2008 ING's Dutch insurance subsidiaries reached an outline agreement with consumer protection organisations to offer compensation to their unit-linked policyholders where individual unit-linked policies have a cost charge in excess of an agreed maximum and to offer similar compensation for certain hybrid insurance products. At 31 December 2008 a provision was recognised for the costs of the settlement. The costs were valued at EUR 365 million. A full agreement on implementation was reached in 2010 with one of the two main consumer protection organisations while in June 2012 also the other main consumer protection organisation signed this agreement. In addition, ING's Dutch insurance subsidiaries announced additional (so-called 'flanking') measures that comply with the 'Best in Class' criteria as formulated on 24 November 2011 by the Dutch Minister of Finance. In December 2011 this resulted in an agreement on these measures with the two main consumer protection organisations. In 2012 almost all unit-linked policyholders were informed about compensation. The agreements with the consumer protection organisations are not binding for policyholders. Consequently, neither the implementation of the compensation schemes nor the additional measures prevent individual policyholders from initiating legal proceedings against ING's Dutch insurance subsidiaries. Policyholders have initiated and may continue to initiate legal proceedings claiming further damages. In early 2013 a new association named 'Vereniging Woekerpolis.nl' announced legal proceedings on behalf of policyholders against ING's Dutch life insurance subsidiaries and other Dutch life insurers. Because of the continuous public and political attention for the unit-linked issue in general and the uncertain outcome of pending and future legal proceedings, it is not feasible to predict or determine the ultimate financial consequences.

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. 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 19 November 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 Dienstbond) 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.

In addition, like many other companies in the insurance industry, several of ING's U.S. companies have received formal requests for information from various governmental and regulatory agencies regarding whether and to what extent they proactively ascertain whether customers have deceased, pay benefits even where no claim has been made, and comply with state laws pertaining to unclaimed or abandoned property. Companies may have to make additional payments to beneficiaries and escheat additional funds deemed abandoned, and regulators may seek fines, penalties and interest. It is currently not practicable to estimate the (potential) financial effect of such information requests.

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.

## Notes to the consolidated annual accounts of ING Group continued

### 33 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
KB Life Insurance Company Ltd <sup>(1)(2)</sup>	49	2,164	1,997	710	695
ING-BOB Life Insurance Company Ltd <sup>(2)</sup>	50	495	417	135	130
ING Vysya Life Insurance Company Ltd <sup>(1)(2)</sup>	26	487	462	119	117
Total		3,185	2,889	979	915

<sup>(1)</sup> Accounted for as joint venture because of joint control.

<sup>(2)</sup> Assets and liabilities are presented as held for sale. Reference is made to Note 11 'Assets and liabilities held for sale'.

Most significant joint ventures					
2011	Interest held (%)	Assets	Liabilities	Income	Expenses
Postkantoren B.V.	50	57	69	16	21
KB Life Insurance Company Ltd <sup>(1)</sup>	49	1,524	1,390	449	434
ING-BOB Life Insurance Company Ltd	50	433	379	97	101
ING Vysya Life Insurance Company Ltd <sup>(1)</sup>	26	430	411	117	121
Total		2,444	2,249	679	677

<sup>(1)</sup> Accounted for as joint venture because of joint control.

### 34 RELATED PARTIES

In the normal course of business, ING Group 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			
	2012	Joint ventures		Associates
		2011	2012	2011
Assets	138	122	50	1,203
Liabilities	21	5	16	12
Income received	2	6	24	144
Expenses paid				20

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

	Transactions with ING Bank N.V. and ING Verzekeringen N.V.			
	2012	ING Bank N.V.		ING Verzekeringen N.V.
		2011	2012	2011
Assets	7,886	7,515	3,749	2,617
Liabilities	2,372	2,869		
Income received	828	868	123	60
Expenses paid	289	306		

Assets from ING Bank N.V. and ING Verzekeringen N.V. mainly include long-term funding. Liabilities to ING Bank N.V. mainly include short-term deposits.

As part of the exchange offers disclosed in Note 14 'Subordinated loans' EUR 0.9 billion intercompany debt from ING Bank N.V. to ING Groep N.V. was repaid in 2011.

### Key management personnel compensation

Transactions with key management personnel (Executive Board, Management Boards and Supervisory Board) and post-employment benefit plans are transactions with related parties. These transactions are disclosed in more detail as required by Part 9 Book 2 of the Dutch Civil Code in the remuneration report in the annual report. The relevant sections of the remuneration report therefore are part of the annual accounts. For the post-employment benefit plans see Note 21 'Other liabilities'.

## Notes to the consolidated annual accounts of ING Group continued

In 2012 and 2011, 'Management Boards' includes the Management Boards of ING Bank N.V. ('ING Bank'), ING Verzekeringen N.V. ('ING Insurance'), ING Insurance Eurasia N.V. ('Insurance EurAsia') and the Board of ING U.S., Inc. ('ING U.S.').

In 2011, ING made a number of changes in the structure and composition of the Management Boards for ING Verzekeringen N.V. and ING Bank N.V.. As of November 2011 the members of the Management Board ING Insurance Eurasia N.V. and the Board of ING U.S., Inc. are considered to be key management personnel and their compensation is therefore included in the tables below. Before November 2011 the members of the Management Board ING Insurance Eurasia N.V. were members of the Management Board ING Verzekeringen N.V.

Three members of the Executive Board of ING Groep N.V. are also members of the Management Boards of ING Bank N.V., ING Verzekeringen N.V., ING Insurance Eurasia N.V. and the Board of ING U.S., Inc. The Management Board members of ING Bank N.V., ING Verzekeringen N.V., ING Insurance Eurasia N.V. and the Board of ING U.S., Inc. are also considered to be key management of ING Group.

### Key management personnel compensation (Executive Board and Management Boards)

2012 amounts in thousands of euros	Executive Board of ING Groep N.V.	Management Boards <sup>(1),(2)</sup>	Total
Fixed compensation			
– Base salary	2,572	8,232	10,804
– Pension costs	311	1,810	2,121
– Termination benefit		1,873	1,873
Variable compensation			
– Upfront cash		2,696	2,696
– Upfront shares <sup>(3)</sup>		560	560
– Deferred cash		840	840
– Deferred shares <sup>(3)</sup>		3,204	3,204
– Other		339	339
Total compensation	2,883	19,554	22,437

<sup>(1)</sup> Next to compensation in his capacity as Board member, one of the new Management Board members received a 'buy-out' for the loss of compensation that he would have received had he not resigned from his former employer. The buy-out consists of a cash amount and shares with a total value of EUR 500.000 at the grant date, which vests in the years 2012-2015.

<sup>(2)</sup> Excluding members that are also members of the Executive Board of ING Groep N.V.

<sup>(3)</sup> 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 1.4 million, which is not included in the figures in the table above.

The 2012 Management Boards compensation includes the full year costs of the Board of ING U.S., Inc., whereas the 2011 Management Boards compensation includes only 2 months reflecting the creation of the Board of ING U.S., Inc. as of 3 November 2011.

### Key management personnel compensation (Executive Board and Management Boards)

2011 amounts in thousands of euros	Executive Board of ING Groep N.V.	Management Boards <sup>(1)</sup>	Total
Fixed compensation			
– Base salary	2,666	5,940	8,606
– Pension costs	315	2,083	2,398
– Retirement benefit		1,828	1,828
Variable compensation			
– Upfront cash		1,101	1,101
– Upfront shares <sup>(2)</sup>		799	799
– Deferred cash		1,199	1,199
– Deferred shares <sup>(2)</sup>		1,634	1,634
Total compensation	2,981	14,584	17,565

<sup>(1)</sup> Excluding members that are also members of the Executive Board of ING Groep N.V.

<sup>(2)</sup> Amount is determined based on the fair market value of the shares and the related vesting conditions if any.

### Key management personnel compensation (Supervisory Board)

amounts in thousands of euros	Supervisory Board	
	2012	2011
Base salary	806	857
Total compensation	806	857

## Notes to the consolidated annual accounts of ING Group continued

### Loans and advances to key management personnel

amounts in thousands of euros	Amount outstanding 31 December		Average interest rate		Repayments	
	2012	2011	2012	2011	2012	2011
Executive Board members	2,338	1,968	3.3%	3.6%		
Members of the Management Boards of ING Bank, ING Insurance, Insurance EurAsia and ING U.S.	860	2,314	3.7%	3.4%	60	388
Supervisory Board members		282		8.6%	282	
Total	3,198	4,564			342	388

The total number of stock options on ING Groep N.V. shares held by the Executive Board members of ING Groep N.V. amounted to 77,447 as at 31 December 2012 (2011: 164,689) and total number of stock options on ING Groep N.V. shares held by Management Board members of ING Bank N.V., ING Verzekeringen N.V., ING Insurance Eurasia N.V. and members of the Board of ING U.S., Inc. amounted to 1,967,465 as at 31 December 2012 (2011: 1,913,631). As at 31 December 2012, members of the Executive Board held 176,756 ING Groep N.V. shares (2011: 149,400) and members of the Management Boards of ING Bank N.V., ING Verzekeringen N.V., ING Insurance Eurasia N.V. and members of the Board of ING U.S., Inc. held 247,265 ING Groep N.V. shares (2011: 84,173). As at 31 December 2012, members of the Supervisory Board held 324,956 ING Groep N.V. shares (2011: 244,968).

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 IABF covers the Alt-A portfolios of both ING Direct USA and ING Insurance US, with a par value of approximately EUR 30 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 22.4 billion at the transaction date. The amortised cost (after prior impairments) at the transaction date was also approximately EUR 22.4 billion. The transaction resulted in a loss in the first quarter of 2009 of EUR 109 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 15.2 billion.

In order to obtain approval from the European Commission on ING Group's Restructuring Plan (see below), ING agreed 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 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 of EUR 21.1 billion (EUR 22.4 billion -/- adjustment of EUR 1.3 billion) and the fair value under IFRS-EU of EUR 15.2 billion 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 4.6 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 35 'Fair value of financial assets and liabilities'.

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 10.3 billion). The net amount of other unamortised components of the total sales proceeds, as explained above, amounts to EUR 0.1 billion payable (2011: EUR 0.6 billion payable).

In connection with the sale of ING Direct USA as disclosed in Note 31 '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.

### **Non-voting equity securities (Core Tier 1 securities)**

On 12 November 2008, ING Groep N.V. issued one billion non-voting equity securities to the Dutch State at EUR 10 per non-voting equity security, resulting in an increase of ING Group's core Tier 1 capital of EUR 10 billion. The nominal value of each security is EUR 0.24. The non-voting equity securities do not form part of ING Group's share capital; accordingly they do not carry voting rights in the General Meeting of Shareholders.

These non-voting equity securities are deeply subordinated and rank pari-passu with ordinary shares in a winding up of ING Group. On these non-voting equity securities a coupon is payable of the higher of EUR 0.85 per security and 125% of the dividend paid on each ordinary share over 2011 onwards (payable in 2012 onwards).

Further coupons are to be paid on 12 May of each year (the coupon date) in cash if dividend on ordinary shares is paid in cash or to be paid in scrip securities in the event of a scrip dividend on ordinary shares. Coupons are only due and payable, on a non-cumulative basis and if a dividend is paid on ordinary shares over the financial year preceding the coupon date, either on an interim or a final dividend basis, provided that ING Groep N.V.'s capital adequacy position is and remains satisfactory both before and immediately after payment in the opinion of the Dutch Central Bank.

ING Groep N.V. has, as of 12 November 2011, the right to repay all or some of the non-voting equity securities at EUR 15 per security at any time, together with the pro-rata coupon accrued to such date. ING Groep N.V. and the Dutch State have agreed in October 2009 that up to EUR 5 billion of the EUR 10 billion core Tier 1 securities could be repaid at any time until 31 January 2010 at the original issue price of EUR 10 per non-voting equity security, plus a repurchase premium and accrued interest.

ING Groep N.V. also has the right to convert all or some of the non-voting equity securities into ordinary shares on the basis of one non-voting equity security for 1.335 ordinary shares or bearer depositary receipts from three years after the issue date onwards, subject to certain conditions. This equates to an exchange price of EUR 7.49. The Dutch State in that case has the right to demand a redemption payment of EUR 10 per non-voting equity security, together with the pro-rata coupon, if due, accrued to such date. Both repayment and conversion of the securities must be approved by the Dutch Central Bank.

### **Repayment non-voting equity shares**

In December 2009, ING repaid the first half of the non-voting equity securities (core Tier 1 securities) of EUR 5 billion plus a total premium of EUR 605 million. On 13 May 2011 ING exercised its option for early repayment of EUR 2 billion of the remaining non-voting equity securities (core Tier 1 securities). The total payment in May 2011 amounted to EUR 3 billion and included a 50% repurchase premium. ING funded this repayment from retained earnings. In November 2012 ING reached an agreement with the European Commission on an amended Restructuring Plan. As part of the amended Restructuring Plan, ING submitted a repayment schedule for the remaining EUR 3 billion non-voting equity securities (core Tier 1 securities) at a total cost of EUR 4.5 billion in four equal tranches in the next three years, translating into an overall internal rate of return (IRR) for the Dutch State on the core Tier 1 securities of exactly 12.5%. In accordance with this agreement ING repaid EUR 0.75 billion of the remaining non-voting equity securities (Core Tier 1 securities) in November 2012. The total payment in November 2012 amounted to EUR 1,125 billion including premiums and interest. On the basis of the repayment schedule, ING aims to repay a second tranche by November 2013, a third by March 2014 and a final tranche ultimately by May 2015. While ING has committed to redeem these securities per the defined schedule, ING has the ability to defer a repayment in full or in part, in which case the subsequent tranche will be increased with a corresponding amount. In the event that ING does not repay in full 2 consecutive repayment tranches or does not pay in total EUR 4.5 billion by 15 May 2015, the Dutch State will re-notify to the Commission who may in principle require compensatory measures. All repayments are conditional upon the approval of the Dutch central bank (DNB).

ING has indicated that it remains its ambition to repay the remaining support as quickly as possible and ING intends to accelerate repayments if possible and prudent under the prevailing economic circumstances. All actual repayments are conditional upon the approval of Dutch central bank at the time ING decides to propose such payment.

### **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'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 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 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.

### **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. 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.

Finally, the amended Restructuring Plan includes a repayment schedule for the remaining core Tier 1 securities to the Dutch State as described in the above-mentioned section 'Repayment non-voting equity shares'.

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.

### **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 15 'Debt securities in issue'.

### **Other**

Following the transactions as disclosed in this note, the Dutch State is a related party of ING Group. All other transactions between ING Group 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 (whichever expires last). These arrangements require that:

- the Dutch State may recommend two candidates (the 'State Nominees') for appointment to the Supervisory Board. Certain decisions of the Supervisory Board require approval of the State Supervisory Board members;
- ING Group 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 must, amongst others, 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 the growth of 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 requires approval of the State Nominees.

## Notes to the consolidated annual accounts of ING Group continued

### 35 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

The following table presents the estimated fair values of ING Group'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 Group.

	Estimated fair value		Balance sheet value	
	2012	2011	2012	2011
<b>Financial assets</b>				
Cash and balances with central banks	17,657	31,194	17,657	31,194
Amounts due from banks	39,126	45,269	39,053	45,323
Financial assets at fair value through profit and loss				
– trading assets	114,895	123,688	114,895	123,688
– investments for risk of policyholders	98,765	116,438	98,765	116,438
– non-trading derivatives	13,951	17,159	13,951	17,159
– designated as at fair value through profit and loss	4,760	5,437	4,760	5,437
Investments				
– available-for-sale	193,584	208,539	193,584	208,539
– held-to-maturity	6,626	8,835	6,545	8,868
Loans and advances to customers	580,399	610,448	563,404	602,525
Other assets <sup>(1)</sup>	20,850	22,367	20,850	22,367
	<b>1,090,613</b>	1,189,374	<b>1,073,464</b>	1,181,538
<b>Financial liabilities</b>				
Subordinated loans	8,373	5,909	8,786	8,858
Debt securities in issue	149,874	141,774	143,436	139,861
Other borrowed funds	16,056	18,053	16,723	19,684
Investment contracts for risk of company	4,624	6,717	4,561	6,259
Investment contracts for risk of policyholders	8,067	6,939	8,067	6,939
Amounts due to banks	39,628	72,687	38,704	72,233
Customer deposits and other funds on deposit	457,624	468,447	455,003	467,547
Financial liabilities at fair value through profit and loss				
– trading liabilities	83,652	107,682	83,652	107,682
– non-trading derivatives	18,752	22,165	18,752	22,165
– designated as at fair value through profit and loss	13,399	13,021	13,399	13,021
Other liabilities <sup>(2)</sup>	24,810	26,177	24,810	26,177
	<b>824,859</b>	889,571	<b>815,893</b>	890,426

<sup>(1)</sup> Other assets do not include (deferred) tax assets, pension assets and property development and obtained from foreclosures.

<sup>(2)</sup> Other liabilities do not include (deferred) tax liabilities, pension liabilities, insurance provisions, prepayments received under property under development, share-based payment plans, 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.

## Notes to the consolidated annual accounts of ING Group continued

The following methods and assumptions were used by ING Group 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.

#### ***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 taking into account prepayment behaviour and discounting future cash flows using interest rates currently being offered for similar loans to borrowers with similar credit ratings. The fair values of fixed rate policy loans are estimated by discounting cash flows at the interest rates charged on policy loans of similar policies currently being issued. Loans with similar characteristics are aggregated for calculations purposes. The carrying values of variable rate policy loans approximate their fair value.

#### ***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.

#### ***Investment contracts***

For investment contracts for risk of the company the fair values have been estimated using a discounted cash flow approach based on interest rates currently being offered for similar contracts with maturities consistent with those remaining for the contracts being valued. For investment contracts for risk of policyholders the fair value generally equals the fair value of the underlying assets.

#### ***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 Group 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 upon whether fair values were determined based on 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 the Group'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.

## Notes to the consolidated annual accounts of ING Group continued

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
<b>Assets</b>				
Trading assets	29,247	83,638	2,010	114,895
Investments for risk of policyholders	92,632	5,983	150	98,765
Non-trading derivatives	61	13,344	546	13,951
Financial assets designated as at fair value through profit and loss	220	2,419	2,121	4,760
Available-for-sale investments	115,882	73,514	4,188	193,584
	<b>238,042</b>	<b>178,898</b>	<b>9,015</b>	<b>425,955</b>
<b>Liabilities</b>				
Trading liabilities	14,349	67,780	1,523	83,652
Non-trading derivatives	289	16,976	1,487	18,752
Financial liabilities designated as at fair value through profit and loss	1,833	6,464	5,102	13,399
Investment contracts (for contracts carried at fair value)	3,716	4,339	12	8,067
	<b>20,187</b>	<b>95,559</b>	<b>8,124</b>	<b>123,870</b>

Methods applied in determining fair values of financial assets and liabilities				
2011	Level 1	Level 2	Level 3	Total
<b>Assets</b>				
Trading assets	32,903	89,403	1,382	123,688
Investments for risk of policyholders	111,203	5,094	141	116,438
Non-trading derivatives	1,477	14,723	959	17,159
Financial assets designated as at fair value through profit and loss	251	2,300	2,886	5,437
Available-for-sale investments	120,889	81,926	5,724	208,539
	<b>266,723</b>	<b>193,446</b>	<b>11,092</b>	<b>471,261</b>
<b>Liabilities</b>				
Trading liabilities	20,308	86,434	940	107,682
Non-trading derivatives	1,175	18,808	2,182	22,165
Financial liabilities designated as at fair value through profit and loss	1,150	7,599	4,272	13,021
Investment contracts (for contracts carried at fair value)	3,279	3,648	12	6,939
	<b>25,912</b>	<b>116,489</b>	<b>7,406</b>	<b>149,807</b>

### 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, 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 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 Group continued

### Changes in Level 3 Assets

2012	Trading assets	Investments for risk of policyholders	Non-trading derivatives	Financial assets designated as at fair value through profit and loss	Available-for-sale investments	Total
Opening balance	1,382	141	959	2,886	5,724	11,092
Amounts recognised in the profit and loss account during the year	192	2	-375	-245	-50	-476
Revaluation recognised in equity during the year					14	14
Purchase of assets	1,143	83	170	815	507	2,718
Sale of assets	-330	-15	-195	-1,022	-660	-2,222
Maturity/settlement	-313		-2	-378	-1,096	-1,789
Transfers into Level 3	135	67	11		487	700
Transfers out of Level 3	-202	-6	-21	-2	-462	-693
Exchange rate differences		-6	-1	-17	-22	-46
Changes in the composition of the group and other changes	3	-116		84	-254	-283
Closing balance	2,010	150	546	2,121	4,188	9,015

### 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	Investments for risk of policyholders	Non-trading derivatives	Financial assets designated as at fair value through profit and loss	Available-for-sale investments	Total
Opening balance	2,132	136	635	1,846	6,104	10,853
Amounts recognised in the profit and loss account during the year	-361		311	10	-229	-269
Revaluation recognised in equity during the year					-72	-72
Purchase of assets	786	123	143	1,112	1,461	3,625
Sale of assets	-582	-99	-76	-271	-781	-1,809
Maturity/settlement	-441		-75	-100	-783	-1,399
Transfers into Level 3	95	4	13	224	920	1,256
Transfers out of Level 3	-245	-6		-2	-2,248	-2,501
Exchange rate differences	-2	-17	8	59	9	57
Changes in the composition of the group and other changes				8	1,343	1,351
Closing balance	1,382	141	959	2,886	5,724	11,092

### Main changes in fair value hierarchy in 2011

The classification was impacted in 2011 by a transfer of available-for-sale investments of EUR 2.0 billion from Level 3 to Level 2, relating to mortgage backed securities in the United States. Previously these were classified in Level 3 because of the dispersion between prices obtained for the same security from different price sources. In 2011 prices supported by market observable inputs became available and were used in determining the fair value.

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 11 '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 the reclassification of associates to investments available-for-sale as disclosed in Note 6 'Investments in associates', as well as the reclassification of equity securities in certain real estate companies into Level 3.

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 Group continued

### Changes in Level 3 Liabilities

2012	Trading liabilities	Non-trading derivatives	Financial liabilities designated as at fair value through profit and loss	Investment contracts (for contracts carried at fair value)	Total
Opening balance	940	2,182	4,272	12	7,406
Amounts recognised in the profit and loss account during the year	232	-850	96		-522
Issue of liabilities	1,380	240	2,614	12	4,246
Early repayment of liabilities	-348	-48	-1,067	-6	-1,469
Maturity/settlement	-535	-3	-1,174		-1,712
Transfers into Level 3	85	7	395		487
Transfers out of Level 3	-223	-19	-30	-6	-278
Exchange rate differences	-8	-22	-4		-34
Closing balance	1,523	1,487	5,102	12	8,124

### Changes in Level 3 Liabilities

2011	Trading liabilities	Non-trading derivatives	Financial liabilities designated as at fair value through profit and loss	Investment contracts (for contracts carried at fair value)	Total
Opening balance	1,441	1,876	3,225	17	6,559
Amounts recognised in the profit and loss account during the year	46	183	113		342
Issue of liabilities	1,138	502	1,613	7	3,260
Early repayment of liabilities	-705	-49	-402	-3	-1,159
Maturity/settlement	-928	-400	-645		-1,973
Transfers into Level 3	125	25	441		591
Transfers out of Level 3	-175	-2	-80	-9	-266
Exchange rate differences	-2	63	7		68
Changes in the composition of the group		-16			-16
Closing balance	940	2,182	4,272	12	7,406

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

2012	Held at balance sheet date	Derecognised during the year	Total
<b>Assets</b>			
Trading assets	191	1	192
Investments for risk of policyholders	3	-1	2
Non-trading derivatives	-378	3	-375
Financial assets designated as at fair value through profit and loss	-204	-41	-245
Available-for-sale investments	-93	43	-50
	-481	5	-476
<b>Liabilities</b>			
Trading liabilities	232		232
Non-trading derivatives	-854	4	-850
Financial liabilities designated as at fair value through profit and loss	96		96
	-526	4	-522

## Notes to the consolidated annual accounts of ING Group continued

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

2011	Held at balance sheet date	Derecognised during the year	Total
<b>Assets</b>			
Trading assets	-364	3	-361
Non-trading derivatives	308	3	311
Financial assets designated as at fair value through profit and loss	10		10
Available-for-sale investments	-160	-69	-229
	-206	-63	-269
<b>Liabilities</b>			
Trading liabilities	46		46
Non-trading derivatives	194	-11	183
Financial liabilities designated as at fair value through profit and loss	113		113
	353	-11	342

### 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		748	8	756
US Alt-A RMBS		454	3	457
CDO/CLOs	7	71	434	512
CMBS	1	3,857	1	3,859
Total	8	5,130	446	5,584

#### Fair value hierarchy of certain ABS bonds

2011	Level 1	Level 2	Level 3	Total
US Subprime RMBS		763	11	774
US Alt-A RMBS		495	7	502
CDO/CLOs	6	43	420	469
CMBS	2	4,404	6	4,412
Total	8	5,705	444	6,157

## Notes to the consolidated annual accounts of ING Group 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 5.0 billion (2011: EUR 5.1 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
<b>Greece</b>				
Government bonds	76			76
<b>Italy</b>				
Government bonds	1,958	379		2,337
Financial institutions	165	333		498
<b>Ireland</b>				
Government bonds	55			55
Financial institutions	30			30
<b>Portugal</b>				
Government bonds	627			627
Financial institutions	55	22		77
<b>Spain</b>				
Government bonds	1,151			1,151
Financial institutions	99			99
<b>Cyprus</b>				
Government bonds	13			13
Total	4,229	734		4,963

Fair value hierarchy of Greek, Italian, Irish, Portuguese, Spanish and Cyprian bonds at fair value				
2011	Level 1	Level 2	Level 3	Total
<b>Greece</b>				
Government bonds		219	36	255
<b>Italy</b>				
Government bonds	1,705	86	242	2,033
Financial institutions	282	350		632
<b>Ireland</b>				
Government bonds	43			43
Financial institutions	59			59
<b>Portugal</b>				
Government bonds	533			533
Financial institutions	60	65		125
<b>Spain</b>				
Government bonds	1,178	12		1,190
Financial institutions	258			258
<b>Cyprus</b>				
Government bonds	12			12
Total	4,130	732	278	5,140

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

### 36 INTEREST RESULT BANKING OPERATIONS

Interest result banking operations			
	2012	2011	2010
Interest income on loans	24,798	26,415	24,942
Interest income on impaired loans	41	61	40
Total interest income on loans	24,839	26,476	24,982
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	6,165	5,294	4,870
Interest income banking operations	60,002	64,649	68,334
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	3,822	3,435	2,761
Interest expense on subordinated loans	1,422	1,625	1,856
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	7,537	6,988	6,405
Interest expense banking operations	48,119	51,200	55,011
Interest result banking operations	11,883	13,449	13,323
Interest margin			
in percentages	2012	2011	2010
Interest margin	1.32	1.42	1.44

In 2012, the decrease in total average assets, partly attributable to the disposal of ING Direct USA and ING Direct Canada, led to a decrease of EUR 610 million in the interest result. In addition a decrease of 10 basis points of the interest margin led to a decrease in the interest result of EUR 956 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.

## Notes to the consolidated annual accounts of ING Group continued

### 37 GROSS PREMIUM INCOME

Gross premium income			
	2012	2011	2010
Gross premium income from life insurance policies	<b>18,544</b>	18,584	19,566
Gross premium income from non-life insurance policies	<b>1,733</b>	1,695	1,713
	<b>20,277</b>	20,279	21,279

Gross premium income has been presented before deduction of reinsurance and retrocession premiums granted. Gross premium income excludes premium received for investment contracts, for which deposit accounting is applied.

Effect of reinsurance on premiums written									
	2012	Non-life			Life			Total	
		2011	2010	2012	2011	2010	2012	2011	2010
Direct gross premiums written	<b>1,709</b>	1,672	1,690	<b>17,530</b>	17,553	18,403	<b>19,239</b>	19,225	20,093
Reinsurance assumed gross premiums written	<b>24</b>	23	23	<b>1,014</b>	1,031	1,163	<b>1,038</b>	1,054	1,186
Total gross premiums written	<b>1,733</b>	1,695	1,713	<b>18,544</b>	18,584	19,566	<b>20,277</b>	20,279	21,279
Reinsurance ceded	<b>-40</b>	-39	-62	<b>-1,642</b>	-1,664	-1,821	<b>-1,682</b>	-1,703	-1,883
	<b>1,693</b>	1,656	1,651	<b>16,902</b>	16,920	17,745	<b>18,595</b>	18,576	19,396

Effect of reinsurance on non-life premiums earned			
	2012	2011	2010
Direct gross premiums earned	<b>1,731</b>	1,699	1,718
Reinsurance assumed gross premiums earned	<b>24</b>	23	23
Total gross premiums earned	<b>1,755</b>	1,722	1,741
Reinsurance ceded	<b>-40</b>	-39	-62
	<b>1,715</b>	1,683	1,679

See Note 44 'Underwriting expenditure' for disclosure on reinsurance ceded.

## Notes to the consolidated annual accounts of ING Group continued

### 38 INVESTMENT INCOME

Investment income by banking and insurance operations									
	Banking operations			Insurance operations			Total		
	2012	2011	2010	2012	2011	2010	2012	2011	2010
Income from real estate investments	16	24	128	54	53	54	70	77	182
Dividend income	64	49	59	204	228	179	268	277	238
	80	73	187	258	281	233	338	354	420
Income from investments in debt securities				4,887	4,994	4,915	4,887	4,994	4,915
Income from loans									
– unsecured loans				215	256	231	215	256	231
– mortgage loans				806	800	817	806	800	817
– policy loans				98	100	108	98	100	108
– other				249	–43	–319	249	–43	–319
Income from investments in debt securities and loans				6,255	6,107	5,752	6,255	6,107	5,752
Realised gains/losses on disposal of debt securities	209	91	150		22	–11	209	113	139
Impairments of available-for-sale debt securities	–16	–735	–146	–45	–750	–587	–61	–1,485	–733
Reversal of impairments of available-for-sale debt securities		74		8	5		8	79	
Realised gains/losses and impairments of debt securities	193	–570	4	–37	–723	–598	156	–1,293	–594
Realised gains/losses on disposal of equity securities	367	39	338	443	379	141	810	418	479
Impairments of available-for-sale equity securities	–22	–65	–32	–143	–173	–37	–165	–238	–69
Realised gains/losses and impairments of equity securities	345	–26	306	300	206	104	645	180	410
Change in fair value of real estate investments	–11	–21	–50	–48	2	–51	–59	–19	–101
Investment income	607	–544	447	6,728	5,873	5,440	7,335	5,329	5,887

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 31 'Companies acquired and companies disposed'.

In 2011, an impairment of EUR 978 million was recognised on Greek government bonds and an impairment of EUR 189 million was recognised on subordinated debt from Irish banks. Both are included in Impairments of available-for-sale debt securities. Reference is made to the 'Risk management' section for further information on these impairments.

Impairments and reversals of impairments 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		–136				
Retail Rest of World		–328	–107		30	
Commercial Banking	–26	–301	–70		44	
Insurance Benelux	–155	–410	–53			
Insurance CRE		–338	–18			
Insurance US	–31	–166	–553	8	5	
Corporate Line Banking	–11	–13	–1			
Corporate Line Insurance	–2	–9				
	–226	–1,723	–802	8	79	

## Notes to the consolidated annual accounts of ING Group continued

### 39 RESULT ON DISPOSALS OF GROUP COMPANIES

Result on disposals of group companies	
	<b>2012</b>
ING Direct USA	<b>743</b>
ING Direct Canada	<b>1,124</b>
ING Direct UK	<b>-260</b>
Other	<b>-3</b>
	<b>1,604</b>

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
Other	-12
	801

The result on disposal of the Malaysian operations (2011: Latin American operations) is not included above but in the result on disposal of discontinued operations. Reference is made to Note 26 'Discontinued operations'

Result on disposals of group companies	
	2010
Asian Private Banking business	332
Swiss Private Banking business	73
ING Summit Industrial Fund LP	-26
Other	-69
	310

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 31 'Companies acquired and companies disposed' for more details.

### 40 COMMISSION INCOME

Gross fee and commission income									
	2012	Banking operations			Insurance operations			Total	
		2011	2010	2012	2011	2010	2012	2011	2010
Funds transfer	<b>956</b>	916	861				<b>956</b>	916	861
Securities business	<b>511</b>	681	695				<b>511</b>	681	695
Insurance broking	<b>164</b>	161	190	<b>403</b>	366	348	<b>567</b>	527	538
Asset management fees	<b>90</b>	310	476	<b>1,390</b>	1,357	1,367	<b>1,480</b>	1,667	1,843
Brokerage and advisory fees	<b>337</b>	347	329	<b>176</b>	205	211	<b>513</b>	552	540
Other	<b>1,008</b>	1,013	965	<b>81</b>	474	240	<b>1,089</b>	1,487	1,205
	<b>3,066</b>	3,428	3,516	<b>2,050</b>	2,402	2,166	<b>5,116</b>	5,830	5,682

Asset management fees related to the management of investments held for the risk of policyholders of EUR 521 million (2011: EUR 486 million; 2010: EUR 358 million) are included in Commission income. The decrease in asset management fees in 2012 is explained by the sale of ING REIM in 2011.

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.

## Notes to the consolidated annual accounts of ING Group continued

Fee and commission expenses									
	2012	Banking operations			Insurance operations			Total	
		2011	2010	2012	2011	2010	2012	2011	2010
Funds transfer	336	313	257				336	313	257
Securities business	98	126	125				98	126	125
Management fees	9	10	19	33	57	174	42	67	193
Brokerage and advisory fees	85	68	70	315	285	307	400	353	377
Other	442	457	452	260	597	260	702	1,054	712
	970	974	923	608	939	741	1,578	1,913	1,664

### 41 VALUATION RESULTS ON NON-TRADING DERIVATIVES

Valuation results on non-trading derivatives									
	2012	Banking operations			Insurance operations			Total	
		2011	2010	2012	2011	2010	2012	2011	2010
Change in fair value of derivatives relating to									
– fair value hedges	-428	-956	-679	18	-72	-69	-410	-1,028	-748
– cash flow hedges (ineffective portion)	17	-1	2	-11	-10	-19	6	-11	-17
– other non-trading derivatives	-2	-315	-720	-1,896	701	-667	-1,898	386	-1,387
Net result on non-trading derivatives	-413	-1,272	-1,397	-1,889	619	-755	-2,302	-653	-2,152
Change in fair value of assets and liabilities (hedged items)	536	989	686	-25	58	66	511	1,047	752
Valuation results on assets and liabilities designated as at fair value through profit and loss (excluding trading)	-1,101	504	69	-27	102	91	-1,128	606	160
Net valuation results	-978	221	-642	-1,941	779	-598	-2,919	1,000	-1,240

Included in the Valuation results on non-trading derivatives are the fair value movements on derivatives used to economically hedge exposures, but for which no hedge accounting is applied. For insurance operations, these derivatives hedge exposures in Insurance contract liabilities. The fair value movements on the derivatives are influenced by changes in the market conditions, such as stock prices, interest rates and currency exchange rates. The change in fair value of the derivatives is largely offset by changes in Insurance contract liabilities, which are included in Underwriting expenditure. Reference is made to Note 44 'Underwriting expenditure'.

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 were 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 20 'Financial liabilities at fair value through profit and loss'. In 2012 and 2011 market conditions includes in particular credit spread developments.

### 42 NET TRADING INCOME

Net trading income									
	2012	Banking operations			Insurance operations			Total	
		2011	2010	2012	2011	2010	2012	2011	2010
Securities trading results	252	-133	231	91	36	180	343	-97	411
Foreign exchange transactions results	-142	-374	648	22	-11	-277	-120	-385	371
Derivatives trading results	899	882	174				899	882	174
Other	113	-49	64	-33	26	-65	80	-23	-1
	1,122	326	1,117	80	51	-162	1,202	377	955

Securities trading results includes the results of making markets in instruments such as government securities, equity securities, corporate debt securities, money-market instruments, and 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.

## Notes to the consolidated annual accounts of ING Group continued

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. The securities trading results are partly offset 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 20 'Financial liabilities at fair value through profit and loss' for information on trading liabilities.

### 43 OTHER INCOME

Other income	Banking operations			Insurance operations			Total		
	2012	2011	2010	2012	2011	2010	2012	2011	2010
Net operating lease income	1	176	213				1	176	213
Income from real estate development projects	22	31	36				22	31	36
Other	-399	909	98	46	202	241	-353	1,111	339
	<b>-376</b>	1,116	347	<b>46</b>	202	241	<b>-330</b>	1,318	588

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 955 million on the repurchase of subordinated loans as disclosed in Note 14 'Subordinated loans'.

### 44 UNDERWRITING EXPENDITURE

Underwriting expenditure	2012	2011	2010
Gross underwriting expenditure			
– before effect of investment result for risk of policyholders	24,465	27,507	27,299
– effect of investment result risk of policyholders	11,246	-186	10,120
	<b>35,711</b>	27,321	37,419
Investment result for risk of policyholders	-11,246	186	-10,120
Reinsurance recoveries	-1,833	-1,760	-1,620
Underwriting expenditure	<b>22,632</b>	25,747	25,679

The investment income and valuation results regarding investments for risk of policyholders is EUR 11,246 million (2011: EUR –186 million; 2010: EUR 10,120 million). This amount is not recognised in Investment income and valuation results on assets and liabilities designated at fair value through profit and loss but in Underwriting expenditure. As a result it is shown together with the equal amount of change in insurance provisions for risk of policyholders.

## Notes to the consolidated annual accounts of ING Group continued

<b>Underwriting expenditure by class</b>			
	2012	2011	2010
<b>Expenditure from life underwriting</b>			
Reinsurance and retrocession premiums	1,642	1,664	1,822
Gross benefits	25,410	23,257	21,701
Reinsurance recoveries	-1,898	-1,751	-1,612
Change in life insurance provisions	-5,317	-816	-632
Costs of acquiring insurance business	592	1,265	2,150
Other underwriting expenditure	621	499	464
Profit sharing and rebates	102	216	325
	<b>21,152</b>	<b>24,334</b>	<b>24,218</b>
<b>Expenditure from non-life underwriting</b>			
Reinsurance and retrocession premiums	40	39	61
Gross claims	1,103	1,086	1,021
Reinsurance recoveries	65	-9	-8
Change in provision for unearned premiums	-22	-27	-27
Change in claims provision	109	5	44
Costs of acquiring insurance business	263	261	274
Other underwriting expenditure		-2	
	<b>1,558</b>	<b>1,353</b>	<b>1,365</b>
<b>Expenditure from investment contracts</b>			
Costs of acquiring investment contracts	2	3	5
Other changes in investment contract liabilities	-80	57	91
	<b>-78</b>	<b>60</b>	<b>96</b>
	<b>22,632</b>	<b>25,747</b>	<b>25,679</b>
<b>Profit sharing and rebates</b>			
	2012	2011	2010
Distributions on account of interest or underwriting results	-28	21	9
Bonuses added to policies	67	108	159
Deferred profit sharing expense	63	87	157
	<b>102</b>	<b>216</b>	<b>325</b>

The total Cost of acquiring insurance business (life and non-life) and investment contracts amounted to EUR 857 million (2011: EUR 1,529 million; 2010: EUR 2,429 million). This includes amortisation and unlocking of DAC of EUR 1,066 million (2011: EUR 1,702 million; 2010: EUR 2,697 million) and the net amount of commissions paid of EUR 1,465 million (2011: EUR 1,414 million; 2010: EUR 1,294 million) and commissions capitalised in DAC of EUR 1,674 million (2011: EUR 1,587 million; 2010: EUR 1,562 million).

The total amount of commission paid and commission payable with regard to the insurance operations amounted to EUR 1,590 million (2011: EUR 1,634 million; 2010: EUR 1,633 million). This includes the commissions recognised in Costs of acquiring insurance business of EUR 1,465 million (2011: EUR 1,414 million; 2010: EUR 1,294 million) referred to above and commissions recognised in Other underwriting expenditure of EUR 125 million (2011: EUR 220 million; 2010: EUR 339 million). Other underwriting expenditure also includes reinsurance commissions received of EUR 14 million (2011: EUR 152 million; 2010: EUR 156 million).

In 2012, 'Change in life insurance provisions' includes an amount related to variable annuity assumption changes in the United States of approximately EUR -104 million. This charge relates to lapse-rate assumption refinements following an annual review of policyholder behaviour assumptions.

In 2011, ING has conducted a comprehensive review of its assumptions for the Insurance US Closed Block Variable Annuity (VA) business. The review showed that current US policyholder behaviour for Closed Block VA policies sold predominantly between 2003 and 2009 diverges from earlier assumptions made by ING, particularly given the ongoing volatility and challenging market circumstances. The assumptions for the US Closed Block VA were updated for lapses, mortality, annuitisation, and utilisation rates, with the most significant revision coming from the adjustments of lapse assumptions. The revisions bring the assumptions more in line with US policyholder experience and reflect to a much greater degree the market volatility of recent years. In conjunction, hedging is adjusted to reflect the revised assumptions. The assumption changes resulted in a charge of EUR 1,099 million, which is reflected in Underwriting expenditure and in the segment Insurance US Closed Block VA. This charge affects the deferred acquisition costs (amortisation and unlocking) for EUR 488 million and the insurance provision (effect of changes in other assumptions) for EUR 611 million. Reference is made to Note 10 'Deferred acquisition costs' and Note 17 'Insurance and Investment contracts, reinsurance contracts'. The impact of the assumption adjustments includes a charge to restore the reserve adequacy to the 50% confidence level for the Insurance US Closed Block VA segment. Reference is made to Note 52 'Segments'.

## Notes to the consolidated annual accounts of ING Group continued

In 2011, ING has completed a separate annual review of the policyholder behaviour assumptions for the VA Japan business, which has not resulted in material adjustments.

In 2010, 'Change in life insurance provisions' includes an amount related to variable annuity assumption changes in the United States and Japan of approximately EUR 356 million. These assumptions were updated to reflect lower-than-expected surrenders on policies where the value of the benefit guarantees is significant.

Other underwriting expenditure from life underwriting in 2010 includes a EUR 975 million DAC write-off as explained in Note 52 'Segments'.

ING Group transferred part of its life insurance business to Scottish Re in 2004 by means of a co-insurance contract. A loss amounting to EUR 160 million was recognised in Underwriting expenditure in 2004 on this transaction. This loss represented the reduction of the related deferred acquisition costs. In addition, an amount of EUR 240 million is being amortised over the life of the underlying business, starting in 2005 and gradually decreasing in subsequent years as the business tails off. The amount amortised in 2012 was EUR 13 million (2011: EUR 14 million; 2010: EUR 17 million). The cumulative amortisation as at 31 December 2012 was EUR 161 million (2011: EUR 151 million; 2010: EUR 132 million). On 23 January 2009, Hannover Re and Scottish Re announced that Hannover Re has agreed to assume the ING individual life reinsurance business originally transferred to Scottish Re in 2004.

ING Group transferred its US group reinsurance business to Reinsurance Group of America Inc. in 2010 by means of a reinsurance agreement. The transaction resulted in EUR 70 million ceding commission which is required to be recorded as a deferred gain and amortised over the life of the underlying business, starting in 2010 and gradually decreasing in subsequent years as the business tails off. The amount amortised in 2012 was EUR 1 million (2011: EUR 16 million; 2010: EUR 52 million). The cumulative amortisation as at 31 December 2012 was EUR 70 million (2011: EUR 69 million; 2010: EUR 52 million).

### 45 INTANGIBLE AMORTISATION AND OTHER IMPAIRMENTS

	Intangible amortisation and (reversals of) impairments						Total		
	2012	Impairment losses		Reversals of impairments		2012	2011	2010	
		2011	2010	2012	2011	2010			
Property and equipment	24	30	28	-7	-11	-5	17	19	23
Property development	161	216	400				161	216	400
Goodwill	48	32	540				48	32	540
Software and other intangible assets	7	50	31				7	50	31
(Reversals of) other impairments	240	328	999	-7	-11	-5	233	317	994
Amortisation of other intangible assets							48	52	66
							281	369	1,060

The 2012 impairments recognised on Property development relate to various real estate development projects (including mainly the United Kingdom, Belgium, Spain and Germany) 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, a goodwill impairment of EUR 48 million (2011: EUR 32 million; 2010: EUR 540 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 provision. Impairments on investments are presented under Investment income. Reference is made to the 'Risk management' section for further information on impairments.

## Notes to the consolidated annual accounts of ING Group continued

### 46 STAFF EXPENSES

Staff expenses	Banking operations			Insurance operations			Total		
	2012	2011	2010	2012	2011	2010	2012	2011	2010
Salaries	3,418	3,705	3,836	1,384	1,348	1,369	4,802	5,053	5,205
Pension and other staff-related benefit costs	-26	171	199	58	66	97	32	237	296
Social security costs	532	525	532	141	132	150	673	657	682
Share-based compensation arrangements <sup>(1)</sup>	106	119	79	55	51	34	161	170	113
External employees	625	683	627	205	138	121	830	821	748
Education	63	69	61	18	17	8	81	86	69
Other staff costs	199	219	220	25	-23	22	224	196	242
	4,917	5,491	5,554	1,886	1,729	1,801	6,803	7,220	7,355

<sup>(1)</sup> 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 21.9 million, which is included in the figures in the table above.

Number of employees	Netherlands			International			Total		
	2012	2011	2010	2012	2011	2010	2012	2011	2010
Continuing operations - average number of employees at full time equivalent basis <sup>(1)</sup>	24,940	26,332	27,750	61,520	65,658	65,242	86,460	91,990	92,992
Discontinued operations - average number of employees at full time equivalent basis				6,112	12,429	13,148	6,112	12,429	13,148
Total average number of employees at full time equivalent basis	24,940	26,332	27,750	67,632	78,087	78,390	92,572	104,419	106,140

<sup>(1)</sup> The average number of employees includes, on an average basis, employees of entities that were sold or classified as held for sale during the year.

Share-based compensation arrangements includes EUR 139 million (2011: EUR 146 million; 2010: EUR 84 million) relating to equity-settled share-based payment arrangements and EUR 22 million (2011: EUR 24 million; 2010: EUR 29 million) relating to cash-settled share-based payment arrangements.

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	283	324	298	5	8	5	40	9	-2	328	341	301
Past service cost	-2	-8	-1		-4					-2	-12	-1
Interest cost	847	851	795	7	8	8	6	6	5	860	865	808
Expected return on assets	-870	-877	-886						1	-870	-877	-885
Amortisation of unrecognised past service cost		1			-1	-5						-5
Amortisation of unrecognised actuarial (gains)/losses	116	22	62	-1	-4	-9	4	1	1	119	19	54
Effect of curtailment or settlement	-424	-110	-7	-1						-425	-110	-7
Other	-10	-9	-15				-40	-16	-18	-50	-25	-33
Defined benefit plans	-60	194	246	10	7	-1	10	0	-13	-40	201	232
Defined contribution plans										72	36	64
										32	237	296

In 2012, a curtailment was recognised due to a change to a new pension scheme. Reference is made to Note 21 'Other liabilities'.

### Remuneration of senior management, Executive Board and Supervisory Board

Reference is made to Note 34 'Related parties'.

## 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 (members of the Executive Board, general managers and other officers nominated by the Executive Board), and to a considerable number of employees of ING Group. 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. and ING Insurance Eurasia 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., 643,644 share awards (2011: 154,440; 2010: nil) were granted to the Management Boards of ING Bank, ING Insurance, Insurance Eurasia and ING U.S.. To senior management and other employees 19,802,692 share awards (2011: 20,135,968; 2010: 26,369,146) 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 fulfill its obligations with regard to the existing stock option plan. As at 31 December 2012, 26,429,948 own shares (2011: 42,126,329; 2010: 45,213,891) 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 hedge 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 portfolio will be used to fund the obligations arising from exercise and vesting. Once all shares in the portfolio are used ING will fund these obligations by issuing new shares (subject to approval by Executive Board and Supervisory Board).

The obligations with regard to the 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.

	Options outstanding (in numbers)			Weighted average exercise price (in euros)		
	2012	2011	2010	2012	2011	2010
Opening balance	<b>108,138,551</b>	124,836,694	122,334,486	<b>15.20</b>	15.73	17.31
Granted			19,434,097			7.35
Exercised	<b>-3,490,981</b>	-1,111,930	-1,070,630	<b>2.90</b>	3.97	3.03
Forfeited	<b>-1,480,805</b>	-2,698,596	-3,666,001	<b>11.05</b>	12.78	13.23
Expired	<b>-17,973,588</b>	-12,887,617	-12,195,258	<b>19.92</b>	22.03	20.52
Closing balance	<b>85,193,177</b>	108,138,551	124,836,694	<b>14.77</b>	15.20	15.73

As per 31 December 2012 total options outstanding consists of 70,135,050 options (2011: 90,620,708; 2010: 105,036,931) relating to equity-settled share-based payment arrangements and 15,058,127 options (2011: 17,517,843; 2010: 19,799,763) relating to cash-settled share-based payment arrangements.

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

## Notes to the consolidated annual accounts of ING Group continued

### Changes in option rights non-vested

	2012	Options non-vested (in numbers)		Weighted average grant date fair value (in euros)		
		2011	2010	2012	2011	2010
Opening balance	<b>32,418,754</b>	51,596,578	50,316,665	<b>2.65</b>	3.08	3.52
Granted			19,434,097			3.26
Vested	<b>-15,815,049</b>	-17,389,468	-15,415,108	<b>2.03</b>	3.90	4.70
Forfeited	<b>-887,673</b>	-1,788,356	-2,739,076	<b>2.73</b>	3.05	3.26
Closing balance	<b>15,716,032</b>	32,418,754	51,596,578	<b>3.26</b>	2.65	3.08

### Summary of stock options outstanding and exercisable

2012	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
Range of exercise price in euros						
0.00 – 5.00	<b>10,586,734</b>	<b>5.49</b>	<b>2.88</b>	<b>10,586,734</b>	<b>5.49</b>	<b>2.88</b>
5.00 – 10.00	<b>21,728,644</b>	<b>5.35</b>	<b>7.92</b>	<b>6,012,612</b>	<b>0.47</b>	<b>9.41</b>
10.00 – 15.00	<b>6,732,540</b>	<b>1.32</b>	<b>14.28</b>	<b>6,732,540</b>	<b>1.32</b>	<b>14.28</b>
15.00 – 20.00	<b>24,938,253</b>	<b>3.58</b>	<b>17.30</b>	<b>24,938,253</b>	<b>3.58</b>	<b>17.30</b>
20.00 – 25.00	<b>9,724,341</b>	<b>3.83</b>	<b>24.57</b>	<b>9,724,341</b>	<b>3.83</b>	<b>24.57</b>
25.00 – 30.00	<b>11,482,665</b>	<b>3.28</b>	<b>25.18</b>	<b>11,482,665</b>	<b>3.28</b>	<b>25.18</b>
	<b>85,193,177</b>			<b>69,477,145</b>		

### Summary of stock options outstanding and exercisable

2011	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
Range of exercise price in euros						
0.00 – 5.00	14,723,297	6.68	2.88			
5.00 – 10.00	23,647,407	6.45	7.90	5,951,950	1.18	9.46
10.00 – 15.00	7,334,880	2.32	14.29	7,334,880	2.32	14.29
15.00 – 20.00	28,639,179	4.36	17.20	28,639,179	4.36	17.20
20.00 – 25.00	21,190,454	2.48	23.56	21,190,454	2.48	23.56
25.00 – 30.00	12,603,334	4.30	25.18	12,603,334	4.30	25.18
	108,138,551			75,719,797		

### Summary of stock options outstanding and exercisable

2010	Options outstanding as at 31 December 2010	Weighted average remaining contractual life	Weighted average exercise price	Options exercisable as at 31 December 2010	Weighted average remaining contractual life	Weighted average exercise price
Range of exercise price in euros						
0.00 – 5.00	16,367,971	7.71	2.88			
5.00 – 10.00	25,482,740	7.45	7.88	6,379,628	2.18	9.36
10.00 – 15.00	9,585,723	2.61	14.37	9,353,997	2.48	14.37
15.00 – 20.00	31,328,453	5.21	17.35	15,434,684	3.54	17.88
20.00 – 25.00	22,663,374	3.58	23.60	22,663,374	3.58	23.60
25.00 – 30.00	19,408,433	3.58	25.77	19,408,433	3.58	25.77
	124,836,694			73,240,116		

As at 31 December 2012, the aggregate intrinsic values of options outstanding and exercisable are EUR 44 million (2011: EUR 39 million) and EUR 44 million (2011: nil), respectively.

As at 31 December 2012, total unrecognised compensation costs related to stock options amounted to EUR 3 million (2011: EUR 24 million; 2010: EUR 65 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). Cash received from stock option exercises for the year ended 31 December 2012 was EUR 8 million (2011: EUR 4 million; 2010: EUR 3 million).

The fair value of options granted is recognised as an expense under staff expenses and is allocated over the vesting period of the options. The fair values of the option awards have been determined using a Monte Carlo simulation. This model takes the risk free interest rate into account (2.0% to 4.6%), as well as the expected life of the options granted (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 dividends 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.

## Notes to the consolidated annual accounts of ING Group continued

### Changes in share awards

	2012	Share awards (in numbers)		Weighted average grant date fair value (in euros)		
		2011	2010	2012	2011	2010
Opening balance	<b>48,022,886</b>	35,040,106	14,653,673	<b>7.90</b>	7.25	7.53
Granted	<b>20,446,336</b>	20,290,408	26,369,146	<b>6.53</b>	9.78	7.55
Performance effect	<b>-1,274,485</b>	-1,610,321	-1,507,307	<b>9.41</b>	11.27	13.92
Vested	<b>-15,530,788</b>	-3,636,399	-2,961,355	<b>6.29</b>	10.79	11.72
Forfeited	<b>-2,247,317</b>	-2,060,908	-1,514,051	<b>8.23</b>	7.56	7.13
Closing balance	<b>49,416,632</b>	48,022,886	35,040,106	<b>7.78</b>	7.90	7.25

As per 31 December 2012 the share awards consists of 43,632,814 share awards (2011: 41,150,790; 2010: 28,592,210) relating to equity-settled share-based payment arrangements and 5,783,818 share awards (2011: 6,872,096; 2010: 6,447,896) relating to cash-settled share-based payment arrangements.

The fair value of share awards granted is recognised as an expense under staff expenses and is allocated over the vesting period of the share awards. The fair values of share awards containing a market based performance condition have been determined using a Monte Carlo simulation based valuation model. The model takes into account the risk free interest rate, the current stock prices, expected volatilities and current dividend yields of the performance peer group used to determine ING's Total Shareholder Return (TSR) ranking.

As at 31 December 2012 total unrecognised compensation costs related to share awards amount to EUR 102 million (2011: EUR 149 million; 2010: EUR 158 million). These costs are expected to be recognised over a weighted average period of 1.2 years (2011: 1.5 years; 2010: 2.1 years).

### 47 OTHER INTEREST EXPENSES

Other interest expenses mainly consist of interest in connection with the insurance operations, including interest on the perpetual subordinated loans.

Other interest expenses include nil and nil dividends paid on preference shares and trust preferred securities (2011: nil and nil; 2010: nil and nil).

In 2012, total interest income and total interest expense for items not valued at fair value through profit and loss were EUR 40,063 million (2011: EUR 41,740 million; 2010: EUR 39,685 million) and EUR 22,218 million (2011: EUR 22,184 million; 2010: EUR 19,815 million) respectively. Net interest income of EUR 17,812 million is presented in the following lines in the profit and loss account.

### Total net interest income

	2012	2011	2010
Interest result banking operations <b>36</b>	<b>11,883</b>	13,449	13,323
Investment income – insurance operations <b>38</b>	<b>6,255</b>	6,107	5,752
Other interest expenses	<b>-326</b>	-149	-183
	<b>17,812</b>	19,407	18,892

### 48 OTHER OPERATING EXPENSES

#### Other operating expenses

	2012	Banking operations			Insurance operations			Total	
		2011	2010	2012	2011	2010	2012	2011	2010
Depreciation of property and equipment	<b>361</b>	371	382	<b>55</b>	53	53	<b>416</b>	424	435
Amortisation of software	<b>214</b>	332	312	<b>60</b>	50	34	<b>274</b>	382	346
Computer costs	<b>725</b>	707	693	<b>292</b>	258	258	<b>1,017</b>	965	951
Office expenses	<b>713</b>	737	659	<b>218</b>	236	220	<b>931</b>	973	879
Travel and accommodation expenses	<b>157</b>	120	102	<b>40</b>	53	55	<b>197</b>	173	157
Advertising and public relations	<b>496</b>	594	591	<b>66</b>	68	73	<b>562</b>	662	664
External advisory fees	<b>255</b>	332	364	<b>365</b>	384	309	<b>620</b>	716	673
Postal charges	<b>80</b>	82	87	<b>80</b>			<b>80</b>	82	87
Addition/(releases) of provision for reorganisations and relocations	<b>458</b>	387	109	<b>357</b>	135	99	<b>815</b>	522	208
Other	<b>1,257</b>	736	796	<b>412</b>	481	561	<b>1,669</b>	1,217	1,357
	<b>4,716</b>	4,398	4,095	<b>1,865</b>	1,718	1,662	<b>6,581</b>	6,116	5,757

## Notes to the consolidated annual accounts of ING Group continued

Other operating expenses include lease and sublease payments in respect of operating leases of EUR 245 million (2011: EUR 150 million; 2010: EUR 192 million) in which ING Group is the lessee. No individual operating lease has terms and conditions that materially affect the amount, timing and certainty of the consolidated cash flows of the Group.

For Addition/(releases) of provision for reorganisations and relocations reference is made to the disclosure on the reorganisation provision in Note 21 'Other liabilities'.

The External advisory fees include fees for audit services and non-audit services provided by the Group's auditors.

Other operating expenses – Other includes in 2012, amongst other, the settlement with US authorities of EUR 473 million as disclosed in Note 32 'Legal proceedings' and the Netherlands bank tax of EUR 175 million.

Fees of Group's auditors			
	2012	2011	2010
Audit fees	37	37	35
Audit related fees	10	9	9
Tax fees	4	4	2
All other fees	1	1	1
Total	52	51	47

Fees as disclosed above relate to the network of the Group's auditors.

### 49 TAXATION

#### Profit and loss account

Taxation on continuing operations by type									
	Netherlands			International			Total		
	2012	2011	2010	2012	2011	2010	2012	2011	2010
Current taxation	-184	18	295	1,110	985	720	926	1,003	1,015
Deferred taxation	-228	446	46	101	-203	85	-127	243	131
	-412	464	341	1,211	782	805	799	1,246	1,146

The tax charge in the Netherlands decreased with EUR 876 million to EUR -412 million (2011: EUR 464 million), due to lower profits. A significant part of the profit in the Netherlands was non-taxable due to tax exempt divestments.

Reconciliation of the weighted average statutory income tax rate to ING Group's effective income tax rate			
	2012	2011	2010
Result before tax from continuing operations	3,896	5,420	3,648
Weighted average statutory tax rate	32.0%	25.5%	23.9%
Weighted average statutory tax amount	1,248	1,383	873
Associates exemption	-602	-329	-403
Other income not subject to tax	-227	-251	-128
Expenses not deductible for tax purposes	123	122	102
Impact on deferred tax from change in tax rates	36	15	8
Deferred tax benefit from previously unrecognised amounts	-6	-3	
Current tax benefit from previously unrecognised amounts	-37	4	
Write-off/reversal of deferred tax assets	305	280	737
Adjustment to prior periods	-41	25	-43
Effective tax amount	799	1,246	1,146
Effective tax rate	20.5%	23.0%	31.4%

The weighted average statutory tax rate in 2012 is higher than in 2011. This is mainly a result of differences in the composition of results before tax from continuing operations in 2012 and 2011. In 2012 relative more profits were taxable in countries with high tax rates, while relative more losses were incurred in countries with lower tax rates (as compared to 2011).

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

The effective tax rate in 2012 was lower than the weighted average statutory tax rate. This is mainly caused by non-taxable income, which is partly offset by non-deductible expenses and write-offs of deferred tax assets.

## Notes to the consolidated annual accounts of ING Group continued

The effective tax rate in 2011 was lower than the weighted average statutory tax rate. This is mainly caused by exempt income, which was only partly offset by non-deductible expenses and write-offs of deferred tax assets.

The effective tax rate in 2010 was higher than the weighted average statutory tax rate. This is caused by an off-setting effect of the write-offs of deferred tax assets (mainly in the United States) and the non-deductible expenses which exceeded tax exempt income and prior year adjustments.

Adjustment to prior periods in 2012 relates mainly to a tax settlement.

Adjustment to prior periods in 2011 relates to final tax assessments and other marginal corrections.

Adjustment to prior periods in 2010 relates mainly to a tax settlement.

### Comprehensive income

Income tax related to components of other comprehensive income			
	2012	2011	2010
Unrealised revaluations	-2,726	-873	-1,216
Realised gains/losses transferred to profit and loss (reclassifications from equity to profit and loss)	20	-291	8
Changes in cash flow hedge reserve	-225	-373	-194
Transfer to insurance liabilities/DAC	912	847	719
Exchange rate differences	-72	-39	8
Total income tax related to components of other comprehensive income	-2,091	-729	-675

### 50 EARNINGS PER ORDINARY SHARE

	Earnings per ordinary share			Weighted average number of ordinary shares outstanding during the period (in millions)			Per ordinary share (in euros)		
	2012	2011	2010	2012	2011	2010	2012	2011	2010
Net result	3,894	5,766	2,810	3,796.1	3,783.7	3,781.5			
Attribution to non-voting equity securities	-642	-1,520	-441						
Basic earnings	3,252	4,246	2,369	3,796.1	3,783.7	3,781.5	0.86	1.12	0.63
Effect of dilutive instruments:									
Stock option and share plans				6.3	5.4	6.6			
				6.3	5.4	6.6			
Diluted earnings	3,252	4,246	2,369	3,802.4	3,789.1	3,788.1	0.86	1.12	0.63

#### Attribution to non-voting equity securities

The attribution to non-voting equity securities represents the amount that would be payable on the non-voting equity securities if and when the entire net result for the period would be distributed as dividend. This amount is only included for the purpose of determining earnings per share under IFRS-EU and does not represent a payment (neither actual nor proposed) to the holders of the non-voting equity securities.

The attribution in 2012 includes the premium of EUR 375 million (2011: EUR 1,000 million) paid in relation to the repayment of the EUR 750 million (2011: EUR 2,000 million) non-voting equity securities.

#### Dilutive instruments

Diluted earnings per share is calculated as if the stock options and share plans outstanding at the end of the period had been exercised at the beginning of the period and assuming that the cash received from exercised stock options and share plans is used to buy own shares against the average market price during the period. The net increase in the number of shares resulting from exercising stock options and share plans is added to the average number of shares used for the calculation of diluted earnings per share.

The potential conversion of the non-voting equity securities has an anti-dilutive effect on the earnings per share calculation in 2012, 2011 and 2010 (the diluted earnings per share becoming higher or less negative than the basic earnings per share). Therefore, the potential conversion is not taken into account in the calculation of diluted earnings per share for these years.

## Notes to the consolidated annual accounts of ING Group continued

### Earnings per ordinary share from continuing operations

	2012	Amount (in millions of euros)		Weighted average number of ordinary shares outstanding during the period (in millions)			Per ordinary share (in euros)	
		2011	2010	2012	2011	2010	2011	2010
Basic earnings	3,252	4,246	2,369	3,796.1	3,783.7	3,781.5		
Less: Net result from discontinued operations	908	1,673	405					
Basic earnings from continuing operations	2,344	2,573	1,964	3,796.1	3,783.7	3,781.5	0.62	0.68 0.52
Effect of dilutive instruments:								
Stock option and share plans				6.3	5.4	6.6		
				6.3	5.4	6.6		
Diluted earnings from continuing operations	2,344	2,573	1,964	3,802.4	3,789.1	3,788.1	0.62	0.68 0.52

### Earnings per ordinary share from discontinued operations

	2012	Amount (in millions of euros)		Weighted average number of ordinary shares outstanding during the period (in millions)			Per ordinary share (in euros)	
		2011	2010	2012	2011	2010	2011	2010
Net result from discontinued operations	550	678	405					
Net result from classification as discontinued operations	-394							
Net result from disposal of discontinued operations	752	995						
Total net result from discontinued operations	908	1,673	405	3,796.1	3,783.7	3,781.5		
Basic earnings from discontinued operations	908	1,673	405	3,796.1	3,783.7	3,781.5	0.24	0.44 0.11
Effect of dilutive instruments:								
Stock option and share plans				6.3	5.4	6.6		
				6.3	5.4	6.6		
Diluted earnings from discontinued operations	908	1,673	405	3,802.4	3,789.1	3,788.1	0.24	0.44 0.11

### 51 DIVIDEND PER ORDINARY SHARE

In 2012, 2011 and 2010 no dividend was declared, therefore the dividend per ordinary share was nil. The Executive Board, with the approval of the Supervisory Board, has proposed, subject to the ratification by the General Meeting of Shareholders, not to pay a cash dividend for the year 2012.

### 52 SEGMENTS

#### a. General

ING Group'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 Group identifies the following segments:

#### Segments of ING Group

Banking	Insurance
Retail Netherlands	Insurance Benelux
Retail Belgium	Insurance Central & Rest of Europe (CRE)
Retail Germany	Insurance United States (US)
Retail Rest of World	Insurance US Closed Block VA
Commercial Banking	ING Investment Management (IM)

As disclosed in Note 26 'Discontinued operations' in 2012 the segment Insurance Asia/Pacific ceased to exist.

## Notes to the consolidated annual accounts of ING Group continued

In 2011, ING Group identified the following segments for banking operations: 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 Executive Board of ING Groep N.V., the Management Board of ING Bank N.V., the Management Board of ING Insurance Eurasia N.V. and the Board of ING U.S., Inc. sets the performance targets, approve and monitor 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 Executive Board of ING Groep N.V., the Management Board of ING Bank N.V., the Management Board of ING Insurance Eurasia N.V. and the Board of ING U.S., Inc.

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 Group 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 Executive and 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.
Insurance Benelux	Income from life insurance, non-life insurance and retirement services in the Benelux.
Insurance CRE	Income from life insurance, non-life insurance and retirement services in Central and Rest of Europe.
Insurance US	Income from life insurance and retirement services in the United States.
Insurance US Closed Block VA	Consists of ING's Closed Block Variable Annuity business in the United States, which has been closed to new business since early 2010 and which is now being managed in run-off.
ING IM	Income from investment management activities.

In addition to these segments, ING Group reconciles the total segment results to the total result of ING Banking and ING Insurance using the Corporate Line Banking and Corporate Line Insurance. The 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. The Corporate Line Insurance contains items related to capital management, run-off portfolios, Corporate Reinsurance and remaining activities in Latin America.

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 Group continued

### b. ING Group

Segments ING Group total				
2012	Total Banking	Total Insurance	Eliminations	Total
Underlying income				
– Gross premium income		20,277		20,277
– Net interest result - banking operations	11,712		-85	11,626
– Commission income	2,162	1,405		3,566
– Total investment and other income	368	5,006	-61	5,313
Total underlying income	14,241	26,688	-147	40,783
Underlying expenditure				
– Underwriting expenditure		22,574		22,574
– Operating expenses	8,690	3,310		12,000
– Other interest expenses		472	-147	326
– Additions to loan loss provision	2,122			2,122
– Other impairments	211	19		230
Total underlying expenses	11,023	26,377	-147	37,252
Underlying result before taxation	3,219	311		3,530
Taxation	981	-165		817
Minority interests	91	20		111
Underlying net result	2,147	456		2,603

Reconciliation between Underlying and IFRS-EU income, expenses and net result			
2012	Income	Expenses	Net result
Underlying	40,783	37,252	2,603
Divestments	1,866	164	1,443
Special items	-4	1,332	-1,060
IFRS-EU (continuing operations)	42,644	38,748	2,986
Total net result from discontinued operations	9,140	8,026	908
IFRS-EU (continuing and discontinued operations)	51,784	46,774	3,894

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, Commercial Banking and the Insurance operations of approximately EUR 660 million, the separation and IPO preparation of Insurance of EUR 169 million, 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 305 million following the new Dutch employee pension scheme announced in 2012.

Reference is made to Note 26 'Discontinued operations' for information on discontinued operations.

## Notes to the consolidated annual accounts of ING Group continued

Segments ING Group total				
2011	Total Banking	Total Insurance	Eliminations	Total
<b>Underlying income</b>				
– Gross premium income		20,279		20,279
– Net interest result - banking operations	11,975		–8	11,967
– Commission income	2,230	1,421		3,651
– Total investment and other income	84	7,345	–342	7,087
<b>Total underlying income</b>	<b>14,289</b>	<b>29,045</b>	<b>–350</b>	<b>42,983</b>
<b>Underlying expenditure</b>				
– Underwriting expenditure		25,747		25,747
– Operating expenses	8,517	3,078		11,595
– Other interest expenses		531	–350	181
– Additions to loan loss provision	1,336			1,336
– Other impairments	307	15		322
<b>Total underlying expenses</b>	<b>10,161</b>	<b>29,370</b>	<b>–350</b>	<b>39,180</b>
<b>Underlying result before taxation</b>	<b>4,128</b>	<b>–325</b>		<b>3,803</b>
Taxation	1,073	–99		974
Minority interests	79	4		83
<b>Underlying net result</b>	<b>2,977</b>	<b>–230</b>		<b>2,746</b>

Reconciliation between Underlying and IFRS-EU income, expenses and net result			
2011	Income	Expenses	Net result
Underlying	42,983	39,180	2,746
Divestments	2,788	1,236	1,287
Special items	921	856	60
IFRS-EU (continuing operations)	46,691	41,271	4,093
Total net result from discontinued operations	11,080	9,252	1,673
IFRS-EU (continuing and discontinued operations)	57,771	50,522	5,766

Divestments in 2011 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 43 'Other income' and Note 14 'Subordinated loans'.

Reference is made to Note 26 'Discontinued operations' for information on discontinued operations.

## Notes to the consolidated annual accounts of ING Group continued

Segments ING Group total				
2010	Total Banking	Total Insurance	Eliminations	Total
Underlying income				
– Gross premium income		21,279		21,279
– Net interest result - banking operations	11,958		–93	11,865
– Commission income	2,228	1,377		3,605
– Total investment and other income	1,078	5,356	–243	6,191
Total underlying income	15,264	28,013	–336	42,941
Underlying expenditure				
– Underwriting expenditure		25,679		25,679
– Operating expenses	8,205	3,153		11,358
– Other interest expenses		519	–336	183
– Additions to loan loss provision	1,448			1,448
– Other impairments	461	19		480
Total underlying expenses	10,114	29,371	–336	39,149
Underlying result before taxation	5,150	–1,358		3,792
Taxation	1,244	–122		1,122
Minority interests	70	16		86
Underlying net result	3,837	–1,252		2,584

Reconciliation between Underlying and IFRS-EU income, expenses and net result			
2010	Income	Expenses	Net result
Underlying	42,941	39,149	2,584
Divestments	2,492	1,362	880
Special items		1,274	–1,059
IFRS-EU (continuing operations)	45,433	41,785	2,405
Total net result from discontinued operations	9,725	9,178	405
IFRS-EU (continuing and discontinued operations)	55,158	50,964	2,810

Divestments in 2010 mainly relates to the sale of the three US independent retail broker-dealer units, the sale of the 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 includes mainly restructuring expenses for the combining of the Dutch retail activities, the Belgium retail transformation program, the cost related to the separation of Banking and Insurance and the expenses related to the goodwill impairment in the United States of EUR 513 million (after tax) in 2010. Reference is made to Note 9 'Intangible assets'.

Reference is made to Note 26 'Discontinued operations' for information on discontinued operations.

## Notes to the consolidated annual accounts of ING Group continued

### c. Banking activities

Segments Banking							
2012	Retail Netherlands	Retail Belgium	Retail Germany	Retail Rest of World	Commercial Banking	Corporate Line Banking	Total Banking
Underlying income							
– Net interest result	3,377	1,723	1,141	1,788	3,422	260	11,712
– Commission income	485	335	87	328	907	19	2,162
– Total investment and other income	35	136	–36	–381	633	–19	368
Total underlying income	3,897	2,194	1,193	1,735	4,963	260	14,241
Underlying expenditure							
– Operating expenses	2,340	1,411	669	1,713	2,274	282	8,690
– 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	11,023
Underlying result before taxation	878	609	441	–230	1,572	–50	3,219
Taxation	219	169	161	37	422	–26	981
Minority interests			1	66	23		91
Underlying net result	660	439	278	–333	1,127	–24	2,147
Divestments				1,449			1,449
Special items	–284	–22			–129	–193	–628
Net result (continuing operations)	376	417	278	1,116	997	–218	2,967

\* Analysed as a part of operating expenses.

Segments Banking							
2011	Retail Netherlands	Retail Belgium	Retail Germany	Retail Rest of World	Commercial Banking	Corporate Line Banking	Total Banking
Underlying income							
– Net interest result	3,612	1,606	1,247	1,829	3,739	–58	11,975
– Commission income	481	336	117	331	977	–13	2,230
– Total investment and other income	52	88	–230	–185	307	50	84
Total underlying income	4,145	2,031	1,134	1,975	5,023	–20	14,289
Underlying expenditure							
– Operating expenses	2,399	1,425	649	1,635	2,317	91	8,517
– 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	153	10,161
Underlying result before taxation	1,261	455	395	172	2,019	–173	4,128
Taxation	317	108	134	37	485	–7	1,073
Minority interests			1	59	19		79
Underlying net result	944	347	259	76	1,516	–166	2,977
Divestments	12	2		408	873		1,295
Special items	–246	–12			–80	620	281
Net result (continuing operations)	710	337	259	484	2,309	454	4,553

\* Analysed as a part of operating expenses.

## Notes to the consolidated annual accounts of ING Group continued

Segments Banking							
2010	Retail Netherlands	Retail Belgium	Retail Germany	Retail Rest of World	Commercial Banking	Corporate Line Banking	Total Banking
Underlying income							
– Net interest result	3,816	1,608	1,070	1,818	3,672	–25	11,958
– Commission income	498	345	118	342	939	–13	2,228
– Total investment and other income	–4	95	–17	32	739	232	1,078
Total underlying income	4,310	2,047	1,171	2,192	5,350	193	15,264
Underlying expenditure							
– Operating expenses	2,337	1,345	607	1,547	2,258	111	8,205
– 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	145	10,114
Underlying result before taxation	1,374	542	442	526	2,217	49	5,150
Taxation	361	91	139	143	511	–1	1,244
Minority interests		–6	1	42	33		70
Underlying net result	1,013	458	302	340	1,674	50	3,837
Divestments	16	75		739	56		886
Special items	–232	–13			–65	–30	–340
Net result (continuing operations)	797	520	302	1,079	1,664	20	4,383

\* Analysed as a part of operating expenses.

### d. Insurance activities

With regard to insurance activities, ING Group analyses the underlying result through a margin analysis, which includes the following components:

- Operating result; and
- Non-operating items

Both are comprised of various sub-components. The total of operating result and non-operating items (gains/losses and impairments, revaluations and market & other impacts) equals underlying result before tax.

To determine the operating result the following non-operating items are adjusted in the reported underlying result before tax:

- Realised capital gains/losses and impairments on debt and equity securities;
- Revaluations on assets marked to market through the profit and loss account; and
- Other non-operating impacts, e.g. provision for guarantees on separate account pension contracts, equity related and other DAC unlocking, VA/FIA Guaranteed Benefit Reserve unlocking and DAC offset on gains/losses on debt securities.

The operating result for the life insurance business is also broken down into expenses and the following sources of income:

- Investment margin which includes the spread between investment income earned and interest credited to insurance liabilities (excluding market impacts but including dividends and coupons);
- Fees and premium-based revenues which includes the portion of life insurance premiums available to cover expenses and profit, fees on deposits and fee income on assets under management (net of guaranteed benefit costs in the United States);
- Technical margin which includes the margin between costs charged for benefits and incurred benefit costs and it includes mortality, morbidity and surrender results; and
- Non-modelled which is not significant and includes parts of the business for which no margins are provided.

As of the fourth quarter of 2010, the Legacy Variable Annuity segment in the US is reported and analysed separately from the other US business in the internal management reporting. Therefore as of 1 October 2010 ING reports the Insurance US Legacy VA business as a separate segment to improve transparency and ongoing business. ING Group's accounting policy for reserve adequacy as set out in the Accounting policies for the consolidated annual accounts of ING Group requires each segment to be adequate at the 50% confidence level. The separation of the Legacy VA business into a separate segment triggered a charge in the fourth quarter of 2010 to bring reserve adequacy on the new Insurance US Closed Block VA segment to the 50% level. This charge is reflected as a DAC write-off of EUR 975 million before tax. For 2011 the impact of the assumption adjustments includes a charge of EUR 177 million to restore the reserve adequacy of the Insurance US Closed Block VA segment to the 50% level at 31 December 2011. Reference is made to Note 44 'Underwriting expenditure'.

## Notes to the consolidated annual accounts of ING Group continued

The adequacy of the reserves held for the Insurance US Closed Block VA segment is evaluated on a quarterly basis. The test considers current estimates of all contractual and related cash flows (including projected performance of the hedge program). The test is conducted by comparing the present value of the cash flows to the reserves for the business line. If it is determined, using a best estimate (50%) confidence level, that reserves are insufficient to support the projected cash outflows, the shortfall is established as an additional reserve, which is in turn recognised immediately in the profit and loss account. There are no offsets considered by any other business line.

There are several key inputs to the reserve adequacy testing. The liability assumptions are based on management's best estimate of policyholder behaviour, which is reviewed periodically, but at least annually. Stochastic scenario simulations are incorporated based on management's long-term view of equity markets and interest rates. The hedging program is based on our current approach to managing the risk of the business. Finally, current market conditions impact the results of the test as both reserves and the present value of cash flows are sensitive to market interest rates. Any changes in the items above may have a potentially material impact to the results of the reserve adequacy test.

A net reserve inadequacy exists using a prudent (90%) confidence level for the segment Insurance US Closed Block VA. This inadequacy was offset by reserve adequacies in other segments, such that at the Group level there is a net adequacy at the prudent (90%) confidence level.

Segments Insurance							
2012	Insurance Benelux	Insurance CRE	Insurance US	Insurance US Closed Block VA	ING IM	Corporate Line Insurance	Total Insurance
Investment margin	604	59	1,087	7	-1		1,757
Fees and premium based revenues	593	430	1,188	100	824		3,135
Technical margin	177	175	42	21			414
Income non-modelled life business		20					20
Life & ING IM operating income	1,374	684	2,316	128	823		5,325
Administrative expenses	601	285	882	99	661		2,529
DAC amortisation and trail commissions	192	221	732	151	2		1,299
Life & ING IM expenses	793	506	1,614	250	664		3,827
Life & ING IM operating result	581	178	702	-122	159		1,498
Non-life operating result	82	6					89
Corporate Line operating result						-491	-491
Operating result	663	184	702	-122	159	-491	1,095
Gains/losses and impairments	92	-35	36	16	1	9	119
Revaluations	-316	22	161		40	-34	-126
Market & other impacts	-530	-1	29	-274			-776
<b>Underlying result before tax</b>	<b>-91</b>	<b>170</b>	<b>928</b>	<b>-379</b>	<b>200</b>	<b>-516</b>	<b>311</b>
Taxation	-114	42	283	-267	56	-164	-165
Minority interests	12	9			8	-9	20
Underlying net result	11	120	645	-112	136	-343	456
Divestments	-19					13	-6
Special items	-279	-24	-65		-4	-60	-432
Net result (continuing operations)	-287	96	580	-112	132	-390	18
Net result (discontinued operations)							550
Net result (classification as discontinued operations)							-394
Net result (disposal of discontinued operations)							752
<b>Net result</b>							<b>927</b>

## Notes to the consolidated annual accounts of ING Group continued

Segments Insurance							
2011	Insurance Benelux	Insurance CRE	Insurance US	Insurance US Closed Block VA	ING IM	Corporate Line Insurance	Total Insurance
Investment margin	666	72	892	28	2		1,660
Fees and premium based revenues	584	462	1,064	168	783		3,061
Technical margin	315	169	77	28			589
Income non-modelled life business	36	9					45
Life & ING IM operating income	1,601	712	2,033	224	785		5,354
Administrative expenses	593	308	742	81	594		2,319
DAC amortisation and trail commissions	213	202	625	123	3		1,167
Life & ING IM expenses	807	510	1,367	205	597		3,485
Life & ING IM operating result	794	201	666	20	187		1,869
Non-life operating result	179	5					184
Corporate Line operating result						-394	-394
Operating result	973	206	666	20	187	-394	1,658
Gains/losses and impairments	-47	-404	-171	2	5	6	-609
Revaluations	62	-1	159	1	6	-21	206
Market & other impacts	-250		-36	-1,295			-1,581
<b>Underlying result before tax</b>	739	-198	618	-1,273	198	-410	-325
Taxation	69	20	-22	-221	71	-16	-99
Minority interests	4	10				-10	4
Underlying net result	666	-229	641	-1,052	127	-384	-230
Divestments						-9	-9
Special items	-104	-77	-44		-8	11	-222
Net result (continuing operations)	562	-306	597	-1,052	119	-381	-461
Net result (discontinued operations)							678
Net result (disposal of discontinued operations)							995
Net result							1,212

## Notes to the consolidated annual accounts of ING Group continued

Segments Insurance							
2010	Insurance Benelux	Insurance CRE	Insurance US	Insurance US Closed Block VA	ING IM	Corporate Line Insurance	Total Insurance
Investment margin	456	77	827	-11	-1		1,348
Fees and premium based revenues	578	501	1,060	121	741		3,002
Technical margin	243	149	201	9			603
Income non-modelled life business	40	16					56
Life & ING IM operating income	1,318	744	2,089	119	740		5,009
Administrative expenses	568	262	904	77	611		2,421
DAC amortisation and trail commissions	230	197	620	-7	3		1,043
Life & ING IM expenses	798	459	1,524	70	614		3,464
Life & ING IM operating result	521	285	565	49	126		1,545
Non-life operating result	156	7					163
Corporate Line operating result						-631	-631
Operating result	677	292	565	49	126	-631	1,077
Gains/losses and impairments	14	-29	-568	22	3	-11	-568
Revaluations	60		490	3	-3	-106	444
Market & other impacts	24	-10	-177	-2,149			-2,311
<b>Underlying result before tax</b>	775	254	310	-2,075	126	-748	-1,358
Taxation	130	63	-155	-57	52	-156	-122
Minority interests	15	10				-9	16
Underlying net result	630	180	465	-2,018	74	-583	-1,252
Divestments	4	-4	-12			6	-7
Special items	-33	-46	-66		-34	-539	-719
Net result (continuing operations)	601	130	386	-2,018	40	-1,116	-1,977
Net result (discontinued operations)							405
Net result							-1,572

Interest income and interest expenses breakdown by segments Banking							
2012	Retail Netherlands	Retail Belgium	Retail Germany	Retail Rest of World	Commercial Banking	Corporate Line Banking	Total Banking
Interest income	7,986	2,684	3,738	6,976	36,922	2,991	61,297
Interest expense	1,952	997	2,676	4,996	34,047	4,661	49,329
	6,034	1,687	1,062	1,980	2,875	-1,670	11,968

Interest income and interest expenses breakdown by segments Insurance							
2012	Insurance Benelux	Insurance CRE	Insurance US	Insurance US Closed Block VA	ING IM	Corporate Line Insurance	Total Insurance
Interest income	2,061	341	3,298	133	30	392	6,255
Interest expense	18	-2	29		2	279	326
	2,043	343	3,269	133	28	113	5,929

Interest income and interest expenses				
2012	Total Banking	Total Insurance	Eliminations	Total external
Interest income	61,297	6,255	-1,295	66,257
Interest expense	49,329	326	-1,210	48,445
	11,968	5,929	-85	17,812

## Notes to the consolidated annual accounts of ING Group continued

### Interest income and interest expenses breakdown by segments Banking

2011	Retail Netherlands	Retail Belgium	Retail Germany	Retail Rest of World	Commercial Banking	Corporate Line Banking	Total Banking
Interest income	8,169	2,959	3,688	8,856	39,997	2,512	66,181
Interest expense	1,708	1,202	2,411	5,619	37,534	4,251	52,724
	6,461	1,757	1,277	3,237	2,463	-1,739	13,457

### Interest income and interest expenses breakdown by segments Insurance

2011	Insurance Benelux	Insurance CRE	Insurance US	Insurance US Closed Block VA	ING IM	Corporate Line Insurance	Total Insurance
Interest income	2,216	355	3,224	205	9	99	6,107
Interest expense	32	-2	7		4	108	149
	2,184	357	3,217	205	5	-9	5,959

### Interest income and interest expenses

2011	Total Banking	Total Insurance	Eliminations	Total external
Interest income	66,181	6,107	-1,532	70,756
Interest expense	52,724	149	-1,524	51,349
	13,457	5,958	-8	19,407

### Interest income and interest expenses breakdown by segments Banking

2010	Retail Netherlands	Retail Belgium	Retail Germany	Retail Rest of World	Commercial Banking	Corporate Line Banking	Total Banking
Interest income	7,916	3,093	2,665	9,391	44,265	2,357	69,687
Interest expense	1,524	1,015	1,471	5,917	42,772	3,572	56,271
	6,392	2,078	1,194	3,474	1,493	-1,215	13,416

### Interest income and interest expenses breakdown by segments Insurance

2010	Insurance Benelux	Insurance CRE	Insurance US	Insurance US Closed Block VA	ING IM	Corporate Line Insurance	Total Insurance
Interest income	2,138	359	3,379	28	7	-159	5,752
Interest expense	26	-2	55	5	4	95	183
	2,112	361	3,324	23	3	-254	5,569

### Interest income and interest expenses

2010	Total Banking	Total Insurance	Eliminations	Total external
Interest income	69,687	5,752	-1,353	74,086
Interest expense	56,271	183	-1,260	55,194
	13,416	5,569	-93	18,892

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, and disclosed below, for the Banking operations as a whole and for the Insurance operations as a whole and by segment.

## Notes to the consolidated annual accounts of ING Group continued

### Total assets and Total liabilities by segment

	2012		2011		2010	
	Total assets	Total liabilities	Total assets	Total liabilities	Total assets	Total liabilities
Insurance Benelux	98,748	86,381	96,067	83,756	92,614	83,472
Insurance CRE	13,074	11,725	11,729	10,724	12,671	11,288
Insurance US	121,145	108,777	118,329	106,696	114,218	102,781
Insurance US Closed Block VA	39,476	37,272	41,362	38,771	42,477	40,254
Insurance Latin America <sup>(1)</sup>					3,162	1,557
Insurance Asia/Pacific <sup>(1)</sup>	59,673	53,711	62,281	56,713	57,029	52,332
ING IM	1,378	505	1,385	605	2,033	1,184
Corporate Line Insurance	50,864	23,330	55,684	29,667	46,595	24,960
Total Insurance segments	384,357	321,701	386,837	326,932	370,799	317,828
Eliminations Insurance segments	-44,844	-9,676	-51,349	-15,123	-45,046	-12,490
Total Insurance operations	339,513	312,025	335,488	311,809	325,753	305,338
Total Banking operations	865,392	807,923	985,053	934,689	955,272	908,739
Eliminations	-36,273	-9,004	-41,313	-17,710	-34,020	-13,705
Total ING Group	1,168,632	1,110,944	1,279,228	1,228,788	1,247,005	1,200,372

<sup>(1)</sup> Assets and liabilities from discontinued operations (2012: Asia and 2010: Latin America) are included in the segment in which it was originally included.

Further balance sheet related information for the banking operations is provided by segment in the section 'Risk Management'.

### 53 INFORMATION ON GEOGRAPHICAL AREAS

ING Group'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 Group's country of domicile. Geographical distribution of income is based on the origin of revenue. A geographical area is a distinguishable component of the Group engaged in providing products or services within a particular economic environment that is subject to risks and returns that are different from those of segments operating in other economic environments. The geographical analyses are based on the location of the office from which the transactions are originated.

#### Geographical areas

2012	Netherlands	Belgium	Rest of Europe	North America	Latin America	Asia	Australia	Other	Eliminations	Total
Total income	14,642	4,271	6,626	16,180	64	766	453		-358	42,644
Total assets	643,783	183,165	341,522	226,101	2,051	109,672	43,247	220	-381,129	1,168,632

#### Geographical areas

2011	Netherlands	Belgium	Rest of Europe	North America	Latin America	Asia	Australia	Other	Eliminations	Total
Total income	19,259	3,795	7,446	17,701	44	897	525		-2,977	46,691
Total assets	658,716	180,491	323,747	351,630	9,685	114,657	43,652	207	-403,557	1,279,228

#### Geographical areas

2010	Netherlands	Belgium	Rest of Europe	North America	Latin America	Asia	Australia	Other	Eliminations	Total
Total income	17,027	4,352	7,854	17,431	180	784	427		-2,622	45,433
Total assets	643,161	161,781	326,179	338,690	16,720	104,016	44,062	153	-387,757	1,247,005

### 54 NET CASH FLOW FROM INVESTING ACTIVITIES

Information on the impact of companies acquired or disposed is presented in Note 31 'Companies acquired and companies disposed'.

## Notes to the consolidated annual accounts of ING Group continued

### 55 INTEREST AND DIVIDEND INCLUDED IN NET CASH FLOW

Interest and dividend received and paid			
	2012	2011	2010
Interest received	68,570	73,947	77,541
Interest paid	-49,487	-53,113	-59,329
	19,083	20,834	18,212
Dividend received	350	485	500

### 56 CASH AND CASH EQUIVALENTS

Cash and cash equivalents			
	2012	2011	2010
Treasury bills and other eligible bills	518	2,611	4,441
Amounts due from/to banks	4,633	-4,505	3,227
Cash and balances with central banks	17,657	31,194	13,072
Cash and cash equivalents classified as Assets held for sale	1,342	4,980	28
Cash and cash equivalents at end of year	24,150	34,280	20,768

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	1,697
Treasury bills and other eligible bills included in available-for-sale investments	439	1,140	2,744
	518	2,611	4,441

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	14,617	16,125
	4,633	-4,505	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	30,706	35,703
	-4,284	-22,405	-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 amount due to/from banks with a term of less than three months from the date on which they were acquired.

ING Group's risk management (including liquidity) is explained in the 'Risk management' section.

### 57 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.

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# Risk management ING Group

amounts in millions of euros, unless stated otherwise

## RISK MANAGEMENT

Taking measured risks is the core of ING Group's business. As a financial services company active in banking, investments, life and non-life insurance and retirement services, ING Group is naturally exposed to a variety of risks.

To ensure measured risk-taking throughout the organisation, ING Group operates through a comprehensive risk management framework and integrated risk management in its daily business activities and strategic planning. This ensures the identification, measurement and control of risks at all levels of the organisation so that ING Group's financial strength is safeguarded.

Risk management formulates with the various management boards the risk appetite, strategies, policies and limits and provides a review, oversight and support function throughout ING Group on risk-related issues. The main financial risks ING Group is exposed to are credit risk (including transfer risk), market risk (including interest rate, equity, real estate and foreign exchange risks), insurance risk, liquidity & funding risk and business risk. In addition, ING Group is exposed to non-financial risks, e.g. operational and compliance risks. The way ING Group manages these risks on a day-to-day basis is described in this risk management section.

As a result of the decision to manage ING Bank and ING Insurance separately, ING has implemented two distinct risk appetite frameworks for both Bank and Insurance. The common concept however is that risk appetite is expressed as the tolerance to allow key capital and liquidity ratios to deviate from their target levels under adverse scenarios. These frameworks are discussed in more detail in the specific chapters of this risk management section.

Both ING Bank and ING Insurance need to prepare for significant changes in the regulatory requirements. For ING Bank the most important one is the implementation of Basel III (for European banks as ING implemented via Capital Requirements Directive (CRD) IV), while ING Insurance runs an extensive program to allow the implementation of Solvency II (which is the fundamental reform of European insurance solvency and risk governance legislation; announced to be effective as of 1 January 2014 but delays in legislation imply that it will not be effective before 1 January 2016). Additionally, both in Bank and Insurance, ING continued its stress testing efforts, with stress testing becoming more important and more embedded in the risk culture.

## MISSION AND OBJECTIVES

The mission of ING Group'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 Group'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 are monitored;
- ING's risk profile is transparent, managed to avoid surprises, and is consistent with delegated authorities;
- Delegated authorities are consistent with the overall Group strategy and risk appetite;
- Transparent communication to internal and external stakeholders on risk management.

Risk management benefits ING and its stakeholders directly by providing more efficient capitalisation and lower costs of risk and funding. The cost of capital and funding is reduced by working closely with rating agencies and regulators in satisfying their requirements in aligning capital and liquidity to risks. Risk Management helps business units with lower funding costs, the latest risk management tools and skills, and lower strategic risk, allowing them to focus on their core expertise with the goal of keeping ING's businesses competitive in their markets.

## GROUP RISK MANAGEMENT FUNCTION

The ING Group CRO is supported by the Risk functions of ING Group and by the Group functions Corporate Legal and the Functional Controller Insurance. As a result of the decision to manage ING Bank and ING Insurance separately, ING Group Chief Risk Officer has delegated day-to-day Risk Management within ING Bank, ING Insurance Eurasia and ING Insurance US to the respective (Deputy) CROs. The remaining Risk functions that are specific for the Group function have been delegated to ING Bank.

ING Group uses an integrated risk management approach for both its banking activities and for its insurance activities. With the operational separation of ING Bank and ING Insurance, the focus of ING's risk management practices is now located in the bank and insurance companies. The remainder of this Risk paragraph discusses these practices for ING Group, ING Bank, ING Insurance Eurasia and ING Insurance US, respectively.

## 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.

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'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 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'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 and ING Insurance/IM has no credit risk linked to Cyprus.

During 2012, ING 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 book 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.

## Risk management continued ING Group

Greece, Italy, Ireland, Portugal and Spain - Total risk exposures <sup>(1)</sup>						
	31 December 2012					
	Greece	Italy	Ireland	Portugal	Spain	Total
Residential mortgages and other consumer lending	14	7,531	6	4	9,680	17,235
Corporate Lending	287	8,441	705	1,015	5,733	16,181
Financial institutions Lending	0	227	4	76	626	933
Government Lending	0	203	0	0	35	238
<b>Total Lending</b>	<b>301</b>	<b>16,402</b>	<b>715</b>	<b>1,095</b>	<b>16,074</b>	<b>34,587</b>
<b>RMBS</b>	<b>95</b>	<b>997</b>	<b>267</b>	<b>553</b>	<b>2,846</b>	<b>4,758</b>
CMBS	0	0	12	0	0	12
Other ABS	0	180	218	49	171	618
Corporate Bonds	0	509	642	67	319	1,537
Covered Bonds	0	245	370	153	11,780	12,548
Financial Institutions' bonds (unsecured)	0	527	74	56	84	741
Government Bonds	43	2,474	53	633	1,308	4,511
CDS exposures in banking book <sup>(2)</sup>	0	0	0	0	-390	-390
<b>Total Debt Securities</b>	<b>138</b>	<b>4,932</b>	<b>1,636</b>	<b>1,511</b>	<b>16,118</b>	<b>24,335</b>
<b>Real Estate</b> <sup>(3)</sup>	<b>21</b>	<b>380</b>	<b>0</b>	<b>217</b>	<b>610</b>	<b>1,228</b>
Trading excluding CDS exposures	0	450	28	8	454	940
Sold CDS protection	0	1	1	1	7	10
Bought CDS protection	-2	-22	-11	-1	-51	-87
<b>Trading including CDS protection</b>	<b>-2</b>	<b>429</b>	<b>18</b>	<b>8</b>	<b>410</b>	<b>863</b>
<b>Undrawn committed facilities</b>	<b>166</b>	<b>1,287</b>	<b>258</b>	<b>181</b>	<b>2,780</b>	<b>4,672</b>
<b>Pre-settlement exposures</b> <sup>(4)</sup>	<b>80</b>	<b>516</b>	<b>343</b>	<b>41</b>	<b>953</b>	<b>1,933</b>
<b>Total risk exposure</b>	<b>704</b>	<b>23,946</b>	<b>2,970</b>	<b>3,053</b>	<b>36,945</b>	<b>67,618</b>

Footnote: Total risk exposure to companies registered in Cyprus was approximately EUR 0.9 billion as per 31 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. ING Insurance/IM has no credit risk linked to Cyprus.

<sup>(1)</sup> 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.

<sup>(2)</sup> At the end of 2012 ING Bank holds CDS protection (notional value) on the Spanish government, Financial Institutions and covered bonds.

<sup>(3)</sup> 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.

<sup>(4)</sup> Pre-settlement exposure is exposure to 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.

## Risk management continued ING Group

### Greece, Italy, Ireland, Portugal and Spain - Total risk exposures <sup>(1)</sup>

	31 December 2011					
	Greece	Italy	Ireland	Portugal	Spain	Total
Residential mortgages and other consumer lending	14	7,027	4	3	9,176	16,224
Corporate Lending	307	9,061	502	996	7,092	17,958
Financial institutions Lending	6	853	57	139	2,038	3,093
Government Lending		195			55	250
<b>Total Lending</b>	<b>327</b>	<b>17,136</b>	<b>563</b>	<b>1,138</b>	<b>18,361</b>	<b>37,525</b>
<b>RMBS</b>	<b>127</b>	<b>1,315</b>	<b>1,094</b>	<b>752</b>	<b>4,131</b>	<b>7,419</b>
CMBS			310			310
Other ABS		400	371	101	170	1,042
Corporate Bonds		641	654	68	483	1,846
Covered Bonds <sup>(2)</sup>		236	350	172	16,835	17,593
Financial Institutions' bonds (unsecured)		769	249	164	366	1,548
Government Bonds	254	2,557	54	809	1,508	5,182
<b>Total Debt Securities</b>	<b>381</b>	<b>5,918</b>	<b>3,082</b>	<b>2,066</b>	<b>23,493</b>	<b>34,940</b>
<b>Real Estate <sup>(2)</sup></b>	<b>36</b>	<b>429</b>		<b>245</b>	<b>632</b>	<b>1,342</b>
Trading excluding CDS exposures		569	33	7	261	870
Sold CDS protection		9	1		64	74
Bought CDS protection	-3	-29			-13	-45
<b>Trading including CDS protection</b>	<b>-3</b>	<b>549</b>	<b>34</b>	<b>7</b>	<b>312</b>	<b>899</b>
<b>Undrawn committed facilities</b>	<b>411</b>	<b>1,229</b>	<b>523</b>	<b>140</b>	<b>2,302</b>	<b>4,605</b>
<b>Pre-settlement exposures <sup>(3)</sup></b>	<b>70</b>	<b>670</b>	<b>425</b>	<b>14</b>	<b>909</b>	<b>2,088</b>
<b>Total risk exposure</b>	<b>1,222</b>	<b>25,931</b>	<b>4,627</b>	<b>3,610</b>	<b>46,009</b>	<b>81,399</b>

Footnote: Total risk exposures to companies registered in Cyprus were approximately EUR 1 billion as per 31 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.

<sup>(1)</sup> 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.

<sup>(2)</sup> 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.

<sup>(3)</sup> Pre-settlement exposure is exposure to 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.

Total exposure to the GIIPS countries was reduced by EUR 13,781 million in 2012. ING Group 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 5,045 million and RMBS position diminishing by EUR 2,661 million, and its lending portfolio with a decrease of EUR 2,938 million, driven by Financial Institutions lending by EUR 2,159 million and corporate lending by EUR 1,777 million, and partially offset by an increase in residential mortgages and other consumer lending by EUR 1,011 million.

#### Greece

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.

Total exposure to Greece declined by EUR 518 million in 2012 mainly due to a reduction of debt securities with EUR 243 million and undrawn committed facilities with EUR 245 million. The decrease in debt securities was mainly in the government bonds (EUR 211 million).

ING Bank does not have a bank operation in Greece but does serve a limited number of mostly international companies which have their domicile in Greece. Many of these companies are dependent on cash flows that are based outside Greece. ING Insurance Eurasia has direct Greek exposure given the Greek based insurance entity.

#### Italy

Total exposure to Italy decreased by EUR 1,985 million in 2012 mainly in the lending book by EUR 734 million to EUR 16,402 million and in debt securities by EUR 986 million to EUR 4,932 million.

The decrease in lending exposure was driven by a EUR 1,247 million reduction in financial institutions and corporate lending partially offset by an increase in residential mortgages and other consumer lending of EUR 504 million. The debt securities went down mainly in ABS portfolio by EUR 538 million and financial institutions bonds by EUR 241 million.

### *Ireland*

Total exposure to Ireland declined by EUR 1,657 million in 2012 mainly due to a reduction of debt securities with EUR 1,446 million. The decrease in debt securities was mainly in the ABS portfolio (EUR 1,278 million decrease) and financial institutions bonds (EUR 175 million reduction).

In addition to the above exposures on Ireland, ING Insurance has Irish reinsurance exposure of EUR 1,578 million. This mainly includes reinsurance through an Irish subsidiary of a large European Reinsurance group.

### *Portugal*

Total exposure to Portugal declined by EUR 557 million in 2012 mainly in debt securities by EUR 555 million. The decrease was mainly in the ABS portfolio (EUR 252 million), government bonds (EUR 176 million) and financial institutions bonds (EUR 108 million).

### *Spain*

ING's total exposure to Spain was reduced by EUR 9,065 million in 2012 to EUR 36,944 million. The lending book declined by EUR 2,287 million to EUR 16,074 million. This decrease was driven by a EUR 1,412 million reduction in financial Institutions lending and EUR 1,359 million in corporate lending, and partly offset by a EUR 504 million increase in residential mortgages and other consumer lending. The debt securities portfolio decreased by EUR 7,375 million mainly due to a decrease in RMBS by EUR 1,285 million and covered bonds by EUR 5,055 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.

### **Impact of low interest rate environment**

Interest rates in the Eurozone but also in the other main home countries decreased from already low levels to unprecedented low levels. Central bank rates are still at very low levels, thereby negatively impacting the short term money market rates, and also long term rates decreased to very low levels last year. The on-going Eurozone crisis in combination with doubts on the growth potential of the world economy were the main reasons for this development.

### *Impact for ING Bank*

The typical interest rate position for ING Bank implies that the duration of the assets is somewhat higher than the duration of the liabilities. Given this mismatch, decreasing interest rates are initially favourable for ING Bank's income: liabilities re-price quicker than assets, and therefore the average coupon of liabilities adapts quicker to lower interest rates. This should support ING Bank's interest rate margin and subsequently our interest income.

However, the current situation of low interest rates levels is there since the eruption of the financial crisis. Therefore interest rates are on a low level for more than 4 years now. A sustained low interest rate environment can put ING Bank's interest income under pressure. New client assets are produced at lower rates, which impacts the average yield in the credit portfolio, but also implies lower prepayment rates and thus lengthening of the portfolio duration. This results in lower yielding assets that reprice more slowly. On the other side of the balance sheet savings coupons do not reflect the low interest rate environment fully. Due to high liquidity spreads as a consequence of the crisis and strong competition in the savings market savings coupons only marginally track lower interest rates. On balance these factors may put ING Bank's interest rate margin under pressure. This situation will endure until structural economic recovery, which will lead to an environment with interest rate increases. As there is much uncertainty when this period of recovery will emerge, ING Bank closely monitors markets in order to be positioned adequately in anticipation of either a prolonged period of a low interest rates or a potential increase of short term and long term interest rates.

### *Impact ING Insurance Eurasia and US*

Since we are mainly a life insurance company with long-term commitments to our clients, a low(er) interest rate will result in a high(er) market value of the liabilities (MVL). The risk of low interest rates combined with other risks, such as longevity, will further increase the MVL and reduce available capital.

## Risk management **continued** ING Group

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The ING Insurance entities have an ALM process where investments are bought such that they match with the duration profile of our liabilities. The remaining interest exposure is closed through a derivative portfolio. Long term guarantees and options are more difficult to hedge and expose ING to further risks. Further, in several countries the interest rate guarantees provided have a maturity significantly longer than asset maturities in the currency of these countries. In these cases ING runs non-hedgeable interest rate risks. These risks are well-known within ING's risk appetite as these risks are part of doing life insurance business in these countries, and within market risk limits defined and monitored on a quarterly basis.

The exact impact of the low interest differs per entity and per products offered. However, in general lower interest rates lead to higher provisions and thus lower available capital. In addition, capital requirements will also go up; the matching quality of the assets that back the liabilities will determine the magnitude. In conclusion, lower interest rates will result in higher capital needs.

### ***Impact ING Group***

The impact of the low interest rate environment for Bank and Insurance goes further than earnings and reserves, that are described in the sections above. Low interest rates result in addition to provisions for guarantees that are included in life insurance and variable annuity contracts, as the guarantees become more valuable to policy holders. Thereby the solvency position of the Insurance businesses is negatively impacted, which can also impact the proceeds of the Insurance divestment. The proceeds of the Insurance divestments are to be used to pay back the double-leverage. In case the Insurance proceeds are not sufficient to do so, ING Bank will need to upstream extra dividend to ING Group. EUR 1.0 billion of the November 2012 dividend payment by ING Bank to the Group has been used for this purpose. Note however, that when future Bank earnings and future capital position are negatively impacted such capital up-streams are difficult to establish. And this can be further hampered by the on-going increasing capital requirements for banks in general.

### 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. The remaining others will be disclosed in future reports.

## Risk management continued ING Bank

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	228
Risk appetite framework	More extensive description	228
RWA disclosure	More aligned with the EDTF set-up, and also better linked to ING Bank's capital position and balance sheet composition.	239
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	247
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	253

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.

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.

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.

## Risk management continued ING Bank

### 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

## Risk management continued ING Bank

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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.

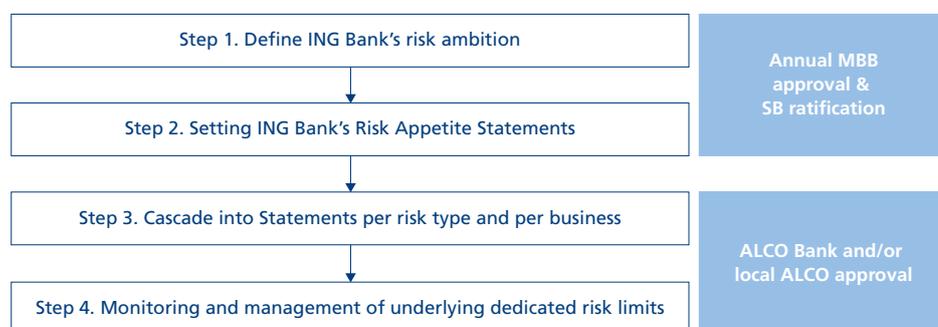
#### **Risk Appetite Framework**

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.

## Risk management continued ING Bank

### 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:



### 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.

## Risk management continued ING Bank

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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.

### *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.

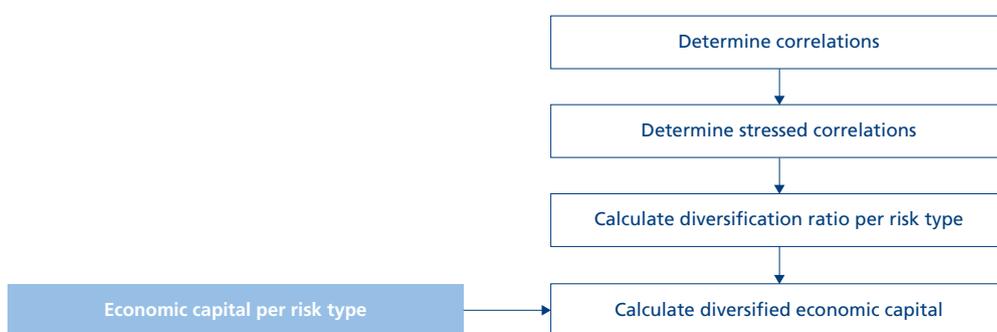
The following fundamental principles and definitions have been established for the model:

- 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.

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.

## Risk management continued ING Bank

### 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	<b>11,875</b>	14,365	<b>18,684</b>	22,474
Add-on credit risk	<b>4,248</b>			
Market risk	<b>6,326</b>	8,262	<b>772</b>	1,124
Business risk	<b>1,837</b>	2,448		
Operational risk	<b>1,763</b>	1,683	<b>2,836</b>	2,836
Total banking operations	<b>26,049</b>	26,758	<b>22,292</b>	26,434

Economic Capital (Bank diversified only) by business line combination				
	Economic Capital		Regulatory Capital	
	2012	2011	2012	2011
Commercial Banking	<b>8,019</b>	9,726	<b>9,897</b>	11,615
Retail Banking Benelux	<b>4,155</b>	4,445	<b>5,679</b>	5,552
Retail Banking International	<b>6,518</b>	9,475	<b>6,028</b>	8,783
Corporate Line Bank <sup>(1)</sup>	<b>3,109</b>	3,112	<b>688</b>	484
Unallocated	<b>4,248</b>			
Total banking operations	<b>26,049</b>	26,758	<b>22,292</b>	26,434

<sup>(1)</sup> Corporate Line includes funding activities at ING Bank level, internal transactions between business units and the Corporate Line, and is managed by Capital Management.

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

#### 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,

## Risk management continued ING Bank

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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 were reviewed. During 2012 there was a lack of clarity of the new government plans and economic uncertainty resulting in households postponing 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 behaviour 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.

## Risk management continued ING Bank

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.
- **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.

## Risk management continued ING Bank

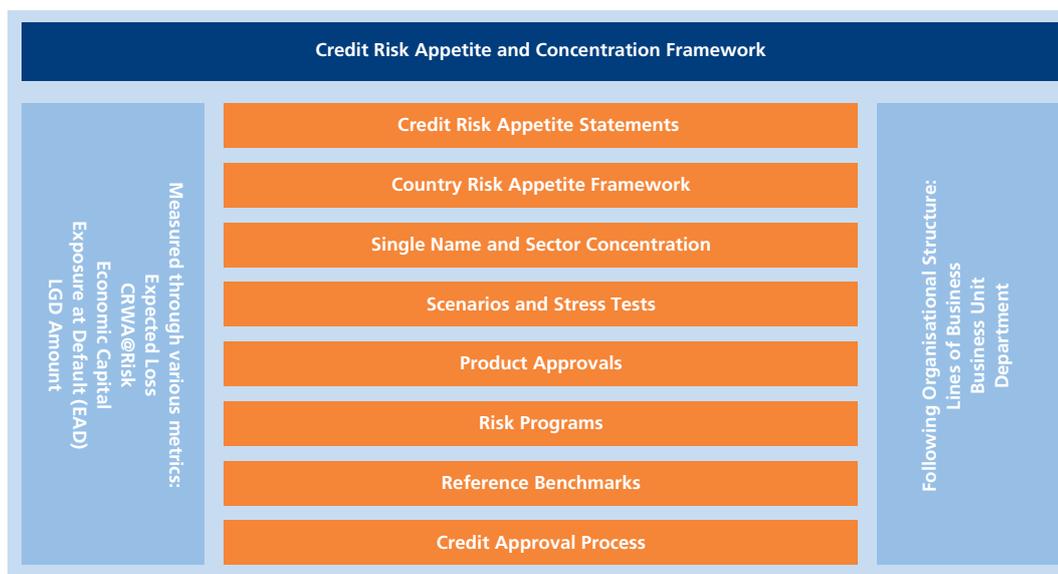
ING Bank's credit policy is to maintain an internationally diversified loan and bond portfolio, while avoiding large risk concentrations. The emphasis is on managing business developments within the business lines by means of the top-down risk appetite framework, which sets concentration limits for countries, 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.

#### **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.

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 ING Bank

	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.

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).

## Risk management continued ING Bank

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 Securitisations 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.

### 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 'unlikelihood 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.

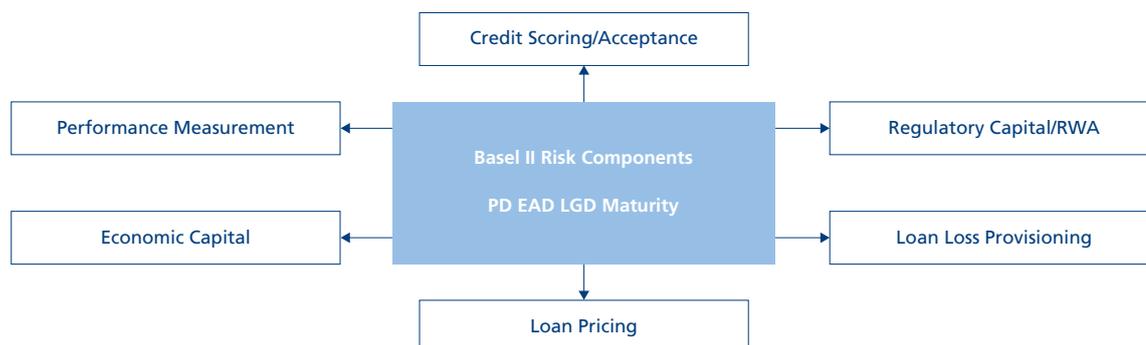
### Pre Settlement (PS) measurement models.

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.

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.

#### Model Life Cycle process stages:



#### Sign-off points:



## Risk management **continued** ING Bank

### **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.

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.

## Risk management **continued** ING Bank

### *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.

### **Credit Risk tools**

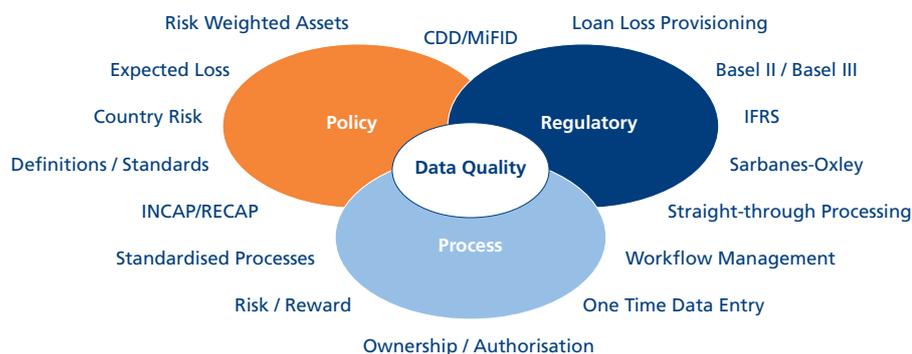
#### **Credit Risk Policies**

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.

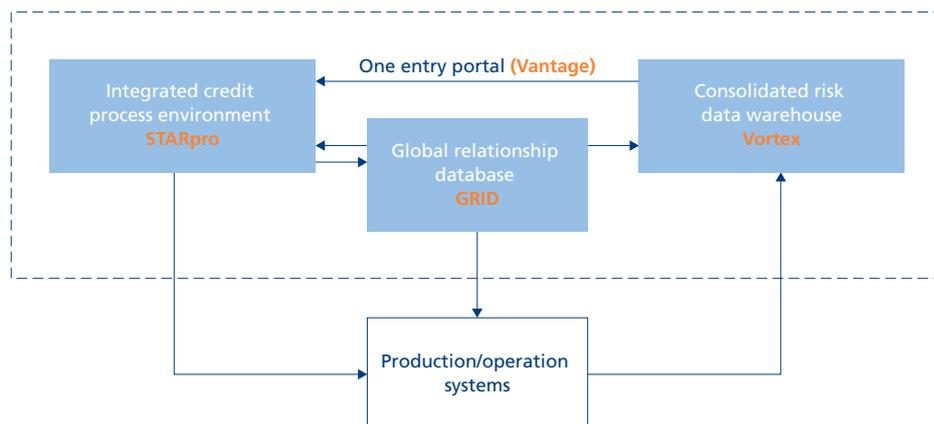
## Risk management continued ING Bank

### 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.

### 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/BCA equivalents.

### Risk classes ING Bank portfolio, as % of total outstandings <sup>(1)</sup>

	Commercial Banking		Retail Banking Benelux		Retail Banking International <sup>(2)</sup>		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%

<sup>(1)</sup> 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.

<sup>(2)</sup> 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 ING Bank

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 <sup>(1)</sup>

	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%

<sup>(1)</sup> 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 <sup>(1)</sup>

	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%

<sup>(1)</sup> 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 ING Bank

### 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 <sup>(1)</sup>

	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%

<sup>(1)</sup> 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, GMARs, 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.

## Risk management **continued** ING Bank

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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 ING Bank

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
<b>Retail</b>												
Residential Mortgages	<b>289,044</b>	335,099	<b>445,727</b>	505,991	<b>412,926</b>	465,778	<b>n.a</b>	n.a	<b>32,636</b>	39,971	<b>165</b>	242
Retail SME	<b>34,764</b>	35,987	<b>31,424</b>	29,855	<b>14,604</b>	16,201	<b>764</b>	776	<b>7,338</b>	3,897	<b>8,718</b>	8,980
<b>Total Retail</b>	<b>323,808</b>	371,086	<b>477,151</b>	535,846	<b>427,530</b>	481,979	<b>764</b>	776	<b>39,974</b>	43,868	<b>8,883</b>	9,222
<b>Commercial</b>												
Institutions	<b>85,226</b>	99,703	<b>14,271</b>	10,183	<b>82</b>	90	<b>92</b>	406	<b>13,528</b>	9,079	<b>569</b>	609
Corporate	<b>243,508</b>	265,030	<b>203,263</b>	186,030	<b>79,458</b>	82,195	<b>16,518</b>	12,965	<b>36,922</b>	28,965	<b>70,365</b>	61,904
Central Governments and Central Banks	<b>84,462</b>	107,613	<b>1,731</b>	2,879	<b>135</b>	83	<b>3</b>	12	<b>1,520</b>	2,726	<b>73</b>	58
<b>Total Commercial</b>	<b>413,196</b>	472,346	<b>219,265</b>	199,092	<b>79,675</b>	82,368	<b>16,613</b>	13,383	<b>51,970</b>	40,770	<b>71,007</b>	62,571
<b>Total</b>	<b>737,004</b>	843,432	<b>696,416</b>	734,938	<b>507,205</b>	564,347	<b>17,377</b>	14,159	<b>91,944</b>	84,638	<b>79,890</b>	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 ING Bank

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
<b>Retail</b>				
Residential Mortgages Performing Assets	11,334	10,528	26,216	25,342
Residential Mortgages Problems Assets	26	16	93	106
<b>Total Residential Mortgages</b>	<b>11,360</b>	10,544	<b>26,309</b>	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) <sup>(1)</sup>	6,579	6,649
Impaired <sup>(2)</sup>	14,928	13,382
<b>Total</b>	<b>733,527</b>	869,314

<sup>(1)</sup> Based on lending (consumer loans and residential mortgages only).

<sup>(2)</sup> Based on credit risk measurement contained in lending and investment activities.

Aging analysis (past due but not impaired): ING Bank portfolio, outstandings <sup>(1)</sup>		
	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
<b>Total</b>	<b>6,579</b>	6,649

<sup>(1)</sup> 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 modification 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 ING Bank

### Corporate Banking: Troubled Debt Restructurings

The total portfolio of loans classified as TDR amounted to EUR 1.2billion 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	1,215	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  $NPV((Market\ Interest - Contractual\ Interest) \times tenor\ in\ years)$ . 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 ING Bank

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					
Region	Customer Segments	Outstanding		Clients	
		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
Germany	Consumer Lending & Mortgages				
<b>Total</b>		<b>291</b>	<b>1,596</b>	<b>2,274</b>	<b>5,522</b>

\* 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 <sup>(1)</sup>		
	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
<b>Total</b>	<b>14,928</b>	<b>13,382</b>

<sup>(1)</sup> 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.

## Risk management continued ING Bank

### 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.
- **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 <sup>(1)</sup>								
	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

<sup>(1)</sup> The 2011 figures are excluding ING Direct USA.  
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 ING Bank

### 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
<b>Retail</b>												
Residential Mortgages	3,605	4,072	4,232	4,206	3,949	3,979	n.a	n.a	281	223	3	5
Retail SME	1,661	1,503	2,100	1,199	923	843	30	8	854	148	293	261
<b>Total Retail</b>	<b>5,266</b>	<b>5,575</b>	<b>6,332</b>	<b>5,405</b>	<b>4,872</b>	<b>4,822</b>	<b>30</b>	<b>8</b>	<b>1,135</b>	<b>371</b>	<b>296</b>	<b>266</b>
<b>Commercial</b>												
Institutions	769	784	4	4					4	4		
Corporate	9,142	7,493	8,812	6,194	4,627	3,320	353	485	1,127	397	2,704	1,990
Central Governments and Central Banks	1	1										
<b>Total Commercial</b>	<b>9,912</b>	<b>8,278</b>	<b>8,816</b>	<b>6,198</b>	<b>4,627</b>	<b>3,320</b>	<b>353</b>	<b>485</b>	<b>1,131</b>	<b>401</b>	<b>2,704</b>	<b>1,990</b>
<b>Total</b>	<b>15,178</b>	<b>13,853</b>	<b>15,148</b>	<b>11,603</b>	<b>9,499</b>	<b>8,142</b>	<b>383</b>	<b>493</b>	<b>2,266</b>	<b>772</b>	<b>3,000</b>	<b>2,256</b>

\* 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 ING Bank

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 <sup>(1)</sup>		Regulatory Capital	
	2012	2011	2012	2011
Market risk	<b>6,326</b>	8,262	<b>772</b>	1,124

<sup>(1)</sup> 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.

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.

### **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.

## Risk management **continued** ING Bank

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### *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.

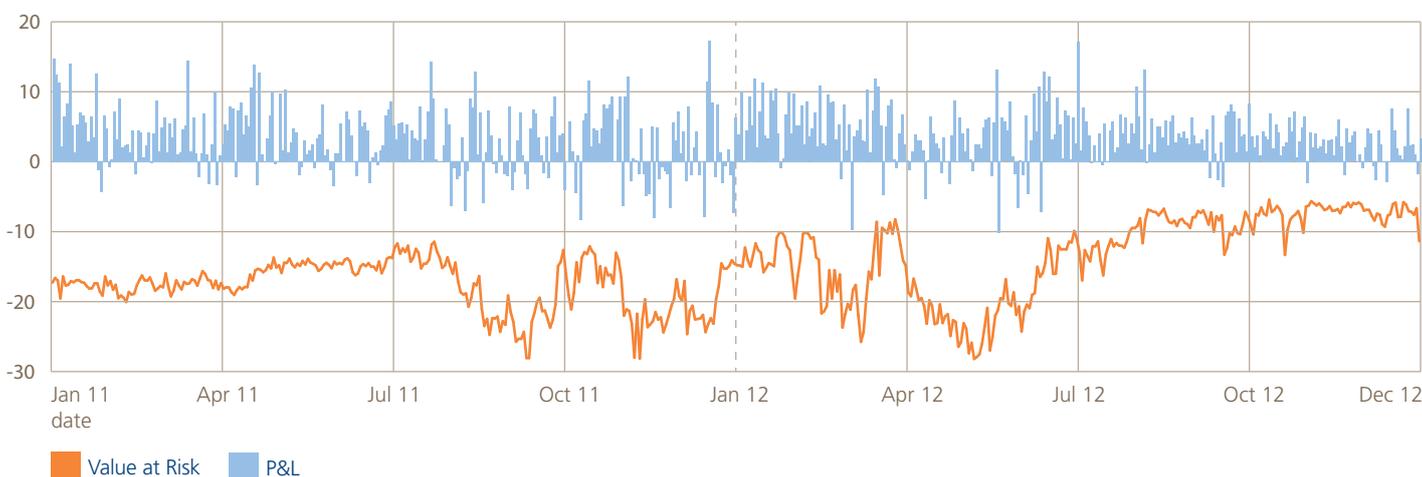
## Risk management continued ING Bank

### 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.

#### Consolidated trading VaR ING Commercial Banking 2011–2012

In EUR millions



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 <sup>(1)</sup>

	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 <sup>(1)</sup>					-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

<sup>(1)</sup> 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.

## Risk management continued ING Bank

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 <sup>(1)</sup>			28	34
Total Regulatory Capital			772	1,124
Market Risk Weighted Assets <sup>(2)</sup>			10	14

<sup>(1)</sup> 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.

<sup>(2)</sup> Amounts are in EUR billions.

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
<b>Foreign exchange</b>		<b>Foreign exchange</b>	
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

Most important interest rate and credit spread sensitivities (year-end 2012)			
amounts in thousands of euros			2011 <sup>(3)</sup>
<b>Interest Rate (BPV <sup>(1)</sup>)</b>		<b>Interest Rate (BPV <sup>(1)</sup>)</b>	
United States	-124	Eurozone	482
South Korea	-122	Mexico	-98
Russia	-84	South Korea	-82
Taiwan	80	Czech Republic	76
Eurozone	64	Russia	-71
<b>Credit Spread (CSO1 <sup>(2)</sup>)</b>		<b>Credit Spread (CSO1 <sup>(2)</sup>)</b>	
Finland	-278	Germany	-903
Korea	-192	Netherlands	774
Netherlands	126	Korea	-231
Russia	-119	Mexico	-226
Norway	-100	Finland	-125

<sup>(1)</sup> Basis Point Value (BPV) measures the impact on value of a 1 basis point increase in interest rates or credit spreads.

<sup>(2)</sup> Credit Spread Sensitivity (CSO1) measures the impact on value of a 1 basis point increase in credit spreads.

<sup>(3)</sup> 2011 Interest Rate BPV figures are restated due to the exclusion of CAD3 books formerly under the trading governance.

## Risk management continued ING Bank

### Credit spread sensitivities per risk class and sector (year-end 2011)

amounts in thousands of euros Credit Spread (CSO1 <sup>(1)</sup> )		2012		2011	
		Corporate	Financial Institutions	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

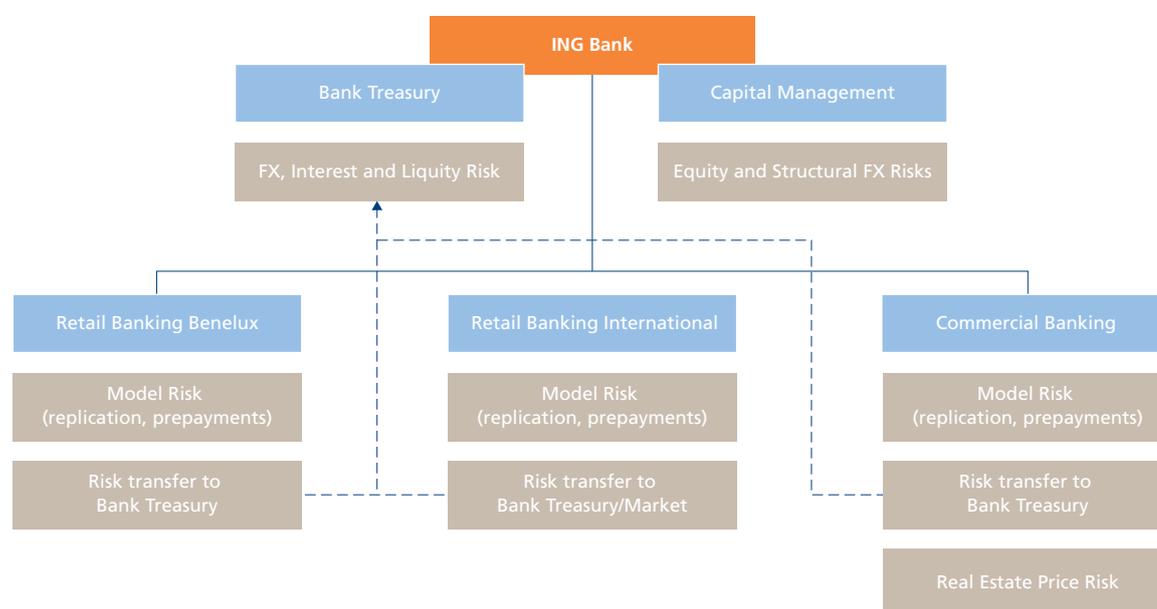
<sup>(1)</sup> Credit Spread Sensitivity (CSO1) measures the impact on value of a 1 basis point increase in credit spreads.

### 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.

## Risk management continued ING Bank

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.

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 <sup>(1)</sup>
<b>By currency</b>		
Euro	47	-1
US Dollar	3	-66
Pound sterling	1	-11
Other	17	37
Total	68	-41

<sup>(1)</sup> 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.

## Risk management continued ING Bank

### 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.

NPV-at-Risk banking books (1% instantaneous upward shock to interest rates)		
	2012	2011 <sup>(1)</sup>
<b>By currency</b>		
Euro	-2,092	-1,885
US Dollar	-75	-78
Pound Sterling	12	-28
Other	15	-45
Total	-2,140	-2,036

<sup>(1)</sup> 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 <sup>(1)</sup>
<b>By currency</b>		
Euro	-18,824	-16,127
US Dollar	-656	-848
Pound Sterling	382	-164
Other	1	-230
Total	-19,097	-17,369

<sup>(1)</sup> 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.

## Risk management continued ING Bank

### 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 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						
In EUR million	Foreign Investments			Hedges		Net Exposure
	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	0	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				
Currency	2012	cTaR		Stress Scenario
		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%

## Risk management continued ING Bank

### 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.

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
<b>Continent</b>			<b>Sector</b>		
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.

## Risk management continued ING Bank

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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 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);

## Risk management continued ING Bank

- 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.

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
<b>Funding type</b>		
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.

## Risk management **continued** ING Bank

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### **NON-FINANCIAL RISK**

The Non-Financial Risk (NFR) department encompasses the Operational and Compliance risk management teams. It ensures 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.

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.

## Risk management continued ING Bank

### 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.

### 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** ING Bank

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### **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

## Risk management continued ING Bank

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.

### ING INSURANCE

#### ING INSURANCE RISK MANAGEMENT GOVERNANCE

ING is engaged in selling a broad range of life and non-life insurance products. Risks from these products arise with respect to the adequacy of insurance premium rate levels and provisions for insurance liabilities, earnings and capital position, as well as uncertainty as to the future returns on investments of the insurance premiums. Financial Risks include investment risk, asset and liability management and surplus and capital issues. Insurance product risks include insurance risks (actuarial and underwriting) and interest rate sensitivity. Compliance risk, legal risk, reputation risk and operational risk are classified as Non-Financial Risks.

The Management Board Insurance EurAsia (MBE) consists of 8 members, including the members of the ING Group Executive Board, and is responsible for managing risks associated with the insurance activities in Europe and Asia. The Board US Incorporated consists of 6 members, including the members of the ING Group Executive Board, and is responsible for managing risks associated with the insurance activities in the United States (ING Insurance US).

In anticipation of the intended divestment of the insurance activities, to a large extent risk management has been delegated to ING Insurance EurAsia and ING Insurance US with an oversight role at Group level.

In 2011, ING has completed the divestment of its Latin American pensions, life insurance and investment management operations. This transaction was the first major step in the divestment of ING's insurance and investment management activities. In 2012, ING Insurance and investment management activities in Asia and its reinsured Japan SPVA businesses in Corporate Reinsurance are classified as held for sale and as discontinued operations. In the remaining section of ING Insurance EurAsia, the risks of the discontinued operations in Asia have been removed from the figures in 2011 and 2012.

#### Governance

Risk governance ensures a robust and responsive governance structure that adequately manages the risks ING is exposed to and effectively responds to adversity so as to preserve ING's financial position as determined by the risk appetite.

Risk management within ING is the primary responsibility of the ING Group Chief Risk Officer (CRO). The ING Group Chief Risk Officer has a direct functional line with the Chief Risk Officer of ING Insurance EurAsia and with the Chief Risk Officer of ING Insurance US. The General Manager of Insurance Investments is responsible for winding down the activities within Insurance Investments. The ING Group CRO is supported by the Risk functions of ING Group and by the Group functions Corporate Legal and the Functional Controller Insurance.

#### Ongoing changes in the regulatory environment

Amidst the current and on-going crisis, it is inevitable that regulation will seek more certainty from undertakings. Regulation will impact insurers in many ways which will require adaptation and alignment with internal views. Inter alia, regulation will seek to ensure undertakings maintain capital adequacy. Regulation will also provide impediments to risk-based pricing in the form of anti-discrimination restrictions whereby certain risk factors will not be allowed for risk-based pricing and provisioning.

ING Risk Management will take these developments into account preparing for the new regulatory environment. The involvement in industry associations such as the CRO Forum, CFO Forum and Pan European Insurance Forum (PEIF) keeps ING close to these developments and enables responsive action in this regard.

- The most important regulatory focus for the insurance industry is the continued development by the European Union of the Solvency II capital adequacy framework. Solvency II is intended to be the European, economic, risk-based and market-consistent regime whereby capital requirements are directly dependent on an insurer's assets and liabilities. However, some of the proposed measures currently under discussion are considered unduly conservative and deviate from economic principles. It is therefore very important that the Solvency II framework, as originally envisaged, will become market-based, avoid pro-cyclicality and adequately reflect the position of insurance undertakings during market volatility. The EU politicians and regulators drafting the framework should therefore ensure that the measures to be implemented are robust enough throughout the cycle. ING Insurance EurAsia is working actively with relevant stakeholder in the insurance industry to advise EU politicians and regulators to come up with concrete proposals that realise these objectives;
- The insurance business is affected by regulatory action, for instance regulations affecting taxes, pension regulation and customer protection. In the first quarter, the European Court of Justice ruled that price differentiation based on gender for any insurance products sold in the European Union is not allowed from 21 December 2012 onwards. This will only impact new business and exclude repricing and extensions. ING Insurance EurAsia will adapt to these impediments such that ING Insurance EurAsia will continue to provide protection offerings to the current, prospective and future policyholders;
- State insurance regulators in the United States and the National Association of Insurance Commissioners (NAIC) regularly re-examine existing US laws and regulations applicable to insurance companies and their products. The NAIC adopted the Valuation Manual for Principles Based Reserving of Life Insurance and Annuity products at their December 2012 meeting. The Manual now must be adopted by 42 states prior to becoming effective. The NAIC also adopted the Risk Management and Own Risk and Solvency Assessment Model Act (the 'ORSA Model Act') in 2012. This Act requires companies to do an ORSA by 1 January 2015.

### IFRS reserve adequacy test

As per 31 December 2012, the reserves for ING Insurance remained adequate above the prudent 90% confidence level, and all business lines exceeded the 90% confidence level with the exception of the US Closed Blocked Variable Annuities (VA), which improved from EUR –3.2 billion at year-end 2011 to EUR –1.7 billion at year-end 2012, driven by assumption and model changes as well as market performance during the year. That improvement was offset by a decline at Insurance Benelux as a result of derisking and low interest rates as well as new mortality tables in the Netherlands.

If the aggregate reserves for a business line fall below the 50% confidence level, the shortfall must be recognised immediately in the profit and loss (P&L) account. Such a charge may be triggered in Asia as ING divests its business units in the region, because a reserve inadequacy in Japan is currently compensated by a surplus in other units. The reserve inadequacy for the Japanese insurance business, including the VA guarantees reinsured by ING Reinsurance, was approximately EUR 0.4 billion at the 50% confidence level at 31 December 2012. This is comprised of an inadequacy of approximately EUR 0.9 billion for the closed block VA, offset by a sufficiency of EUR 0.5 billion for the corporate-owned life insurance business. The nature and timing of any P&L charge from such reserve inadequacy depends on the closing of other divestments in Asia as well as various options currently under investigation for ING Life Japan. Further announcements will be made if and when appropriate.

### New mortality tables in The Netherlands

The Dutch Bureau of Statistics (CBS) published their bi-annual update of mortality projections in the Netherlands, which are used by the Dutch insurance businesses. The update had no impact on the IFRS P&L, but is reflected in the IFRS reserve adequacy test and the capital ratio (IGD ratio) for ING Insurance. The impact on the IGD ratio was approximately 4 percentage points. Nationale-Nederlanden established an additional provision for longevity more than 15 years ago to cover the risk related to increasing life expectancy in the group pension business. Upon renewal, group pension contracts are recalculated and, to date, any required increase in the provision for insurance contracts due to mortality has been offset against the longevity provision.

## Risk management continued ING Insurance EurAsia

### ING INSURANCE EURASIA

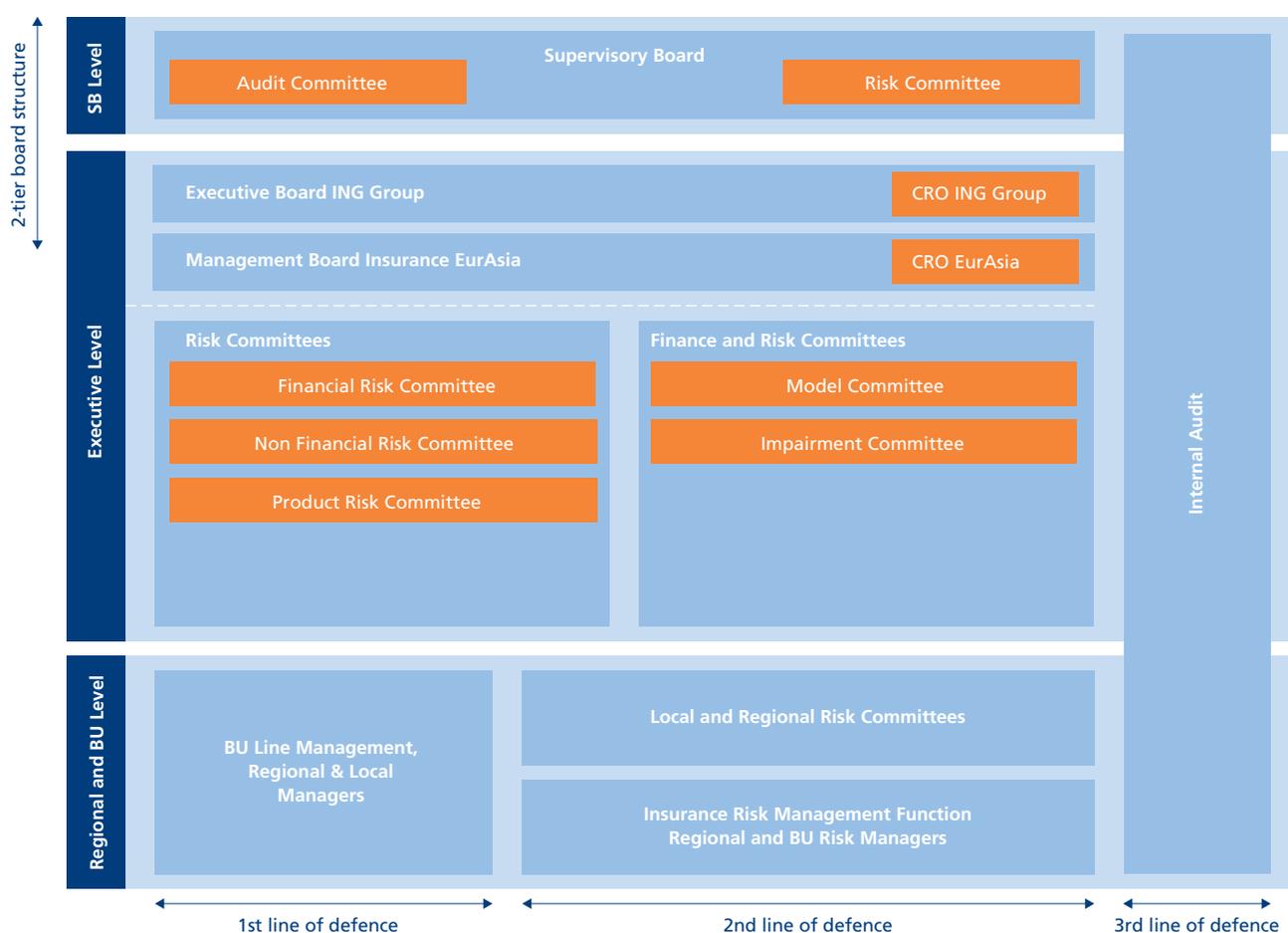
#### MISSION AND OBJECTIVES

Risk is at the heart of the insurance business model. Adding value to clients and shareholders by appropriately pooling and diversifying risks is the core function. Insurance risks are borne by accepting premiums from policyholders which in turn are invested, thereby generating return potential and market risks. Risk Management is the basis for creating value for policyholders and shareholders. The willingness to take risks and ability to appropriately manage the risks we accept and those we do not accept is of paramount importance.

ING's approach to risk management is facilitated by a risk appetite framework that establishes the risks the company wishes to acquire, avoid, retain and/or remove in its pursuit of its strategic objectives. The risk appetite framework combined with the risk measurement framework is the basis for our day to day risk management execution. Business units report regularly on their risk profile.

#### RISK GOVERNANCE

ING Insurance EurAsia's risk framework is based on the 'three lines of defence' concept which ensures that risk is managed in line with the risk appetite as defined by the Management Board Insurance EurAsia (MBE) and ratified by the Supervisory Board and is cascaded throughout ING Insurance EurAsia.



#### Board level risk oversight

ING Insurance EurAsia has a two-tier board structure consisting of the MBE, including the Executive Board members of ING Group and the Supervisory Board Insurance EurAsia.

The Supervisory Board is responsible for supervising the policy of the MBE and the general course of affairs of the company and its businesses. For Risk Management purposes the Supervisory Board is assisted by two sub-committees:

- The Audit Committee assists the Supervisory Board in supervising and advising the MBE with respect to the structure and operation of internal risk management and control systems, as well as compliance with legislation and regulations applicable to ING Insurance EurAsia and its subsidiaries;
- The Risk Committee assists the Supervisory Board in supervising and advising the MBE with respect to ING EurAsia's strategy and its risk policies, including the risks inherent in its business activities.

To the extent that the committees do not determine otherwise, the Chief Risk Officer (CRO) attends the meetings of both committees.

## Risk management continued ING Insurance EurAsia

The MBE is responsible for managing the risks associated with the activities of ING Insurance EurAsia. The MBE's responsibilities include ensuring the risk management and control systems are effective and ING Insurance EurAsia complying with legislation and regulations. The MBE reports and discusses these topics on a regular basis with the Supervisory Board, and reports to the Risk Committee on a quarterly basis on ING Insurance EurAsia's risk profile versus its risk appetite.

As part of the integration of risk management into the strategic planning process, the MBE annually issues a Planning Letter which provides the organisation with the corporate strategic planning, and addresses key risk issues. Based on this letter the business lines develop their own business plans, including qualitative and quantitative assessment of the risks involved. Risk appetite, risk tolerance levels and risk limits are explicitly discussed as part of the process. Based on the business plans the MBE formulates the Strategic plan which is submitted to the Supervisory Board for approval.

### Executive level

The MBE is supported by two committees with regards to risk:

- Finance and Risk Committee
 

The primary responsibility of the committee is to align finance and risk decisions that have an impact on internal and/or external reporting of ING Insurance EurAsia. This includes advising on, (pre-) approving, reviewing and taking actions on issues that impact the financial condition of ING Insurance EurAsia. The Finance and Risk committee has two sub-committees dealing with different risk areas:

  - *EurAsia Model Committee* – The authority that approves methodologies, models and parameters used for measuring Risk, Economic Capital and Market-Consistent Valuations which are applied within ING Insurance EurAsia;
  - *Impairment Committee* – The authority where impairments for financial reporting purposes are approved (including loan loss provisions).
- Risk Committee MBE
 

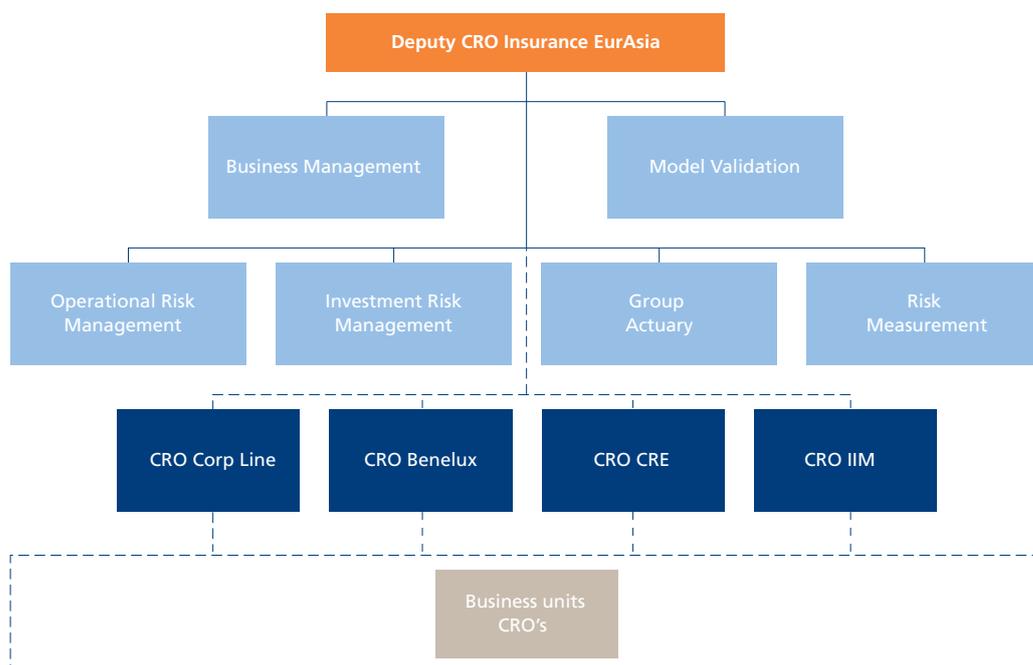
The Risk Committee MBE includes all MBE members and heads of finance & risk staff departments. It discusses and decides on risk related items, approves limits and tolerance levels per risk category and approves and mandates action plans for specific financial, product and operational risk issues. The Risk Committee MBE has three sub-committees dealing with different risk areas:

  - *Financial Risk Committee* – Oversees all financial risks within the ING Insurance EurAsia entities;
  - *Product Risk Committee* – Oversees all insurance product risks within the ING Insurance EurAsia entities;
  - *Non-Financial Risk Committee* – Oversees all non-financial risks within ING Insurance EurAsia.

### Risk Management Function

The CRO bears primary and overall responsibility for the risk management function within ING Insurance EurAsia, which identifies, measures, monitors and reports risk within ING Insurance EurAsia. The risk function maintains and updates the policy framework, develops risk methodologies and advises on the risk tolerance and risk profile. The CRO assures that both the Supervisory Board and MBE are well informed and understand the material risks within ING Insurance EurAsia at all times.

The CRO delegates day-to-day Risk Management within ING Insurance EurAsia to the Deputy CRO. The Deputy CRO department consists of several risk functions that support the overall Risk Management function. Doug Caldwell joined as CRO of ING Insurance EurAsia as of December 2012. A new reporting structure will become effective in 2013.



## Risk management continued ING Insurance EurAsia

Regional level and business unit level have separate risk committees. The Regional CROs report functionally to the Deputy CRO, while the Business Units CROs in turn functionally report to the Regional CROs. Within ING Insurance EurAsia Compliance Risk Management is part of the Legal and Compliance function.

### Product Approval and Review Process

A critical aspect of risk management is that all products are designed, underwritten and priced effectively. Within ING Insurance EurAsia this is safeguarded by the Product Approval and Review Process (PARP). This standard includes requirements to risk profile, value-oriented pricing metrics, targets and documentation. The PARP includes requirements to assess market risks, credit risk, insurance risk, compliance risk, legal risk, operational risk as well as the assessment of the administration and accounting aspects of the product. Requirements with respect to the customer suitability of insurance products are an integral part of the PARP.

### New Investment class and investment mandate process

Complementing the PARP for insurance products, ING Insurance EurAsia maintains a New Investment Class Approval and Review Process (NICARP) for approving new investment classes. Each asset ING Insurance EurAsia invests in should be on the Global Asset List; the list of all approved investment classes. Each Business Unit maintains a Local Asset List that is a subset of the Global List. For a limited number of investment classes, a Group Investment Transaction Approval (GITA) is required for each new transaction. This requirement only applies when the level of complexity or diversity warrants Group approval for individual (programmes of) transaction(s). Actual investments are made based on Investment Mandates, a formal agreement between the owner of the investments and its asset manager. Business Units can only include investment classes in their Investment Mandates that are on their Local Asset List. Next to setting the allowed investment classes, the mandate also serves to agree the strategic asset allocation and asset, industry, regional, and credit concentration limits.

### Reserve adequacy

The ING Insurance EurAsia Group Actuary gives all ING Insurance EurAsia entities instructions and supervises to ensure that the IFRS insurance liabilities of ING Insurance EurAsia are tested for adequacy taking into account the insurance premium rate levels and the uncertainty of future returns on investments. The reserve adequacy test is executed by evaluating insurance liabilities on current best estimate actuarial assumptions plus a risk margin, ensuring that the reserves remain adequate based on these assumptions. The assumed investment earnings are a combination of the run-off of portfolio yields on existing assets and new money and reinvestment rates. For short-term and reinvestments, new money rates are used. For other reinvestments, long-term best estimate assumptions are taken into account. For many products stochastic testing is required, taking the 90th percentile of results as the required level. In the case where deterministic testing is used, the 90% confidence level is achieved by subtracting risk margins of 20% from the best-estimate interest rates or one percent point, whichever is higher.

### Policies

ING Insurance EurAsia has a comprehensive set of risk management policies in place, which are regularly updated to align with best practices, regulations and change in business profile. Starting in 2011, ING Insurance EurAsia reviews all policies for compliance with emerging Solvency II and other regulations, for example Capital Requirements Directive III (CRD III).

### Model governance

Models with regards to the disclosed metrics are approved by the ING Insurance EurAsia Model Committee (EMC). The EMC is responsible for policies, procedures, methodologies, models and parameters which are applied within ING Insurance EurAsia. Regional Model Committees are in place for the approval of regional models and parameters. Significant regional models and parameter changes are also subject to EMC approval. Furthermore, the Model Validation function carries out periodic validations of the internal models. To ensure independence from the business and other risk departments the department head reports directly to the Deputy CRO.

### RISK APPETITE FRAMEWORK

Our risk appetite determines what risk our companies wish to acquire, to avoid, to retain and/or to remove. It defines our attitude to risk we would like to and are able to take in the near future and consists of risk preferences, our risk tolerances, our risk limits and controls. The risk appetite is determined for each of our business units. The risk appetite framework combined with our risk measurement framework is the basis for our day to day risk management execution. Business units report regularly on their risk profile.

	Description
<b>Risk Appetite</b>	A qualitative statement defining the playing field ING Insurance EurAsia wants to act in. Driven by ING Insurance EurAsia's business strategy.
<b>Risk Tolerance</b>	A quantitative boundary on the risks in which the risk taking should be within. Driven by Capital Rating targets and local capital restrictions and risk appetite for financial and non-financial risks.
<b>Risk Limits</b>	Limit setting to a granular level for business units throughout the organisation to constrain risk taking at the operational level within the business.

The risk appetite, tolerance, and limit structure includes the 'Available Financial Resources over Economic Capital' ratio (AFR/EC), leverage ratios, IFRS earnings sensitivities, local capital sensitivities, and concentration risks. The AFR/EC ratio is defined as the Available Financial Resources (AFR) over the amount of capital required for the current net asset value to absorb unexpected losses in a scenario based on a 99.5% confidence level with a one year time horizon. The confidence interval and horizon are aligned to Solvency II.

### Risk Monitoring

ING Insurance EurAsia uses various tools to monitor its risk exposures – ensuring we remain within our risk appetite. A robust risk appetite combined with our governance frameworks ensures timely response to address any exposures that breach our risk appetite. Below we list the main risk controls that are in place to monitor risk and allow management to take risk mitigating actions or revisit our risk appetite to ensure it still lies within our risk capacity:

- Financial risks are reported to the Risk Committee of ING Insurance EurAsia at each level of the organisation through Financial Risk Dashboards. The risk committee monitors the exposures versus the tolerances and limits and can decide to take mitigating actions or waivers. Waivers need to be asked upfront. Capital ratios are reported to the Management Board through the Capital Adequacy Report;
- Investment risks are reported at group level to the Risk Committee of ING Insurance EurAsia through the Investment Risk Dashboard and the Liquidity Risk Report. The Risk Committee monitors the exposures versus the tolerances and limits and can decide to take mitigating actions or waivers. Waivers need to be asked upfront;
- Furthermore, the investment mandate process, the New Investment Class Approval and Review Process (NICARP), policies and procedures on investment risk are monitored by the Financial Risk Committee;
- Underwriting risk is monitored mostly through the product approval process (PARP) at business line and business unit level. Adequacy of our technical reserves is monitored and reported at all levels of the organisation;
- The non-financial risks are monitored through the non-financial risk dashboard (NFRD) process at all levels in the organisation. The NFRD provides management at all organisational levels with information about key operational, compliance and legal risks and incidents.

### Model Risk

Model governance and validation should ensure that the models that are used are valid for their intended use. Model validation is reporting quarterly on their findings to the Finance & Risk Committee. All models in scope are classified as according to their materiality based on internal classification.

### Stress Testing

ING Insurance EurAsia complements its regular risk reporting process for financial and non-financial risks with (ad hoc) stress tests. Stress testing examines the effect of exceptional but plausible scenarios on the capital position of ING Insurance EurAsia. Stress testing can be initiated internally or by external parties such as the Dutch Central Bank (De Nederlandsche Bank - DNB) and the European Insurance and Occupational Pensions Authority (EIOPA).

### Risk Profile

#### Risk type description

ING Insurance EurAsia identifies the following main types of risk that are associated with its business:

- Insurance risk – risks such as mortality, morbidity, longevity and property and casualty (P&C) associated with the claims under insurance policies it issues/underwrites; specifically, the risk that premium rate levels and provisions are not sufficient to cover insurance claims;
- Business risk – risk driven by the possibility that experience deviates from expectations with respect to policyholder behaviour, expenses and premium re-rating. These fluctuations can occur because of internal, industry, or wider market factors. It is the risk inherent in strategy decisions and internal efficiency, and as such strategic risk is included in business risk;
- Market risk – the risk of potential losses due to adverse movements in market variables. Market risks include interest rate, equity, real estate, implied volatility, credit spread including illiquidity premium, and foreign exchange risks;
- Credit risk – the risk of potential losses due to default by ING Insurance EurAsia debtors (including bond issuers) or trading counterparties;
- Liquidity risk – the risk that ING Insurance EurAsia 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;
- Operational risk – the risk of direct or indirect losses resulting from inadequate or failed internal processes, people and systems or from external events. It includes reputational risk, as well as legal risk;
- Compliance risk – the risk of damage to ING Insurance EurAsia's integrity as a result of failure (or perceived failure) to comply with relevant laws, regulations, internal policies, procedures and ethical standards.

### Discontinued operations

In 2012, ING Insurance and investment management activities in Asia Pacific and its reinsured Japan SPVA businesses in Corporate Reinsurance are classified as held for sale and as discontinued operations. Risks in the discontinued operations have and will be actively managed according to ING best practices. The main risk in Asia Pacific remains interest rate risk. This is mainly present in South Korea and management continues to take actions to reduce this risk.

Sales agreements have been reached for Malaysia, Thailand, Hong Kong/Macau and India insurance operations. For Malaysia, the sale was completed in December.

The remaining part of the ING Insurance EurAsia risk management paragraph will exclude the discontinued operations. The 2011 comparative numbers have been restated accordingly.

## Risk management continued ING Insurance EurAsia

### Economic Capital

Economic Capital (EC) within ING Insurance EurAsia is defined as the amount of additional assets to be held above the market value of liabilities in order to ensure a positive surplus in case of adverse movements. The Economic Capital model is based on a 99.5% level of confidence interval on a one-year time horizon and is before any adjustment for tax impacts.

### Model disclosure

ING quantifies the impact of the following types of risk in its EC model:

- Market Risk – Most assets are individually (re)valued under different economic scenarios. The rest of the assets (mortgages) and the financial component of the liabilities are replicated by the business units using a finite set of standard financial instruments. The replication is based on stochastic cash flows produced by the local actuarial systems using a set of economic scenarios. The quality of the replication is monitored by several statistical criteria, including R-squared, and benchmarked against market value sensitivities;
- Credit default Risk – Calculated on portfolios which contain credit or transfer risk, including investment portfolios. The EC is calculated based on the following seven drivers: Probability of Default (measure of the standalone creditworthiness of individual debtors), Exposure at Default (estimated size of the financial obligation at the moment of default in the future), Loss Given Default (estimated recovery value of the underlying collateral or guarantees received (if any) and the unsecured part), Industry of the debtor, Country of the debtor, Remaining tenor of the underlying transactions and Type of Assets;
- Insurance Risk – Calculated by the business unit for all sub-risks for Life, Morbidity and P&C Risk;
- Business Risk – Calculated by the business unit for Persistency, Expense and Premium-rating Risk;
- Operational Risk – Calculated by a corporate risk model for all business units, in alignment with Solvency II Standard Formula.

### EC Calculation and aggregation

For the EC calculation the risk system (ECAPS) uses a sufficient number of scenarios to simulate market risks and credit default risk. A dependency structure is used to reflect correlations between risk drivers when generating the economic scenarios. The scenarios are calibrated based on the historical time series of the market risk drivers using relevant available historical data. Volatilities and correlations are calibrated to represent the distribution on a quarterly frequency. For each of the scenarios the market value of assets and liabilities and the change in value of the Market Value Surplus (MVS) is recalculated. Sorting the results and selecting the 99.5% worst change in MVS result provides the Economic Capital for the given level of aggregation.

The EC numbers for business and insurance risk are calculated in local systems based on industry data, experience studies and expert judgement. These EC numbers are aggregated with the EC for market risk and credit default risk, taking into account diversification. Operational risk capital is treated as an add-on and therefore not part of the diversification between risk types.

For EC calculation ING Insurance EurAsia uses a one-year time horizon. The Economic Capital model will continue to be updated to reflect most recent market data, developments in best practices, and regulations such as Solvency II.

### Risk profile

The following table presents the reconciliation from the EC 2011 for ING Insurance EurAsia as reported in the Annual Report 2011, to the comparable basis for ING Insurance EurAsia 2012. This reflects changes in scope, models and methodology. All risk figures disclosed in the remaining part of ING Insurance EurAsia will be on comparable basis to 2012.

Economic Capital 2011 reconciliation	
amounts in billions of euros	2011
As reported for ING Insurance EurAsia in 2011	10.3
Exclude ING Insurance Asia Pacific discontinued operation	-3.8
ING Insurance EurAsia excluding discontinued operation	6.5
Change in models and methodology	-0.9
ING Insurance EurAsia 2011 excluding discontinued operation, on a basis comparable to 2012	5.6

The exclusion of ING Insurance Asia Pacific entities relates to all business units in Asia Pacific, ING's Insurance and investment management businesses and the reinsured Japan SPVA businesses in corporate reinsurance that have been classified as discontinued operations and that were considered in last year's EC. Reference is made to Note 23 'Discontinued operations'.

In 2012, ING Insurance EurAsia revisited and refined Economic Capital methodologies. This resulted in an overall decrease of EC of EUR 0.9 billion as per year end 2011. This is mainly driven by changes in market risk methodology. In 2011 the impact of several future model changes was anticipated and the changes were fully implemented in 2012. The main changes leading to a lower market risk EC were driven by lower than anticipated contributions of spread and equity risk. Furthermore the methodology to capture equity and interest rate option hedges was refined, leading to a lower equity and interest rate risk EC. Simultaneously, EC increased for business risk which was updated to better capture risk for expense risk and persistency. The tables below start with the restated figures for EurAsia after these model changes.

## Risk management continued ING Insurance EurAsia

The following table provides the Economic Capital breakdown by business line with diversification benefits allocated to the business lines.

Economic Capital break-down ING Insurance EurAsia excluding discontinued operations (99.5%) by business line		
	2012	2011
Insurance Benelux	4,324	4,331
Insurance Central & Rest of Europe	1,082	808
Corporate Line Insurance EurAsia <sup>(1)</sup>	462	457
Total Insurance EurAsia excluding discontinued operation	5,868	5,596

<sup>(1)</sup> Corporate Line Insurance EurAsia includes funding activities at ING Insurance EurAsia level, Capital Management transactions and corporate reinsurance.

While the figures above are shown by business line, the diversification across ING Insurance EurAsia businesses is calculated across business units. The increase in Central and Rest of Europe was mainly due to a change in mass lapse assumptions driven by Solvency II. Total diversification across ING Insurance EurAsia's business units and the Corporate Line Insurance is 28% (2011: 31%).

Economic Capital for ING Insurance EurAsia increased from 2011 to 2012 primarily due to increases in insurance and business risk, partly offset by significant de-risking activities in the Benelux and overall lower market valuations leading to a lower market risk. The decrease in credit default risk due to a methodology change was offset by a lower diversification of this risk with other risk categories. The Economic Capital assigned to Corporate Line Insurance EurAsia primarily relates to foreign exchange translation risk of the market value surplus of the business units in non-euro countries to the euro.

The table below shows the breakdown of the Economic Capital per risk type. Details can be found in the various risk type sections below.

Economic Capital break-down ING Insurance EurAsia excluding discontinued operations (99.5%) by risk category		
	2012	2011
Insurance risk	1,921	1,642
Market risk	3,153	3,404
Credit default risk	357	557
Operational risk	391	344
Business risk	2,337	2,118
Diversification across risk types	-2,291	-2,469
Total insurance operations EurAsia excluding discontinued operation	5,868	5,596

### INSURANCE RISK

Insurance risks comprise of actuarial and underwriting risk such as mortality, longevity, morbidity and property & casualty risks which result from the pricing and acceptance of insurance contracts.

### Model disclosure

The table below shows the main risk categories for insurance risks within ING Insurance EurAsia. IFRS Earnings sensitivities are defined on a shock scenario at the 90% confidence level, EC numbers are determined using a 99.5% confidence interval, both on a one year horizon.

	Description	Key Drivers
Mortality	Mortality risk can be subdivided into: – Positive mortality risk occurs when claims are higher due to higher mortality experience e.g. term insurances. – Negative mortality risk occurs when insured persons live longer than expected, for instance in pension products. Longevity risk hits earnings gradually over time.	IFRS Earnings: Death claims in life business  EC: Pension and annuity business mainly in the Netherlands
Morbidity	Morbidity or Health insurance covers insurance indemnifying or reimbursing losses (e.g. loss of income) caused by illness or disability, or for expenses of medical treatment necessitated by illness or disability.	IFRS Earnings & EC: Income protection in the Netherlands
Property & Casualty	P&C insurance products cover various risks such as fire damage, car accidents, personal and professional liability, hurricanes etc.	IFRS Earnings & EC: Storms and third party liabilities in Benelux

## Risk management continued ING Insurance EurAsia

### Economic capital

Economic Capital ING Insurance EurAsia excluding discontinued operations (99.5% undiversified) by risk category		
	2012	2011
Mortality	1,296	1,119
Morbidity	283	263
P&C	342	260
Total Insurance Risk	1,921	1,642

The mortality risk EC increased because of a mortality table update in the Netherlands and lower interest rates which increased the value of the longevity risk. The P&C risk mainly increased due to an improved implementation of the expected exposure with respect to new business within one year.

### Sensitivities

IFRS Earnings sensitivities for Insurance risks excluding discontinued operations		
	2012	2011
Mortality	-28	-21
Morbidity	-99	-99
P&C	-82	-75

Overall exposure to insurance risks did not change significantly during 2012. Annual review of actuarial assumptions for Insurance risk is reflected in the numbers presented in the IFRS Earnings sensitivities above.

### Mitigation

In general, insurance risks cannot be (easily) hedged directly via the financial markets and are partially mitigated by diversification across large portfolios. They are therefore managed at the contract level through underwriting policies, product design requirements, independent product approval processes and risk limitations related to insurance policy terms and conditions agreed with the client.

Risk not mitigated by diversification is managed through concentration and exposure limits and through reinsurance and/or securitisations:

- Tolerance limits for non-life insurance risks are set by line of business for catastrophic events and individual risk;
- Tolerance limits for life insurance risks are set per insured life and significant mortality events affecting multiple lives such as pandemics;
- Reinsurance is used to manage tolerance levels. Reinsurance creates credit which is managed in line with the ING Insurance EurAsia reinsurance credit risk policy;
- Catastrophic losses resulting from events such as terrorism are considered to be uninsurable. ING participates in industry pools in various countries to mitigate this risk.

### BUSINESS RISK

Business risk for insurance is essentially the risk that insurance operations accept as a consequence of participating in the insurance business. In practice this can be defined as the exposure to the possibility that experience differs from expectations with respect to expenses, the run-off of existing business (persistence/renewals), future premium re-rating, etc.

### Model disclosure

The table below shows the main risk categories for business risk within ING Insurance EurAsia. EC numbers are determined using a 99.5% confidence interval on a one-year horizon.

	Description	Key Drivers
Persistence	The risk that actual persistency of existing business in the future develops adversely compared to expected persistency of existing business.	EC: Less surrenders of policies with in-the-money guarantees in Benelux and higher surrender of policies with higher profitability in Central Europe.
Expense	The risk that actual expenses in the future exceed the expected expenses.	EC: Expense overruns in the Benelux.
Premium re-rating	The risk that actual premium rate adjustments in the future are less than the expected premium adjustment.	EC: Related to renewable health riders in Greece.

# Risk management continued ING Insurance EurAsia

## Economic capital

### Economic Capital ING Insurance EurAsia excluding discontinued operations (99.5% undiversified) by risk category

	2012	2011
Business risk	2,337	2,118

Economic Capital increased mainly due to an increase in persistency risk and to a lesser degree a higher expense risk, as a result of further alignment to the Solvency II regulatory framework.

## MARKET RISK

ING Insurance EurAsia is exposed to market risk to the extent the market value of surpluses can be adversely impacted due to movements in financial markets. Changes in financial market prices impact the market value of ING Insurance EurAsia's asset portfolio and hedging derivatives directly have an impact on the calculated market value of the insurance liabilities.

## Model disclosure

The following table shows the main risk categories for market risk within ING Insurance EurAsia. The EC number is based on a 99.5% confidence interval on a one-year horizon. IFRS and AFR sensitivities measurement is described in the table below.

	Description	Key Drivers
Interest Rate	Impact of interest rate changes on the value of assets and liabilities.  AFR & IFRS earnings sensitivities: – Measured by the impact of a 30% upwards and downwards shock relative to the ten year swap rate. Minimum shock is floored at 50 basis points and capped at maximum 150 basis points. Shocks are applied to forward rates up to the last available tenor of the interest rate curve.	IFRS Earnings: Guaranteed separate account pension business in the Netherlands.  AFR & EC: Embedded options in the guaranteed separate account pension business in the Netherlands.
Equity	Impact of changes in equity prices which impacts direct equity exposure and loss of fee income from unit linked, pension and fund business.  AFR & IFRS earnings sensitivities: – Measured by the impact of a 25% upwards and downwards movement in equity prices.	IFRS Earnings, AFR & EC: Direct equity exposure and embedded options in guaranteed separate account pension business in the Netherlands.
FX	Impact of losses related to changes in exchange rates.  AFR & IFRS earnings sensitivities: – Measured by the impact of a 10% up and down movement of currencies compared to the euro.	IFRS Earnings, AFR & EC: Translation risk of IFRS Earnings and AFR from non-euro businesses.
Implied Volatility (Equity & Interest Rate)	Impact of losses on assets and liabilities due to movements in the volatility implied from market option prices.  AFR & IFRS earnings sensitivities: – For interest rate measured by the impact of a relative increase of 30% in implied volatilities. – For Equity measured by the impact of a relative increase in implied volatilities based on tenor: 80% for tenors less than 1 year, up 30% for tenors between 1 and 3 years, up 20% for tenors between 3–7 years and up 10% for tenors of 7 years and above.	IFRS Earnings, AFR & EC: Embedded options in: – guaranteed separate account pension business in the Netherlands.
Credit Spread	Impact of an increase in credit spreads on investments in fixed income securities offset by movements in the liquidity premium on the liabilities.  AFR & IFRS earnings sensitivities: – Measured by the impact of a relative increase based on multiplying duration by a rating based shock (e.g. single A shock is 110 basis points). – AAA and AA rated government bonds and home government bonds in local currency are excluded, exception only applicable to Greek bonds. – Shocks for structured credit are 50% higher than for corporate and government bonds. – Liquidity premium is shocked by 50 basis points up to a certain tenor depending on the currency (e.g. EURO 15 years, USD 30 years).  In order to avoid double counting, only Credit Spread risk for AFR is measured.	IFRS: Impaired assets in Greece.  AFR & EC: Debt securities in all regions. Liquidity premium offset primarily in the Benelux because liquidity premiums are positively correlated with credit spreads.
Real Estate Price Risk	Impact on the value of Real Estate assets because of a change in earnings related to Real Estate activities and/or a change in required investor yield.  AFR & IFRS earnings sensitivities: – For AFR this is measured by the impact of a 15% drop in real estate prices for all real estate holdings. – For IFRS Earnings this is measured by the impact of a 15% drop in real estate prices only for the minority holdings and direct for all real estate revalued through P&L. Other holdings will be included in case of possible impairments caused by the drop in prices.	IFRS Earnings, AFR & EC: Real estate holdings in the Benelux.

## Risk management continued ING Insurance EurAsia

### Economic Capital

Economic Capital ING Insurance EurAsia excluding discontinued operations (99.5% undiversified) by risk category		
	2012	2011
Market risk	3,152	3,404

Economic capital reduced due to a higher offset of the Liquidity Premium in a credit spread up scenario due to an increased duration of our liabilities. Furthermore a better matching of assets and liabilities resulted in lower interest rate and interest rate implied volatility risk. These decreases in Economic Capital were partly offset by reduced positions in equity put options.

### Sensitivities

Sensitivities for market risks excluding discontinued operations				
	AFR	IFRS Earnings	AFR	IFRS Earnings
	2012		2011	
Interest Rate Up	97	-61	306	-91
Interest Rate Down	-59	103	-310	314
Equity Up	674	354	708	133
Equity Down	-596	-425	-158	124
Real Estate	-780	-762	-802	-778
FX	-199	-34	-189	-21
Credit Spread	336	-3	332	-26
Implied Volatility	-104	14	-153	-16

The Available Financial Resources are currently mainly sensitive to declining equity and real estate prices. Compared to 2011 the downward interest rate sensitivity was reduced by hedges put in place in the Benelux. The downward equity sensitivity increased compared to 2011 as a result of reduced positions in equity put options.

The IFRS earnings are largely sensitive to interest rate movements and a decline in real estate and equity prices. During 2012 the sensitivities for real estate risk remained fairly stable. The Interest rates sensitivities compared to 2011 are primarily influenced by the additional hedges put in place in the Benelux. The equity sensitivities have increased compared to 2012 as equity prices have increased and hedges expired and were not renewed during 2012.

During a period of declining interest rates, profitability may suffer as a result of a decrease in the spread between interest rates earned on assets and interest rates credited to insurance policyholders and annuity contract owners. An extended period of declining interest rates may cause ING Insurance EurAsia to change the long term view of the interest rates that can be earned on the investments.

### REAL ESTATE

Real Estate price risk arises from the possibility that the value of real estate assets fluctuates because of a change in earnings related to real estate activities and/or a change in required investor yield. Real Estate exposure is mainly present in Benelux.

ING Insurance EurAsia has two different categories of real estate exposure on its insurance books. First, ING Insurance EurAsia owns buildings it occupies. Second, ING Insurance EurAsia has invested capital in several real estate funds and direct real estate assets. A decrease in real estate prices will cause the value of this capital to decrease and as such ING Insurance is exposed to real estate price shocks.

The second category can be divided on the one hand in stakes in real estate assets that are revalued through equity and on the other hand stakes in funds and direct real estate revalued through P&L. Only for the last category will real estate price shocks have a direct impact on reported net profit.

Real Estate Exposure Profile by sector type excluding discontinued operations				
Sector	Revalued through P&L	Not revalued through P&L	Revalued through P&L	Not revalued through P&L
	2012		2011	
Residential	123	898	109	967
Office	732	539	886	605
Retail	1,462	371	1,596	379
Industrial	406		440	
Other	156	591	212	518
Total	2,879	2,399	3,243	2,469

## Risk management continued ING Insurance EurAsia

As at 31 December 2012, ING Insurance EurAsia has EUR 3.2 billion of real estate related investments (excluding leverage). ING Insurance EurAsia's real estate exposure (i.e. including leverage) is EUR 5.3 billion of which EUR 2.9 billion is recognised at fair value through P&L and EUR 2.4 billion is not revalued through P&L, but is either booked at cost or is revalued through equity (with impairments going through P&L). In total, real estate exposure decreased by EUR 434 million, mainly as a result of negative fair value changes (EUR 172 million), disposals (EUR 130 million), sale of ING Insurance Malaysia (113 million) and other decreases such as impairments (EUR 19 million).

### CREDIT RISK

The main credit risk for ING Insurance EurAsia stems from the bond portfolio. This risk is measured through the credit spread risk economic capital that is part of the market risk methodology. The spread risk captures differences in risk (and diversification) between rating classes and regions. For corporate bonds, the concentration risk on individual issuers is also managed with rating based issuer & lending limits that prevent large exposures in one (group of related) single name(s). An outright loss given default limit serves as the final backstop for corporate exposures. Government exposures are separately monitored. The credit risk profile is monitored and reported in the Investment Risk Dashboard.

Given the size of the portfolio, term loans (including private placements) compared to bonds are a much smaller source of credit risk for ING Insurance EurAsia. These exposures are also included in the issuer & lending limit monitoring. Residential mortgages and policy loans form the retail credit risk exposures of ING Insurance EurAsia. Credit risks are contained through underwriting criteria and the availability of collateral.

The third source of credit risk is the claims on counterparties from OTC derivatives, money market lending and reinsurance.

The economic capital for credit default risk on residential mortgages, term loans (including private placements) as well as the credit default risk on OTC derivatives, money market lending and reinsurance is measured by looking at each issuer's probability of default (PD) and stressed loss given default (LGD).

- Derivatives transactions are only allowed under an ISDA-master agreement with Credit Support Annex, ensuring that ING Insurance EurAsia receives collateral from its counterparty for the total positive marked-to-market value of all bilateral derivative contracts between ING Insurance EurAsia and that counterparty. In case the net marked-to-market is negative, collateral must be posted with the counterparty;
- Money market lending is only done with banks of good credit standing. ING Insurance EurAsia maintains money market limits for each of these banks. The counterparties are continuously monitored for developments that could warrant lowering the limit;
- Reinsurance credit risk is the risk that one of ING Insurance EurAsia's reinsurers fails to pay timely, or fails to pay at all, valid claims that were reinsured by ING Insurance EurAsia with that reinsurer. ING Insurance EurAsia mitigates this risk by diversifying its reinsurance exposure over various well rated reinsurers, and by requiring collateral for reinsurance contracts that could lead to reinsurance exposures above a minimum threshold.

Within ING Insurance EurAsia, the goal is to maintain a low-risk, well diversified credit portfolio that meets or exceeds market based benchmark returns. ING Insurance EurAsia has a policy of maintaining a high quality investment grade portfolio while avoiding large risk concentrations. The emphasis is on managing business developments within the business lines by means of top-down concentration limits for individual borrowers and certain asset classes.

### Model disclosure

The table below shows the main risk categories for credit risk within ING Insurance EurAsia. EC numbers are based on a 99.5% confidence interval on a one-year horizon. IFRS and AFR sensitivities measurement is described in the table below.

	Description	Key Drivers
Credit Default	Impact of a default of counterparties on IFRS earnings and EC. IFRS earnings sensitivities <sup>(1)</sup> : – Measured by the impact of multiplying the Historical Cost, the Probability of Default, and the Loss Given Default (stressed by 15%). – Impaired assets are shocked as per the Credit Spread methodology.	IFRS Earnings and EC: General account assets in all regions, mostly bond investments and lending portfolio.
Credit Spread	See Market Risk section.	

<sup>(1)</sup> In order to avoid double counting Credit Default Risk is only captured for IFRS earnings, while Credit Spread Risk is only measured for AFR. This assumes Credit Default Risk for mortgages and concentration does not have a material impact on the AFR.

### Economic Capital

Economic Capital ING Insurance EurAsia excluding discontinued operations (99.5% undiversified) by risk category		
	2012	2011
Credit default risk	357	557

The drop in credit default risk is mainly from aligning the ING Insurance EurAsia's model with Solvency II guidelines. Note that the lower Economic Capital of the updated credit default model is offset by a lower diversification benefits with other risks.

## Risk management continued ING Insurance EurAsia

### Sensitivities

IFRS Earnings sensitivities for Insurance Credit Risks excluding discontinued operations		
	2012	2011
Credit Default	-79	-129

### Risk Profile

ING Insurance EurAsia's goal is to maintain well diversified investment grade portfolio while avoiding large risk concentrations. ING Insurance EurAsia diversifies and limits the credit portfolio with regard to rating classes, industries and geography. The risk of the traded fixed income portfolio is (mainly) measured through the Spread Risk model as well as the Interest Risk model. The risk of the non-traded fixed income and money market products is (mainly) measured with the Credit Default model. The specific risks are contained through the mandate restrictions, the combined Group issuer and lending concentration limit framework and the separate pre-settlement and money market limit frameworks. Please note that for all of the following tables, the figures exclude all ING intercompany exposures and include volume effects.

### Risk classes

Risk Classes: ING Insurance EurAsia portfolio excluding discontinued operations, as % of total outstandings <sup>(1)</sup>		
	2012	2011
1 (AAA)	33.8%	41.5%
2-4 (AA)	22.8%	13.1%
5-7 (A)	16.3%	19.2%
8-10 (BBB)	11.3%	8.9%
11-13 (BB)	4.8%	5.3%
14-16 (B)	1.1%	0.8%
17-22 (CCC & Problem Grade)	0.4%	0.4%
Unrated	9.5%	10.8%
	100.0%	100.0%

<sup>(1)</sup> Based on lending, pre-settlement, money market and investment activities. The ratings reflect probabilities of default and are based on ultimate parent. Collateral is not taken into consideration.

The changes in the ING Insurance EurAsia rating class distribution over 2012, as reflected in the table above, were mainly caused by the following events: in January 2012, S&P downgraded 9 European sovereigns, among which France and Austria (from AAA to AA+), Spain (from AA- to A) and Italy (from A to BBB+). Spain was later further downgraded to BBB+ (in April) and in October, to BBB-. In addition, EUR 750 million (historical cost value) of equities was sold in 2012 as an active derisking measure by Insurance Benelux and reinvested in high-quality (mainly sovereign) bonds. The above-mentioned changes explain the decreases in the AAA and A buckets, and the significant increases in the AA and BBB buckets. Part of the decrease in the AAA bucket by the above-mentioned downgrades was offset by derisking measures (such as the above-mentioned reduction of equity exposure) which led to (re)investments in highly-rated sovereigns such as Germany, the Netherlands, Finland (all AAA).

Risk Concentration: ING Insurance EurAsia portfolio excluding discontinued operations, by economic sector <sup>(1)</sup>		
	2012	2011
Central Governments	48.2%	44.1%
Non-Bank Financial Institutions <sup>(2)</sup>	17.5%	20.4%
Commercial Banks	10.5%	10.2%
Private Individuals	7.6%	8.1%
Real Estate	3.5%	3.2%
Utilities	1.8%	1.9%
Natural Resources	1.2%	0.9%
Automotive	1.2%	1.3%
Other	8.5%	9.9%
Total	100.0%	100.0%

<sup>(1)</sup> Based on lending, pre-settlement, money market and investment activities.

<sup>(2)</sup> Non-Bank Financial Institutions include (per 31 December 2012) EUR 6.5 billion of securitisations (mainly RMBS and ABS).

The main changes in 2012 are the increase in central governments exposure as a result of derisking into higher-rated governments, and the decrease of exposure on non-bank financial institutions.

## Risk management continued ING Insurance EurAsia

### Largest economic exposures: ING Insurance EurAsia portfolio excluding discontinued operations, by geographic area <sup>(1)</sup>

	2012	2011
Netherlands	30.1%	31.6%
Germany	17.1%	15.8%
France	9.7%	10.4%
Belgium	6.2%	5.4%
United Kingdom	6.2%	6.6%
Austria	4.6%	4.0%
Spain	3.5%	4.3%
Italy	3.1%	3.9%
Rest of Europe <sup>(2)</sup>	12.4%	12.7%
Americas	5.9%	4.1%
Asia/Pacific	1.1%	1.0%
Rest of World	0.1%	0.2%
Total	100.0%	100.0%

<sup>(1)</sup> Country is based on the country of incorporation of the ultimate parents of issuers/borrowers, all types of issuers/borrowers are included.

<sup>(2)</sup> Other GIIPS countries (31 December 2012 compared to 31 December 2011): Ireland (1.1%, from 1.7%), Portugal (0.2%, from 0.5%), Greece (0.3%, from 0.2%)

From a geographic perspective the main changes are driven by derisking activities through sales and redemptions (GIIPS countries, Netherlands) and re-allocating to low-risk investments (Germany, Austria, Finland). For the Netherlands this contains swapping credit into sovereign exposure. New investments were done in Americas.

### Security lending and repo business

ING Insurance EurAsia entities can enter into securities transactions. These transactions can take many legal forms. Repurchase and reverse repurchase agreements and securities borrowing and lending agreements are the most common. The amount of marketable securities that ING Insurance EurAsia lent/sold/repoed under these securities transactions at 31 December 2012 was EUR 2.8 billion (2011: EUR 7.8 billion). The corresponding amount of marketable securities held as collateral under these securities transactions at 31 December 2012 was EUR 3.3 billion (2011: EUR 8.4 billion). The reduced volume can be explained by the adoption of a lower maximum (cap) for these securities transactions for the Dutch insurance entities, combined with stricter collateral criteria for security lending, which led to less demand.

These amounts include pledge of securities posted as collateral, securities received as collateral under a transfer of title and cash received as collateral. As a general rule, the securities that have been received as collateral under these transactions are eligible to be resold or pledged in other (similar) transactions when there is a transfer of title. ING is obliged to return equivalent securities in such cases to its counterparties and ING receives equivalent securities from its counterparties.

### Credit and Counterparty Risk Mitigation

ING Insurance EurAsia uses different credit risk mitigation techniques. For OTC derivatives, the use of ISDA Master Agreements accompanied with Credit Support Annexes is an important example. For retail lending portfolio's – mortgages on the house and pledges of insurance policies or investment accounts of clients are important elements of credit risk mitigation. Other forms of credit risk mitigation include reinsurance collateral.

The table below shows the covers values for ING Insurance EurAsia, with the exception of covers received for derivatives and securities lending/(reverse) repo's.

### Covers Values ING Insurance EurAsia excluding discontinued operations <sup>(1)</sup>

Asset categories	2012			Total covers
	Total outstanding amount	Mortgages <sup>(2)</sup>	Other covers	
Investment	61,057		1	1
Residential Mortgage	5,399	4,560		4,560
Lending	2,081		75	75
Other	3,687			
Grand Total	72,224	4,560	76	4,636

<sup>(1)</sup> This excludes collateralisation of derivative exposures and for security lending/ (reverse) repo's activities.

<sup>(2)</sup> The cover value for mortgages includes a haircut in case of a forced sale. The value of this haircut is equal to the value of the haircut applied to the 2011 cover values in the table below.

## Risk management continued ING Insurance EurAsia

Covers Values ING Insurance EurAsia excluding discontinued operations <sup>(1)</sup>				2011
	Total outstanding amount	Mortgages <sup>(2)</sup>	Other covers	Total covers
<b>Asset categories</b>				
Investment	58,120		7	7
Residential Mortgage	5,530	4,402		4,402
Lending	2,485		118	118
Other	3,301			
<b>Grand Total</b>	<b>69,436</b>	<b>4,402</b>	<b>125</b>	<b>4,527</b>

<sup>(1)</sup> This excludes collateralisation of derivative exposures and for security lending/ (reverse) repo's activities.

<sup>(2)</sup> The cover value for mortgages includes a haircut in case of a forced sale. The value of this haircut is equal to the value of the haircut applied to the 2012 cover values in the previous table (2012 cover values).

### Impairments and provisions

The credit portfolio is under constant review. For bonds and other fixed income securities, criteria for impairing include, but are not limited to, expected and actual credit losses, resulting from e.g. failure to pay, market information about expected and actual credit losses and other evidence that the issuer cannot meet its payment obligations. For equities, a significant or longer-term decrease of the market value below cost price is taken into account as indicator for impairment.

With regard to loans, all loans with past due financial obligations of more than 90 days are automatically reclassified as impaired. For the wholesale lending portfolios there are generally reasons for declaring a loan impaired prior to being 90 days past due. These include, but are not limited to, ING Insurance EurAsia'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 Insurance EurAsia identifies those loans as impaired loans when it is likely that the principal and interest amounts contractually due will not be collected in accordance with the contractual terms of the loan agreements, based on current information and events. A formal analysis takes place quarterly to determine the provisions for possible bad debts, using a bottom-up approach. For retail loans, collective provisions are formed (at portfolio level) based on historical loss experience corrected for actual circumstances. In addition, specific provisions can be formed at the individual loan level. Conclusions are discussed in the Impairment Committee, which advises the Management Board on specific provisioning levels.

In 2012, impairments on bonds and ABS totalled EUR 16 million, mainly related to one issuer.

The below table reflects provisions related to personal loans and mortgages (almost all of the provisions are related to Insurance Benelux).

Provisions: ING Insurance EurAsia portfolio excluding discontinued operations		
	2012	2011
Opening balance	80.4	71.0
Write-offs	-24.1	-11.7
Recoveries	0.4	1.9
Increase/(decrease) in loan loss provision	12.1	19.7
Exchange differences		-0.3
Other changes		-0.2
<b>Closing balance</b>	<b>68.8</b>	<b>80.4</b>

### Retail mortgage loan portfolio's: past-due obligations and problem loans

The following table illustrates the amount of loans in (payment) arrears for the retail mortgage loan portfolio.

Aging analysis (past due but not impaired) outstandings excluding discontinued operations <sup>(1)</sup>		
	2012	2011
Past due for 1–30 days	98	74
Past due for 31–60 days	23	19
Past due for 61–90 days	10	13
Past due for more than 90 days	24	20
<b>Total</b>	<b>155</b>	<b>126</b>

<sup>(1)</sup> Based on residential mortgages only.

In 2012, EUR 66 million of the total retail mortgage loan portfolios was classified as a problem loan (Q4 2011: EUR 60 million) which is a combination of rating and past dues.

### LIQUIDITY RISK

Liquidity risk refers to the risk that a company is unable to settle financial obligations when they fall due. Liquidity in this context is the availability of funds, or certainty that funds will be available without significant losses, to honour all commitments when due. ING Insurance EurAsia identifies two related liquidity risks: funding liquidity risk and market liquidity risk. Funding liquidity risk is the – primary – risk that ING Insurance EurAsia will not have the funds to meet its financial obligations when due. Market liquidity risk is the – secondary – risk that an asset cannot be sold without significant losses. The inter relation with funding liquidity stems from the fact that when payments are due, and not enough cash is available, investment positions need to be converted into cash. When Market liquidity is low, this would lead to a loss.

Similar to other market risks, liquidity risk falls under the supervision of the Risk Committee. ING Insurance EurAsia maintains a liquidity policy that defines liquidity limits in line with risk tolerances. The Liquidity Management Principles include the following:

- Interbank funding markets should be used to provide liquidity for day-to-day cash management purposes;
- A portion of assets must be invested in unencumbered marketable securities that can be used for collateralised borrowing or asset sales;
- Strategic asset allocation should reflect the expected and contingent liquidity needs of liabilities; and
- Adequate and up-to-date contingency liquidity plans should be in place to enable management to act effectively and efficiently in times of crisis.

ING Insurance EurAsia defines three levels of Liquidity Management. Short-term liquidity, or cash management covers the day-to-day cash requirements under normal business conditions and targets funding liquidity risk. Long-term liquidity management considers business conditions, in which market liquidity risk materialises. Stress liquidity management looks at the company's ability to respond to a potential crisis situation. Two types of crisis liquidity events can be distinguished: a market event and an ING Insurance EurAsia specific event. These events can be short-term or long-term and can both occur on a local, regional or global scale. Depending on the type of event, the policy also defines the composition of the crisis teams.

Liquidity risk is measured through several metrics including ratios and cash flow scenario analysis, in the base case and under several stressed scenarios. The liquidity risk metrics indicate that liquidity resources would be sufficient to meet expected liquidity uses under the scenarios tested.

Under the terms of our Over-The-Counter Derivative International Swaps and Derivatives Association, Inc. ('ISDA') Agreements, we may receive from, or deliver to, counterparties, collateral to assure that all terms of the ISDA Agreements will be met with regard to the Credit Support Annex ('CSA'). Currently the amount received exceeds the amount delivered. Analysis show this balance will remain positive under stressed scenarios.

### 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 risk of reputational loss, as well as legal risk whereas strategic risks are not included. Operational risk also includes IT risk.

For Operational Risk ING Insurance EurAsia has developed a framework governing the process of identifying, assessing, mitigating, monitoring and reporting operational risks. The framework is based on the elements of the Enterprise Risk Management model of COSO (Committee of Sponsoring Organisations of the Treadway Commission). The Operational Risk capital calculation is described in the Economic capital section.

The Operational risk function works with the Operational Risk Management (ORM) Scorecard process to evaluate yearly the embedding level of the ORM Framework in each business. Policies and minimum standards governing the framework are kept in the policy house.

Risk appetite is defined as the risk level management is prepared to tolerate. The operational risk appetite levels are set by the management team of ING Insurance EurAsia. Via Non-Financial Risk Committees (NFRC's) it is ensured that responsible line managers mitigate the risks that are not within the risk appetite. Incidents and operational risks are tracked and reported on a quarterly basis to management in the Non-Financial Risk Dashboard.

Integrated risk assessments are performed at least once a year to determine the completeness of the risks in scope and the level of the risks. Mitigating actions are taken on those risks that are identified as risks beyond the risk appetite level. Status of the mitigating actions is tracked.

To ensure an independent Operational Risk function and the possibility for the Operational Risk officers to be impartial and objective when advising business management on Operational Risk in their Business Unit and Region, a dual reporting line, directly to Chief Risk Officer of their business and functionally to the next higher level Operational Risk Officer, is in place. The head of Operational Risk ultimately reports directly to the Deputy Chief Risk Officer.

## Risk management continued ING Insurance EurAsia

### Economic Capital

Economic Capital ING Insurance EurAsia (99.5% undiversified) excluding discontinued operations by risk category		
	2012	2011
Operational Risk	391	344

### COMPLIANCE RISK

Compliance Risk is defined as the risk of damage to ING Insurance EurAsia's integrity as a result of failure (or perceived failure) to comply with relevant laws, regulations, internal policies, procedures and ethical standards. In addition to reputational damage, failure to effectively manage Compliance Risk could expose ING Insurance EurAsia to fines, civil and criminal penalties, and payment of damages, court orders and suspension or revocation of licenses, which would adversely impact customers, staff and shareholders of ING Insurance EurAsia.

ING Insurance EurAsia separates Compliance Risk into four conduct-related integrity risk areas: client conduct, personal conduct, organisational conduct as well as conduct required because of laws and regulations in the financial services industry. In addition to effective reporting systems, ING Insurance EurAsia has a Whistleblower procedure which encourages staff to speak up if they know of or suspect a breach of external regulations or internal policies or Business Principles.

ING Insurance EurAsia has a policy not to enter into new relationships with clients from internationally sanctioned countries and processes remain in place to discontinue existing relationships involving these countries.

ING Insurance EurAsia performs a due diligence process when developing products and invests considerably in the maintenance of risk management, legal and compliance procedures to monitor current sales practices. Customer protection regulations as well as changes in interpretation and perception by both the public at large and governmental authorities of acceptable market practices might influence client expectations. The risk of potential reputational and financial impact from products and sales practices exists because of the market situation, customer expectations, reported incidents and regulatory activity. As part of ING Insurance EurAsia's customer centric commitment, Compliance Risk Management and the business work closely together to optimise both products and services to meet the customers' needs.

ING Insurance EurAsia Compliance Risk Management has developed a framework governing the process of identifying, assessing, mitigating, monitoring and reporting compliance risks. The Compliance function works with the ORM Scorecard process to evaluate yearly the level in which the Compliance Risk Management Framework is embedded in each business.

To ensure an independent compliance function and the possibility for the Compliance Officers to be impartial and objective when advising business management on Compliance Risk in their Business Unit and Region, a dual reporting line, directly to General Management of their business and functionally to the next higher level Compliance Officer, is in place.

# Risk management continued ING Insurance US

## ING INSURANCE US

Risk management of ING Insurance US includes risk management of the business lines Insurance US, Insurance US Closed Block VA and certain US based operations of ING IM and Corporate Line Insurance. Legally this business is directly or indirectly part of the legal entity ING US, Inc. ('ING US'). To the extent possible risk management has been organised in line with the anticipated stand-alone future of ING US following an initial public offering ('IPO'). Until the IPO Group exercises an overview role through the Supervisory Board, the Executive Board and through participation in certain Committees.

## MISSION AND OBJECTIVES

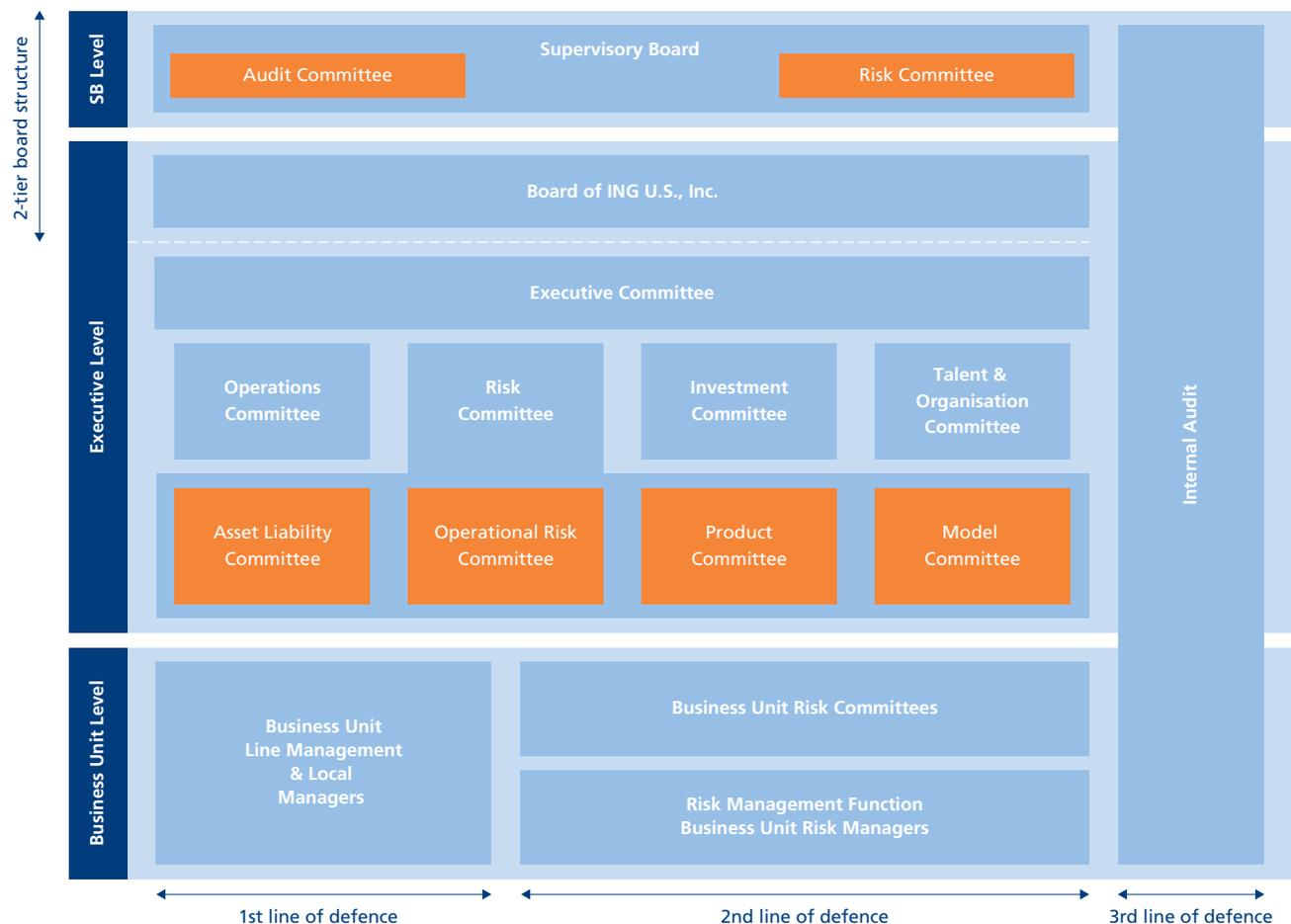
As a financial services company active in investments, insurance and retirement, ING US is exposed to a variety of risks. The mission of risk management in ING US is to fully integrate risk management into daily business activities and strategic planning. This is achieved by providing value added insights on risk issues to drive informed decision-making that maximises the value of ING US.

The following principles support this objective:

- Maintaining functional independence;
- Facilitating transparent communication to internal and external stakeholders on risk management and value creation;
- Providing formal checkpoints to facilitate adherence to internal and external compliance requirements;
- Monitoring products and portfolios to ensure they are appropriately approved and managed;
- Maintaining transparency of the risk profile of ING US, manage to avoid surprises;
- Keeping delegated authorities consistent with the overall ING US strategy and risk appetite.

## RISK GOVERNANCE

The risk governance for ING US is based on the 'three lines of defence' framework which facilitates the management of risk in line with the risk appetite as defined by the Board of ING U.S., Inc. and ratified by the Supervisory Board. Risk governance is implemented through the multi-tiered structure described below. This structure facilitates communication and provides appropriate forums in which to raise issues, to make decisions and to enforce limits / controls.



### Board level risk oversight

ING US has a two-tier board structure consisting of the Board of ING U.S., Inc. and the Supervisory Board.

The Supervisory Board is responsible for overseeing the policies of the Board of ING U.S., Inc., the general course of affairs of the Company and its businesses. For Risk Management purposes the Supervisory Board is assisted by two sub-committees:

- The Audit Committee assists in reviewing and assessing ING US's major risks and the operation of internal risk management and control systems, as well as policies and procedures regarding compliance and its applicable laws and regulations;
- The Risk Committee assists in matters related to risk governance, risk policies and risk appetite setting.

To the extent that the committees do not determine otherwise, the Chief Risk Officer (CRO) attends the meetings of both committees. The Board of ING U.S., Inc. is responsible for managing the risks associated with the activities of ING US. The responsibilities of Management ING US include ensuring the risk management and control systems are effective and ING US complies with relevant legislation and regulations. The Board of ING U.S., Inc. reports and discusses these issues on a regular basis with the Supervisory Board, and reports to the Audit Committee on a quarterly basis on ING US's risk profile versus its risk appetite.

As part of the integration of risk management into the annual strategic planning process, the Board of ING U.S., Inc. issues a Planning Letter which provides the organisation's strategic plan, and addresses key risk issues. Based on this letter the business units develop their business plans, including 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 formulates the Strategic Plan which is submitted to the Supervisory Board for approval.

### Executive Level

The Board of ING U.S., Inc. has delegated certain tasks to the Finance and Risk Committee. The primary responsibility of the committee is to align finance and risk decisions that have an impact on internal and/or external reporting.

On a more detailed level for risk related issues the Board of ING U.S., Inc. relies on the Executive Committee which has delegated risk related tasks to the following committees:

- Risk Committee
  - Advises the Board of ING U.S., Inc. on all financial and non-financial risks.
  - Approves risk policies, determines risk appetite and monitors limits and tolerances.
  - Assists the EC by focusing on ING US risk management and capital issues, and partners with the US Investment Committee to review/monitor investment related issues.
- Investment Committee
  - Assist the EC in the oversight of investment related issues for ING US
  - Determine and monitor investment policies and guidelines for ING US entities,
  - Review and approve the Strategic Asset Allocation targets of the business units and recommend changes to company policies and investment guidelines that address General Account investments, or other investments for which the company is at risk
- Risk committees are established at the ING US and business unit levels. The Risk Committee has a number of sub-committees focussing on different risk areas:
  - Asset Liability Committee
    - ◆ Reviews methods and techniques for calculating Asset Liability Management risk, advises about limits, monitors breaches in the risk limits, and considers remediation.
    - ◆ Addresses balance sheet management, statutory capital requirements, and liquidity needs and recommends to the US Risk Committee.
  - Model Committee
    - ◆ Oversees all models and model validation risk issues across ING US.
    - ◆ Approves assumption, model, methodology changes and updates for all corporate models, and business unit models above the established thresholds.
    - ◆ Recommends model policies and guidance to the US Risk Committee.
  - Operational Risk Committee
    - ◆ Oversees all non-financial risk across ING US - operational, compliance, legal and reputation risk.
    - ◆ Recommends action on reported risks and what risks ING US is willing to accept.
  - Product Committee
    - ◆ Oversees insurance product risk issues across ING US.
    - ◆ Provides guidance and best practices through the product development and approval process.

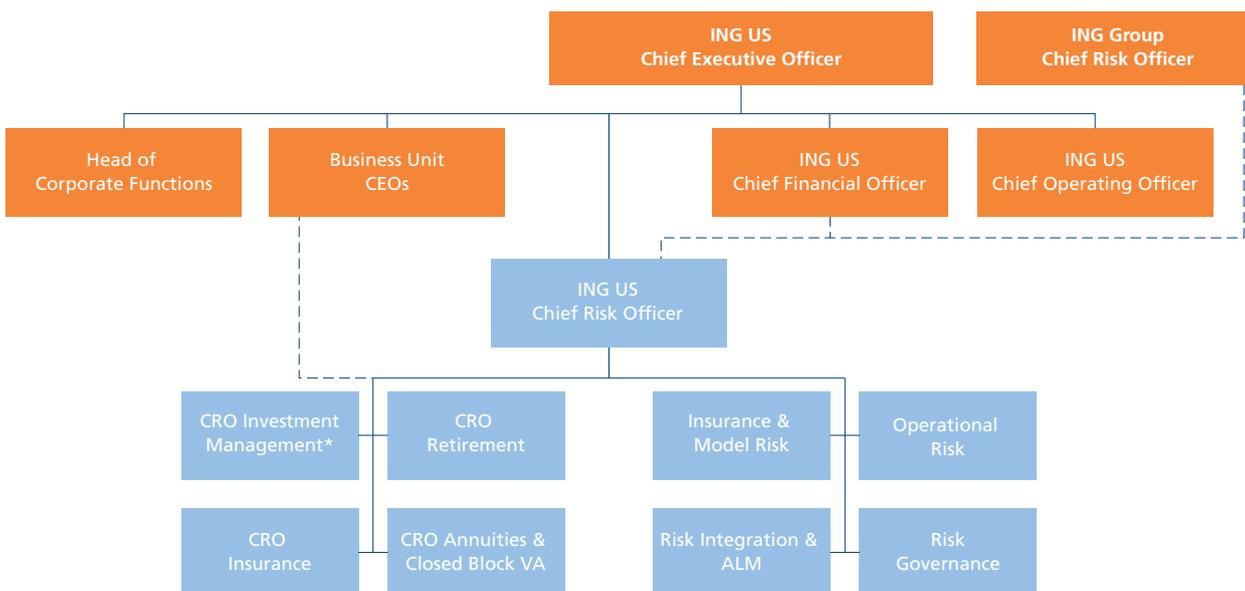
# Risk management continued ING Insurance US



## Risk Management Function

The ING Group CRO has delegated the day-to-day Risk Management within ING US to the ING US Chief Risk Officer (CRO). The ING US CRO directly reports to the ING US CEO and functionally reports to the ING Group CRO. The ING US Chief Risk Officer bears primary and overall responsibility for the risk management function within ING US, which identifies, measures, monitors and reports risk within ING US. The risk function maintains and updates the policy framework, develops and maintains risk methodologies and advises on the risk tolerance and risk profile. The CRO makes sure both the Supervisory Board and Board of ING U.S., Inc. are well informed and understand ING US's risk position at all times.

The ING US CRO's department consists of corporate and business unit risk functions that support the ING US's risk management activities. The business unit CROs report to the ING US CRO. The Corporate Enterprise Risk Management (ERM) function addresses all risks facing ING US. It is an independent function that enables a clear separation of duties between Risk, Finance and Investment. ERM facilitates information flow across the enterprise by providing formal checkpoints and forums where risk issues are discussed and informed decisions made. ERM enables risk measurement and analysis into corporate decision-making.



\* Includes Capital Markets Risk

## Risk management **continued** ING Insurance US

### Product Approval and Review Process

A critical aspect of risk management is that all new products are designed, underwritten and priced appropriately. In ING US this is safeguarded by the Product Approval and Review Process (PARP). This standard includes requirements to risk profile, traditional and value-oriented pricing metrics, targets and documentation. The PARP includes requirements to assess market risks, insurance risk, compliance risk, legal risk, credit risk, operational risk as well as assessment of the administration and accounting aspects of the product. Customer suitability is an integral part of the PARP requirements.

### Reserve adequacy

US ERM ensures that the total insurance liabilities of ING US are tested for adequacy taking into account the insurance premium rate levels and the uncertainty of future returns on investments. This is done by evaluating insurance liabilities using current best estimate assumptions and inclusion of a risk margin for prudence. The assumed investment earnings are a combination of the run-off of portfolio yields on existing assets and new money and reinvestment rates. For new money and reinvestments long-term best estimate assumptions are taken into account, although current new money rates are used for the short-term reinvestments.

### Policies

ING has a framework of risk policies, procedures, guidance notes, and practice notes in place to create consistency throughout the organisation and to define minimum requirements for corporate areas and business units. The governance framework of the business units aligns with this framework and meets local (regulatory) requirements. Senior Management is responsible for ensuring that policies, procedures and standards are implemented and followed. Policies, procedures, guidance and practice notes are regularly reviewed and updated via the relevant risk committees to reflect changes in markets, products, guidance and best practices.

### Model governance

Model governance is achieved through the ING US Model Committee. This committee provides oversight for models and assumptions owned or managed within the corporate functions and acts as an escalation point for models or related changes that have a financial impact over a set materiality threshold.

### RISK FRAMEWORK

In order to manage the risk on a day-to-day basis and balance value, earnings and capital decisions, ING US has implemented a risk limit framework. The risk limit framework follows a top down approach.

	Description
<b>Risk Appetite</b>	A qualitative measure defining the playing field ING US wants to act in. Driven by ING US's financial and rating targets, local capital requirements, and business strategy.
<b>Risk Tolerance</b>	A quantitative boundary intended to limit the risks taken, driven by the risk appetite.
<b>Risk Limits</b>	Limit setting to a granular level for business units throughout the organisation.

Risk exposures are managed by ING US according to the following risk metrics, and limits are set on these metrics that are consistent with the organisation's risk tolerance. These risk metrics are computed on the basis of market and non-market sensitivities of two primary financial quantities:

- US Regulatory Capital Requirements - Defined as a multiple of the minimum capital required by the National Association of Insurance Commissioners (NAIC) with consideration of the capital requirements deemed appropriate to maintain the ratings level issued to the operating companies by various rating agencies along with additional requirements for the Cayman Islands based subsidiary Security Life of Denver International (SLDI) (more detail is described in the Regulatory Capital section below); and
- IFRS Earnings;

The risk limit framework described above operates within ING Group's risk limit framework. ING US is in the process of implementing additional risk metrics including one based on U. S. GAAP earnings and another that is a variation on the US regulatory capital sensitivities described herein. ING US also is considering the expansion of its risk limit framework to include various stress scenarios.

### Financial Risks

For financial risks, the risk tolerance is translated to risk limits assuming moderate stress scenarios.

- US Regulatory Capital Requirements sensitivities – The sensitivity, under moderately adverse market and credit stress scenarios, of the excess of available statutory capital above the level targeted by ING US and described in the Regulatory Capital section below;
- IFRS Earnings sensitivities – The sensitivity, under moderately adverse market and credit stress scenarios, of realised pre-tax earnings of the insurance operations over a 12-month period.

Other limit structures exist at both the corporate and business unit level. Examples include, but are not limited to, the following:

- Issuer concentration limits;
- Mortality concentration limits;
- Catastrophe and mortality exposure retention;
- Minimum liquidity requirements;
- Investment and derivatives guidelines and limits.

## Financial Risk Dashboard

The Financial Risk Dashboard (FRD) is a quarterly report that is discussed at the Risk Committee of the Board of ING U.S., Inc. and the Finance and Risk Committee. The FRD provides a quarterly overview of the main financial risk metrics (IFRS earnings and Regulatory Capital sensitivities) compared to the limits set by management in alignment with the risk appetite.

## Non-Financial Risks

To ensure robust non-financial risk management, which also reflects the risk tolerance levels, ING US monitors the full implementation of ING US's risk policies, minimum standards and implementation guidelines, and business units demonstrate that appropriate steps have been taken to control their operational and compliance risk. ING US applies scorecards to measure the quality of internal controls within a business unit. Scoring is based on the ability to demonstrate that the required risk management processes are in place and effective within the business units.

## Non-Financial Risk Dashboard

The Non-Financial Risk Dashboard (NFRD) is a quarterly report that is discussed at the meetings of the Supervisory Board, Board of ING U.S., Inc. and ING US management bodies. The NFRD provides management at all organisational levels with information on their key operational, compliance and legal risks. The NFRD is based on defined risk tolerance and a clear description of the risks and responses enabling management to prioritise and to manage operational, compliance and legal risks.

## Stress Testing

ING US complements its regular risk reporting process with (ad hoc) stress tests. Stress testing examines the effect of exceptional but plausible scenarios on the capital position for ING US. Stress testing can be initiated internally or on certain request from external constituents.

## RISK TYPE DESCRIPTION

ING US measures the following main types of risks that are associated with its business:

- Insurance risk – risks such as mortality, morbidity, and longevity associated with the claims under insurance policies it issues/underwrites; specifically, the risk that premium rate levels and provisions are not sufficient to cover insurance claims;
- Market risk – the risk of potential losses due to adverse movements in market variables. Market risks include interest rate, equity, real estate, implied volatility, credit spread including illiquidity premium, and foreign exchange risks;
- Credit risk – the risk of potential losses due to default by ING US debtors (including bond issuers) or trading counterparties;
- Business risk – risk driven by the possibility that experience deviates from expectations with respect to policyholder behaviour, expenses and premium re-rating. These fluctuations can occur because of internal, industry, or wider market factors. It includes strategic risk;
- Liquidity risk – the risk that ING US 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;
- Operational risk – the risk of direct or indirect losses resulting from inadequate or failed internal processes, people and systems or from external events. It includes reputational risk and legal risk;
- Compliance risk – the risk of damage to ING US integrity as a result of failure (or perceived failure) to comply with relevant laws, regulations, internal policies, procedures and ethical standards.

## INSURANCE RISK

Insurance risks are comprised of actuarial and underwriting risks such as mortality, longevity, and morbidity, which result from the pricing and acceptance of insurance contracts.

The table below shows the main risk categories for insurance risks within ING US. IFRS Earnings sensitivities are defined on a shock scenario at the 90% confidence level.

	Description	Key Drivers
Mortality	Within mortality risk there are two main parts: <ul style="list-style-type: none"> <li>– Positive mortality risk exists when more insureds die than expected, leading to higher claims than expected.</li> <li>– Negative mortality risk exists when insureds live longer than expected, leading to higher claims than expected (moderate shocks are not material to the P&amp;L).</li> </ul>	The largest earnings sensitivity to positive mortality risk arises in Insurance Solutions.
Morbidity	Morbidity or Health insurance covers insurance indemnifying or reimbursing losses (e.g. loss of income) caused by illness or disability, or for expenses of medical treatment necessitated by illness or disability. Morbidity risk comprises the risk of variability of size, frequency and time to payment of future claims, development of outstanding claims and allocated loss adjustment expenses (ALAE) for morbidity product lines over the remaining contract period.	Earnings sensitivity to morbidity risk (e.g. sickness, disability, accidental death, workers' compensation, medical insurance) is present in the Employee Benefits business.

## Sensitivities

Mortality and morbidity sensitivities are calculated on a diversified basis assuming a normal distribution and a specified mortality/morbidity scenario for calibration. The largest contribution to the mortality sensitivity comes from the Individual Life business while the morbidity sensitivity comes from the Employee Benefit business.

## Risk management continued ING Insurance US

IFRS Earnings Sensitivities for Insurance Risks				
		US Excl. CB-VA		CB-VA
	2012	2011	2012	2011
Mortality	-23	-19	-1	-7
Morbidity	-49	-49		

### Mitigation

In general, insurance risks cannot be hedged (easily) in the financial markets and tend to be mitigated by diversification across large portfolios. Therefore, they are managed at the contract level through standard underwriting policies, product design requirements, independent product approval processes, and risk limitations related to insurance policy terms and conditions agreed with the client.

Risk not mitigated by diversification is managed with concentration and exposure limits and through reinsurance and/or securitisations:

- Tolerance limits for life insurance risk are set per insured life and significant mortality and morbidity events affecting multiple lives such as pandemics;
- Reinsurance is used to manage risk exposure and exposure to reinsurers is managed according to the ING US reinsurance credit risk policy;
- ING US is currently reviewing our mortality concentration limits in order to better assess our need to obtain protection from catastrophic losses resulting from events such as terrorism.

### BUSINESS RISK

Business risk for insurance is the risk insurance operations accept as consequence of choosing to be in the business. In practice this can be defined as the exposure to the possibility that experience differs from expectations with respect to expenses, the run-off of existing business (persistence/renewals), future premium rating, etc. The calculation of Business Risk Capital is specified by the regulatory capital methodology prescribed by the National Association of Insurance Commissioners (NAIC).

### MARKET RISK

ING US is exposed to market risk to the extent to which the market value of surpluses can be adversely impacted due to movements in financial markets. Changes in financial market prices impact the market value of ING US's asset portfolio, including derivatives as well as the calculated market value of the insurance liabilities.

The sensitivities shown are calculated at the business unit level and cover US domiciled insurance entities. The sensitivities are based on moderately adverse shocks to underlying risk factors as described in the following table:

	Description	Key Drivers
Interest Rate	<ul style="list-style-type: none"> <li>– Impact on assets and liabilities due to movements of interest rates.</li> <li>– Measured by the impact of a 1% upwards and downwards parallel shift of US Treasury curve.</li> </ul>	Sensitivities of various guarantees (e.g. minimum interest rate guarantees, and guaranteed living benefits). CB-VA and GMIRs of insurance products.
Equity	<ul style="list-style-type: none"> <li>– Impact of a drop in equity prices which impacts direct equity exposure and loss of fee income from variable and equity linked.</li> <li>– Measured by the impact of a 25% drop in equity prices.</li> </ul>	Separate account and equity indexed business, and direct equity exposure.
Credit (Default and Spread risk)	<ul style="list-style-type: none"> <li>– Impact that credit default risk can have on credit impairment levels in a '1 in 10' scenario (using '1 in 10' 1-year default rates by rating category, combined with stressed 'Loss Given Default' assumptions); plus impact that a '1-in-10' increase in credit spreads levels can have on previously impaired structured assets (re-impairment risk) and on CDS transactions that are carried at market value.</li> </ul>	General account business.
Implied Volatility (Equity & Interest Rates)	<ul style="list-style-type: none"> <li>– Impact of losses related to changes in foreign currency exchange rates.</li> <li>– Measured by the worst case impact of a 10% up and down movement for each currency.</li> </ul>	
FX	<ul style="list-style-type: none"> <li>– Impact of losses related to changes in real estates.</li> <li>– Measured by the worst case impact of a 10% up and down movement for each currency.</li> </ul>	
Real Estate	<ul style="list-style-type: none"> <li>– Impact of losses related to changes in real estate.</li> <li>– Measured by impact of all real estate down 15%.</li> </ul>	

### Sensitivities

The stress events are described above. The ING US earnings sensitivities are dominated by credit, equity and interest rate exposure.

ING US has no significant earnings sensitivity to Foreign Exchange Rates as ING US is managed on a local currency basis and therefore there is no translation risk to the Group reporting currency included in the sensitivities. ING US also has no significant earnings exposure to non-US currencies. From the ING Group perspective, there may be translation risk between ING US USD based operations and ING Group EUR basis.

## Risk management continued ING Insurance US

ING US earnings sensitivities to market risk factors are shown in the tables below. Taking into account diversification between risk factors, ING US (excluding CB-VA) is exposed to a EUR 0.9 billion decrease in expected IFRS Earnings within the context of the market and non-market sensitivity analysis. At 31 December 2011, ING US (excluding CB-VA) was exposed to a EUR 1.0 billion in expected IFRS Earnings within the context of the market and non-market sensitivity analysis. The changes from 2011 to 2012 are the result of many factors including:

- Changes in credit exposures, as discussed in the Credit Risk Section below, leading to a reduction in default risk and an increase in spread risk;
- Sales of Limited Partnership assets, reducing earnings sensitivity to equities;
- Changes in hedge positions, leading to a reduced exposure to interest rates.

IFRS Earnings Sensitivities for Market Risks <sup>(1,2)</sup>		
	US Excl. CB-VA	
	2012	2011
Interest Rate Up	58	72
Interest Rate Down	-77	-146
Equity	-244	-293
Credit – Default	-283	-355
Credit – Spread	-236	-188

<sup>(1)</sup> FX and real estate sensitivities do not have a material impact.

<sup>(2)</sup> Sensitivities are calculated at business unit level.

Estimated CB-VA Immediate Earnings Sensitivities at 31 December 2012 Immediate Change in Equity Market						
	-25%	-15%	-5%	+5%	+15%	+25%
Earnings sensitivity before RAT Policy Impact	1,150	700	250	-100	-350	-550
RAT Policy Impact (RAT50)	0	0	0	0	0	0
Total Estimated Earnings Sensitivity	1,150	700	250	-100	-350	-550
RAT 50 Sufficiency	100	300	550	750	850	1,000

The table above exhibits the sensitivity of CB-VA earnings to immediate changes in equity markets. For example, as of 31 December 2012 it is estimated that if equity markets were to immediately increase by 25%, CB-VA would be exposed to an immediate EUR 0.55 billion decrease in IFRS earnings. This immediate sensitivity is not directly comparable to the 12 month sensitivities shown in the preceding table.

### Mitigation

ING US manages its risk exposure through contractual adjustment mechanisms such as changes to credited rates, the contractual terms related to new business, adjusting its capital structure within regulatory constraints, and, where deemed appropriate, hedging various exposures.

### Real Estate

ING US has a small exposure to direct real estate, which is composed primarily of Home Office real estate and real estate from foreclosed loans.

Real Estate Exposure		
	2012	2011
Total	123	125

### CREDIT RISK

ING US credit exposure arises from the investment of insurance premiums in assets subject to credit risk, largely in the form of unsecured bond investments, investments in private placements and commercial mortgages, as well as in structured finance products. In addition, ING US is exposed to credit counterparty risk exposure in derivatives transactions, sell/repurchase transactions, securities lending/borrowing and in reinsurance contracts.

Within ING US, the goal is to maintain a low-risk, well diversified credit risk portfolio that meets or exceeds market based benchmark returns. ING US has a policy of maintaining a high-quality investment grade fixed income portfolio while avoiding large risk concentrations. The emphasis is on managing total exposure and concentration risk by means of portfolio level risk limits and concentration limits for countries, individual borrowers and borrower groups. Counterparty credit risk is mitigated by only transacting with counterparties that meet minimum credit quality standards as well as by requesting collateral for all larger exposures.

## Risk management continued ING Insurance US

The table below shows the main risk categories for credit risk within ING US:

	Description	Key Drivers
Issuer or Investment Risk	<ul style="list-style-type: none"> <li>– Risk related to the impact of a credit default or rating migration, plus the risk that a change in general credit spread levels can have on the market value of these instruments.</li> <li>– Measured at original cost (purchase price) less any prepayments or amortisations and excluding any accrued and unpaid interest or the effects of any impairment.</li> </ul>	Investments in public bonds, commercial paper, securitisations and other publicly traded securities.
Lending Risk	<ul style="list-style-type: none"> <li>– Risk related to certain illiquid investments made by ING US.</li> <li>– Measured at original cost (purchase price) less any prepayments or amortisations and excluding any accrued and unpaid interest or the effects of any impairment.</li> </ul>	Privately placed bonds and commercial mortgage loans in the United States.
Pre Settlement Risk	<ul style="list-style-type: none"> <li>– Risk of a counterparty defaulting on a transaction before settlement and ING US having to replace the contract by a trade with another counterparty at the then prevailing (possibly unfavourable) market price.</li> <li>– Measured as the replacement value (mark-to-market) plus a potential future volatility concept, using a 3–7 year historical time horizon and a 97.5% (1.96 standard deviations) confidence level.</li> </ul>	Options, swaps, and securities financing transactions used for hedging purposes.

### Risk Profile

#### Risk classes

The exposure to the investment grade rating qualities increased in 2012 and the exposure to the below investment grade rating qualities decreased, pointing at an improvement in the overall quality of the credit risk portfolio. The 17–22 category largely consists of unrated exposures. The exposure to assets actually rated CCC or below has further reduced in 2012 and is only 2% of the portfolio per 31 December 2012.

Risk Classes: ING US portfolio, as % of total outstanding <sup>(1)</sup>		
		ING US
		2012
1	(AAA)	15.0%
2–4	(AA)	15.0%
5–7	(A)	27.5%
8–10	(BBB)	26.2%
11–13	(BB)	3.5%
14–16	(B)	3.5%
17–22	(CCC & Problem Grade)	9.3%
Total		100.0%

<sup>(1)</sup> 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 and are based on ultimate parent.

The risk concentration per sector remains very similar to last year, with the largest change shown for Non-Bank Financial institutions which decreased by 3.3%. This category largely consists of special purpose vehicles that issue RMBS, ABS and CMBS securities. Net sales of these assets resulted in the reported reduction.

Risk concentration: ING US portfolio, by economic sector <sup>(1)</sup>		
		ING US
		2012
Non-Bank Financial Institutions		35.3%
Real Estate		8.3%
Central Governments		7.3%
Natural Resources		7.1%
Utilities		6.1%
Commercial Banks		4.5%
Food, Beverages & Personal Care		4.1%
Chemicals, Health & Pharmaceuticals		3.5%
Private Individuals		2.5%
Telecom		2.2%
General Industries		1.7%
Other		17.4%
Total		100.0%

<sup>(1)</sup> Economic sectors below 2% are not shown separately but grouped in 'Other'.

## Risk management continued ING Insurance US

ING US largely invests in financial instruments issued in the United States, as required by regulation. The decrease in exposures to the Netherlands is related to the transfer of the note reflecting the obligations of the Dutch Government related to the Alt-A RMBS sales transaction in 2009 to ING Group Bonds and private placements issued by Western European corporations reduced in 2012 from 9.3% per 31 December 2011 to 8.2% per 31 December 2012. It still accounts for the majority of the non-US exposure.

### Largest economic exposures: ING US portfolio, by geographic area <sup>(1)</sup>

	ING US	
	2012	2011
United States	79.6%	77.4%
Netherlands	3.9%	5.7%
Rest of Europe	8.2%	9.3%
Rest of Americas	5.1%	4.4%
Asia/Pacific	3.1%	3.0%
Rest of World	0.1%	0.2%
Total	100.0%	100.0%

<sup>(1)</sup> Country is based on the country of residence of the obligor.

### Securities Lending Business

As part of its securities financing business, ING US 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 ING US provided as collateral under these types of agreements was EUR 0.5 billion per 31 December 2012 and EUR 0.8 billion per 31 December 2011. The change is caused by reduced liquidity requirements.

### Mitigation

Credit Risk in ING US portfolio is partially mitigated by collateral it has received.

- The entire block of commercial mortgages (EUR 6.6 billion per 31 December 2012) is collateralised with mortgages on real estate properties. The weighted average loan to (most recent) value of this portfolio was 55% per 31 December 2012 which is unchanged from December 2011;
- The EUR 11 billion private placement portfolio is partially collateralised with assets pledged to the consortium of lenders. Also, financial covenants that have been agreed with the different borrowers protect us structurally against any kind of subordination. At least 80% of the assets in this portfolio is either structurally unsubordinatable (i.e. implicitly secured), and another 10–20% explicitly secured;
- The policy loan portfolio (EUR 1.7 billion per 31 December 2012) is fully collateralised by the cash value of the underlying insurance policies;
- The gross counterparty risk exposure to reinsurance companies (EUR 5.7 billion per 30 September 2012) is largely collateralised with assets held in trust (EUR 2.5 billion), letters of credit (EUR 2.0 billion), or funds withheld (EUR 1.1 billion). Please note however that some exposures are over collateralised and that there is a total of EUR 1.6 billion of uncollateralised reinsurance counterparty risk exposure;
- Exposure to financial institutions related to OTC derivative-transactions is largely collateralised, in line with ISDA Master Agreements accompanied by Collateral Support Agreements that have been signed with these counterparties. As per 31 December 2012, ING US was holding net collateral of EUR 0.55 billion supporting a market value exposure of EUR 0.70 billion;
- Exposures related to Securities Lending, Reverse Repo, and exchange traded instruments are also collateralised.

### Problem Loans

Problem loans are defined as commercial mortgage loans that are 60 days or more in arrears, as that is the point where there is a probability that the full principal and interest may not be collected. ING US does not have any material problem loans. As soon as commercial mortgage loans become non-performing, the collateral is typically liquidated or the loan is sold.

### Impaired loans and provisions

ING US mainly has bond investments. The amount of impaired loans in its portfolio is very small and limited to commercial mortgage loans.

### LIQUIDITY RISK

Liquidity risk refers to the risk that a company is unable to settle financial obligations when they come due, at reasonable cost and in a timely manner. Liquidity risk can materialise both through trading and non-trading positions. As with other market risks, liquidity risk falls under the supervision of the Risk Committee function. Under the volatile market circumstances in 2012, funding and liquidity risk remains an important topic on the agenda of senior management and the Risk Committee that needs continuous monitoring and management. 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.

ING US defines two levels of liquidity management. Short-term liquidity, or cash management covers the day-to-day cash requirements under normally expected or likely business conditions. Long-term liquidity management takes into consideration various expected and adverse business conditions, which might result in the inability of realising the current market values of the assets. The assets might only be sold at a further distressed price simply due to the lack of liquidity. Stress liquidity management looks at the company's ability to respond to a potential crisis situation. The day-to-day and ongoing cash management allows for a more proactive response to potential liquidity problems in distressed markets. Liquidity risk is measured through several metrics including ratios and cash flow scenario analysis, in a base case and under several stressed scenarios. Liquidity risk is evaluated separately by legal entity because of certain regulatory restrictions on the transfer of assets between legal entities.

ING US principal available sources of liquidity are product charges, investment income, proceeds from the maturity and sale of investments, proceeds from debt issuance and borrowing facilities, repurchase agreements, contract deposits and securities lending. Primary uses of these funds are payments of policyholder benefits commissions and operating expenses, interest credits, investment purchases, derivative collateral requirements and contract maturities, withdrawals and surrenders. ING US liquidity risk metrics indicate that liquidity resources would be sufficient to meet expected liquidity uses under the scenarios tested.

Under the terms of ING US Over-The-Counter Derivative International Swaps and Derivatives Association, Inc. ('ISDA') Agreements, ING US may receive from, or deliver to, counterparties, collateral to assure that all terms of the ISDA Agreements will be met with regard to the Credit Support Annex ('CSA'). The terms of the CSA call for ING US to pay interest on any cash received equal to the federal funds rate ('Federal Funds Rate'). As of 31 December 2012, EUR 675 million of net cash collateral related to derivative contracts was being held. As of 31 December 2012, ING US delivered EUR 25 million and EUR 9 million of cash collateral related to derivative contracts and credit facilities, respectively. As of 31 December 2011, EUR 585 million of net cash collateral related to derivative contracts was being held. As of 31 December 2011, ING US delivered EUR 31 million and EUR 9 million of cash collateral related to derivative contracts and credit facilities, respectively. As of 31 December 2010, EUR 10 million of net cash collateral related to derivative contracts was being held. As of 31 December 2010, ING US delivered EUR 39 million and EUR 9 million of cash collateral related to derivative contracts and credit facilities, respectively. The collateral held and delivered is included in Payables under securities loan agreements, including collateral held and Short-term investments under securities loan agreements, including collateral delivered, respectively, on the Consolidated Balance Sheets. In addition, as of 31 December 2012, 2011 and 2010, ING US delivered securities as collateral of EUR 0.8 billion, EUR 1.0 billion and EUR 0.8 billion, respectively, which was included in Securities pledged on the Consolidated Balance Sheets. Collateral requirements are monitored on a daily basis and incorporate changes in market values of both the derivatives contract as well as the collateral pledged. Market value fluctuations are due to changes in interest rates, spreads and other risk factors.

### **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 risk of reputation loss, as well as legal risk whereas strategic risks are not included. Operational risk also includes IT risk.

For Operational risk, ING US follows the ING Group framework governing the process of identifying, assessing, mitigating, monitoring and reporting operational risks. The ING framework is based on the elements of the Enterprise Risk Management model of COSO (Committee of Sponsoring Organisations of the Treadway Commission).

The Operational risk function works with the ING Operational Risk Management (ORM) Scorecard process to evaluate yearly the embedding level of the Operational Risk Management Framework in each business. Policies and minimum standards governing the framework are kept in the policy house. During 2011 Operational Risk started with the implementation of an ING US policy house in preparing for a stand-alone public organisation.

Risk appetite is defined as the risk level management is prepared to tolerate. The operational risk appetite levels are set by ING Group in the form of a risk footprint. Via Operational Risk Committees (ORCs) it is ensured that responsible line managers mitigate the risks that are not within the risk appetite. Incidents and operational risks are tracked and on a quarterly basis reported to management in the Non-Financial Risk Dashboard.

Integrated risk assessments are performed on an ongoing basis across the organisation. Mitigating actions are taken for those risks that are identified as risks beyond the risk appetite level. Status of the mitigating actions is formally tracked.

To ensure an independent Operational risk function and the possibility for the Operational risk officers to be impartial and objective when advising business management on Operational Risk, a dual reporting line, directly to ING US Chief Risk Officer and functionally to the next higher level ING Group Operational Risk Officer, is in place. The head of Operational risk ultimately reports directly to the ING US Chief Risk Officer.

### COMPLIANCE RISK

The ING US Compliance program and function are aligned with ING Group's Compliance Risk Management Charter and Framework and the related processes described elsewhere in this Report.

#### The Scope of the Compliance function

The ING US Compliance function focuses primarily on managing the risks arising from laws, regulations and standards which are specific to the financial services industry. The Compliance function seeks to actively educate and support the business in managing compliance risks including anti-money laundering, preventing terrorist financing, conflicts of interest, sales practices, trading conduct and protection of customer interests.

#### The Compliance function

In ING US, the Compliance function is an independent control and risk management department. The ING US Chief Compliance & Ethics Officer reports directly to the ING US Chief Legal Officer, who is a member of the Board of ING U.S., Inc. The ING US Chief Compliance & Ethics Officer also has a functional reporting line to the ING Group Chief Compliance Officer.

#### Compliance Risk Management Framework

ING US adheres to the ING Group Compliance Framework, which consists of three key components: the Compliance Risk Management process, an Advisory component and the Scorecard. ING US Compliance executes a regular process of identifying, assessing, mitigating, monitoring and reporting compliance risks. The Compliance function works with Operational Risk Management's annual evaluation process, assessing the implementation of compliance program elements within each business line and across the enterprise.

ING US also maintains the Whistleblower process on behalf of the broader organisation. The process is designed to encourage staff to speak up, without fear of reprisal, if they know of or suspect a breach of laws, regulations or internal policies. ING US also maintains a domestic 'hotline' operated by a third-party vendor that is available to all employees to report suspected misconduct, and reporting employees may elect to remain anonymous in doing so.

#### Main Compliance developments in 2012

- Policies & Procedures: ING US Compliance reviewed and prepared drafts of an updated Code of Business Conduct and Ethics, along with new or refreshed Corporate Compliance Policies tailored to the US business and regulatory regime. These are expected to be issued and implemented in conjunction with the planned separation of ING US businesses;
- Technology Enhancements: ING US Compliance enhanced technology and tools to improve compliance risk management in the areas of anti-money laundering, position reporting and personal trading;
- Enterprise Functions: ING US Compliance implemented certain enterprise-wide compliance processes to support functions across business lines, including advertising review, inspections and compliance training;
- Extra-territorial Laws: The UK Bribery Act was effective 1 July 2011 and is deemed applicable to ING's business globally. Accordingly, the ING Group Gifts, Entertainment and Anti-Bribery Policy was amended to comply with the UK Bribery Act, and ING US will adopt and implement policies that align with the regulatory and Group requirements;
- Employee Compliance Training: Continuous education and awareness training was provided through the ING Learning Center, with four required Corporate Responsibilities Courses for all ING US employees, in addition to targeted courses where deemed necessary.

### REGULATORY CAPITAL

For the capital adequacy assessment of ING US domiciled regulated insurance businesses, available capital is measured under US statutory accounting principles and required capital is measured under the US regulatory Risk Based Capital (RBC) methodology defined by the National Association of Insurance Commissioners (NAIC). Commonly in the US an insurer's financial strength and ability to meet policyholder obligations is measured in terms of the amount of statutory capital held in relation to the 'Company Action Level' RBC defined by the NAIC framework. Note that the level of capital required by rating agencies to maintain an acceptable claims paying ability rating is well above the regulatory minimum defined by Company Action Level RBC. Consequently, ING US manages its available capital primarily with respect to capital metrics that are aligned with the models of the various rating agencies.

The relevant capital requirements of the ING US business units consist of statutory Risk Based Capital requirements (RBC) for its US domiciled business, along with additional requirements for the Cayman Islands based subsidiary Security Life of Denver International (SLDI). ING US targets a RBC ratio of 425% for its US-domiciled business.

The asset target for the variable annuity (VA) business within SLDI is based on Actuarial Guideline 43 (AG 43), a reserve standard written by the US National Association of Insurance Commissioners. AG 43 prescribes reserves based on applying standardised economic scenarios under the Conditional Tail Expectation (CTE) approach, a scenario testing methodology. For rating agency purposes, ING US targets assets satisfying the CTE requirement in excess of the 95% confidence level.

As of 31 December 2012, US regulatory capital was at USD 7.9 billion producing an RBC ratio of 526%.

## Risk management continued ING Insurance US

### Regulatory Capital Sensitivities

ING US calculates regulatory capital sensitivities on the Risk-Based Capital model in order to provide insights into how the amount of available capital in excess of regulatory required capital changes with an increase or a decrease in different market risk factors under moderate stress scenarios that correspond approximately with a 1-in-10 year event. Regulatory capital sensitivities are calculated in aggregate for the US domiciled regulated insurance entities, and include the effects of the sensitivities on the capital of SLDI.

The sensitivities shown are calculated at the business unit level and cover US domiciled insurance entities. The sensitivities are based on moderate shocks to the following underlying risk factors:

- Interest rates;
- Equity;
- Credit (credit default and credit spread risk);
- Foreign exchange;
- Real estate.

The shock scenarios applied for regulatory capital sensitivities are the same as those shown in the Market Risk section for Earnings at Risk. The regulatory capital sensitivity in aggregate is calculated by combining the joint impact of the various market stress events calculated by taking into account the correlations between risk types.

### Sensitivities

The table below presents market risk sensitivity figures before diversification between risks.

Regulatory Capital Sensitivities <sup>(1,2)</sup>				
	US Excl. CB-VA		CB-VA	
	2012	2011	2012	2011
Interest Rate Up	-23	2	258	24
Interest Rate Down	-24	-50	-246	-226
Equity	-82	-149	-129	-17
Credit – Default	-240	-272	-6	-8
Credit – Spread <sup>(3)</sup>	-462	-475	-19	-21
Mortality <sup>(4)</sup>	-19	-15	-1	-4
Morbidity <sup>(4)</sup>	-32	-32		

<sup>(1)</sup> FX and real estate sensitivities do not have a material impact.

<sup>(2)</sup> Sensitivities are calculated at business unit level and cover US domiciled insurance entities.

<sup>(3)</sup> Includes changes in liabilities anticipated with an increase on spreads.

<sup>(4)</sup> Mortality and morbidity sensitivities are calculated on a diversified basis assuming a normal distribution and a specified mortality/morbidity scenario for calibration.

The changes from 2011 to 2012 are the result of many factors including:

- Changes in credit exposures, as discussed in the Credit Risk section above, leading to a reduction in default risk;
- Sales of Limited Partnership assets, reducing US ex CB-VA sensitivity to equities;
- Introduction of Stable Value hedging program, leading to reduced exposure to interest rates in US ex CB-VA;
- Model and assumption refinements in CB-VA, leading to an increase in equity sensitivity.

Taking into account diversification between risk factors, ING US (excluding CB-VA) is exposed to a EUR 0.9 billion decrease in regulatory capital and CB-VA is exposed to a EUR 0.4 billion decrease in regulatory capital within the context of the market and non-market sensitivity analysis. As of 31 December 2011, the comparable amounts were EUR 1.0 billion and EUR 0.3 billion, respectively.

### MODEL RISK

The US has a rigorous Model Risk Governance framework that is operative at each Business Unit level as well as within the ING US Corporate area. Through this framework all model, methodology and assumption changes are reviewed and approved by a BU Chief Risk Officer or by the US Chief Risk Officer. The US CRO has ultimate authority for Model Risk Governance. Beginning in 2012, the US has targeted 3Q as the quarter to make our routine experience updates. We will also target 3Q for any other planned model, methodology and assumption updates. Below is a summary of the significant model and assumption changes for 4Q 2012 that were approved by the US Model Committee:

- The QRM system was approved as a replacement for ECAPS for use in the calculation of Economic Capital and FAS107 disclosure items;
- A new methodology was approved to generate EC and Market Consistent scenarios;
- Several business units made updates to statutory values as a result of changes in reserve valuation interest rates or changes in their cash flow testing models. The valuation interest rate updates are required by law.

### INSURANCE INVESTMENTS

The Insurance Investments business consists of certain parts of ING Insurance that will not be part of the divestment of the Latin American, Eurasian and US business. In the course of the divestment process of these businesses the composition of the Insurance Investments portfolio may change. Furthermore, at some stage parts of the Insurance Investments portfolio itself may be divested or closed down. In some cases this can take many years. Currently the most important parts of this portfolio are:

- Financing activities of ING Insurance and some of its sub holdings;
- Certain activities related to prior divestments, such as legal claims in Mexico and the ownership of a Mexican mortgage company;
- ING's stake in the Brazilian SulAmerica joint venture;
- The run-off of former non-life and reinsurance activities.

Insurance Investments businesses are managed by the Head of Insurance Investments and supported by the Finance and Risk functions of ING Group. The largest asset is the Brazilian SulAmerica joint venture with a balance sheet value of EUR 366 million (in 2011 EUR 394 million). Winding down financing activities is delegated to ING Group Capital Management.

# 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:

- Adjusted Equity (ING Group) – This rating agency concept is defined as shareholders' equity plus core Tier 1 securities, hybrid capital and prudential filters. See 'Capital Base' disclosures in this section. This capital definition is applied in comparing available capital to core debt for ING Group;
- 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. Core Tier 1, Tier 1 and BIS capital divided by risk-weighted assets equal the Core Tier 1, Tier 1 and BIS ratio respectively. Core Tier 1 capital is equal to Tier 1 capital excluding hybrid capital;
- Insurance Group Directive capital (ING Insurance) – This regulatory concept is defined as shareholders' equity plus hybrid capital, prudential filters and certain adjustments. IGD capital is calculated in accordance with method 3 'method based on accounting consolidation' of the Dutch Act on Financial Supervision. In this method the solvency margin is calculated on the basis of the consolidated accounts and is the difference of (i) the assets eligible for the inclusion in the calculation of the solvency margin based on the consolidated data; and (ii) the minimum amount of the solvency margin calculated on the basis of the consolidated data. In applying this method a solvency deficit of an insurance subsidiary, if any, is taken into account, as well as regulatory adjustments of the Dutch insurance subsidiaries based on the Dutch Act on Financial Supervision. See 'Capital Base' disclosures in this section. This capital definition is applied in comparing IGD capital to EU required capital base. In 2012 the IGD ratio was positively impacted by the adoption of the Ultimate Forward Rate Curve for the valuation of insurance liabilities in the Netherlands.
- AFR (ING Insurance EurAsia excluding discontinued operations) – This is a pre-tax market value concept, defined for the insurance operations of ING Insurance EurAsia as the market value of assets (MVA) less the market value of liabilities (MVL) on the balance sheet. The liabilities do not include perpetual hybrid capital which is included in AFR. The AFR valuation of ING Insurance EurAsia includes an adjustment for liquidity premium. The AFR for third party pension funds is set equal to the statutory net equity. AFR is used as the measure of available capital in comparison with Economic Capital employed.
- EC, or Economic Capital (ING Insurance EurAsia excluding discontinued operations), is the pre-tax required capital for the insurance operations of ING Insurance EurAsia, based on a 99.5% confidence interval on a one-year horizon. This interval is aligned with the Solvency II capital requirement. The EC for third party pension funds is based on sectoral rules.
- Risk Based Capital (Domestic ING US Insurance only). In the US, regulators have well developed capital adequacy models and stress tests that reflect the unique characteristics of the US insurance industry. US domiciled insurance legal entities are required to hold minimum capital levels by state insurance regulators. The level of capital required by rating agencies to maintain an acceptable claims paying ability rating is well above these levels. The Domestic US Insurance business manages its statutory surplus primarily with respect to capital metrics that are aligned with the models of the various ratings agencies.
- Financial Leverage (ING Insurance). Financial Leverage is the sum of hybrid capital, sub-debt and net financial debt.

## 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 is well placed to deal with the uncertain financial environment, increasing regulatory requirements and the ambition to repay the remaining outstanding Core Tier 1 securities.

In April 2012, in preparation of the planned insurance and investment management divestments, ING Group has completed three separate exchange offers and consent solicitations on a total of three series of senior securities of ING Verzekeringen N.V. with a total nominal value of EUR 2.6 billion. The objective of the transaction was to remove potential ambiguity that the planned divestments may create with regard to these ING Verzekeringen N.V. securities, predominantly with regard to the Change of Control clauses which may be triggered at the time of a substantial asset disposal. The difference between the book value of the currently outstanding securities and the fair value of the newly issued securities was recognised in the profit and loss account upon completion of the exchange.

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 December 2012, ING Verzekeringen N.V. redeemed a EUR 1.25 billion hybrid security. This security had a Change of Control clause that would be triggered by the divestment of Insurance Asia.

## Capital management continued

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 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 management continued

### CAPITAL ADEQUACY ASSESSMENT

During 2012, ING Group, ING Bank and ING Insurance were adequately capitalised.

ING Group's Capital base						
	Group		Bank		Insurance	
	2012	2011	2012	2011	2012	2011
Shareholders' equity (parent)	54,357	46,663	36,669	34,367	27,299	23,475
Core Tier 1 securities	2,250	3,000				
Group hybrid capital <sup>(1)</sup>	9,223	9,332	6,774	6,850	2,438	2,604
Group leverage <sup>(2)</sup>	7,100	7,917				
Total capitalisation	72,929	66,912	43,443	41,217	29,737	26,079
Adjustments to equity:						
Revaluation reserve debt securities	-10,516	-4,142	-1,265	213		
Revaluation reserve crediting to life policyholders	5,673	3,492				
Revaluation reserve cash flow hedge	-2,689	-1,970	761	822	-3,548	-2,883
Goodwill <sup>(3)</sup>	-1,431	-2,006	-1,242	-1,390	-351	-786
Revaluation reserves fixed income & other	-8,963	-4,626	-1,746	-355	-3,899	-3,669
Revaluation reserves excluded from Tier 1 <sup>(4)</sup>			-1,691	-2,043		
Insurance hybrid capital <sup>(5)</sup>					476	1,726
Minority interests			959	817	217	62
Deductions Tier 1			-991	-1,014		
Tier 1 capital for Bank			39,975	38,622		
Other qualifying capital <sup>(6)</sup>			7,142	8,502		
Insurance Group Directive adjustments <sup>(7)</sup>					-3,209	-2,792
Group leverage (core debt)	-7,100	-7,917				
Total capital (Adjusted Equity for Group, BIS capital for Bank and IGD capital for Insurance)	56,866	54,369	47,116	47,124	23,322	21,406

<sup>(1)</sup> Tier 1 instruments issued by ING Group (e.g. perpetual debt securities and preference shares) at nominal value. Group hybrid Tier 1 instruments other than preference shares are provided as hybrid capital to ING Bank or ING Insurance. Hybrid capital securities are perpetual fixed income securities with an embedded call and coupon deferral feature. All hybrids capital securities rank senior to core tier 1 securities and ordinary shares of ING Group and they are structurally subordinated to the senior debt instruments issued by ING Groep N.V. More details on terms and conditions can be found on [www.ing.com](http://www.ing.com), investor relations, fixed income information, ING Debt securities, Debt securities ING Groep N.V.

<sup>(2)</sup> Investments in subsidiaries less equity (including core Tier 1 securities) of the Group holding company. This net debt position is provided as equity to ING Insurance and ING Bank.

<sup>(3)</sup> According to the regulatory definition.

<sup>(4)</sup> Includes mainly EUR -1,385 million (2011: EUR -1,247 million) in participations (e.g. Kookmin, Bank of Beijing) and other equity investments, EUR 338 million (2011: EUR -355 million) for Real estate for own use and EUR 28 million (2011: EUR -441 million) for own credit risk. The Dutch banking regulator requires this deduction to be made from Tier 1 capital. This deduction is added back to Tier 2 capital.

<sup>(5)</sup> Qualifying dated subordinated debt issued by ING Insurance at nominal value.

<sup>(6)</sup> Consists of EUR 8,132 million (2011: EUR 9,516 million) Tier 2 capital and no Tier 3 (2011: nil), offset by EUR 991 million (2011: EUR 1,014 million) of regulatory deductions.

<sup>(7)</sup> An adjustment for the Dutch Financial supervision act. A 'test-of-adequacy' has to be included in the available capital measurement. The revaluation reserve debt securities and revaluation reserve crediting to life policyholders are not reversed out of the IGD capital definition.

### 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 management continued

Capital position of ING Bank		
	2012	2011
Shareholders' equity (parent)	36,669	34,367
Minority interests <sup>(1)</sup>	959	817
Subordinated loans qualifying as Tier 1 capital <sup>(2)</sup>	6,774	6,850
Goodwill and intangibles deductible from Tier 1 <sup>(1)</sup>	-1,242	-1,390
Deductions Tier 1 <sup>(3)</sup>	-991	-1,014
Revaluation reserve <sup>(4)</sup>	-2,195	-1,008
Available capital – Tier 1	39,975	38,622
Supplementary capital – Tier 2 <sup>(5)</sup>	8,132	9,516
Available Tier 3 funds		
Deductions <sup>(3)</sup>	-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 <sup>(6)</sup>	28,767	31,107
BIS ratio based on Basel I floor <sup>(6)</sup>	13.10%	12.12%

<sup>(1)</sup> According to the regulatory definition.

<sup>(2)</sup> Subordinated loans qualifying as Tier 1 capital have been placed by ING Groep N.V. with ING Bank N.V.

<sup>(3)</sup> For further details, see the table below.

<sup>(4)</sup> Includes revaluation debt securities, revaluation reserve cash flow hedge and the revaluation reserves excluded from Tier 1 as described in ING's Capital base table.

<sup>(5)</sup> Includes eligible lower Tier 2 loans and revaluation reserves equity and real estate revaluations removed from Tier 1 capital.

<sup>(6)</sup> Using 80% of Basel I Risk-Weighted Assets.

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	0	6
Total deductions Basel II	1,981	2,029
50% deductions Basel II	991	1,014

### ING INSURANCE

The table below shows the Insurance Group Directive position which represents the consolidated regulatory Solvency I position of ING Insurance business. The Insurance companies complied with their respective local regulatory requirements.

Capital position of ING Insurance		
	2012	2011
Shareholders' equity (parent)	27,299	23,475
Hybrids issued by ING Group <sup>(1)</sup>	2,438	2,604
Hybrids issued by ING Insurance <sup>(2)</sup>	476	1,726
Required regulatory adjustments	-6,891	-6,399
IGD capital	23,322	21,406
EU required capital base	9,523	9,515
IGD Solvency I ratio <sup>(3)</sup>	245%	225%

<sup>(1)</sup> Hybrids issued by ING Group at notional value.

<sup>(2)</sup> Hybrids issued by ING Insurance at notional value capped at 25% of EU required capital.

<sup>(3)</sup> The actual required regulatory adjustments for IGD capital and the EU required capital may be different from the estimate since the statutory results are not final until filed with the regulators.

## Capital management continued

ING Insurance continues to aim that all operating entities are adequately capitalised based on local regulatory and rating agency requirements and that on a consolidated basis, the financial leverage (hybrids, sub-debt and financial debt) of ING Insurance is appropriate relative to the capital base. The financial leverage decreased in 2012 mainly due to the divestment of the Insurance business in Malaysia.

### Capital base and financial leverage of ING Insurance

	2012	2011
Shareholder's equity (parent)	27,299	23,475
Revaluation reserve debt securities	-9,282	-4,379
Revaluation reserve crediting to life policyholders	5,673	3,492
Revaluation reserve cash flow hedge	-3,548	-2,883
Goodwill	-351	-786
Minority interests	217	62
Capital base	20,007	18,981
Group hybrid capital <sup>(1)</sup>	2,451	2,617
Insurance hybrid capital <sup>(2)</sup>	496	1,751
Total hybrids	2,947	4,368
External debt issued by ING Verzekeringen N.V.	694	2,855
External debt issued by US Holding companies	2,307	930
Other net financial debt <sup>(3)</sup>	2,767	1,686
Total financial debt	5,768	5,471

<sup>(1)</sup> Hybrids issued by ING Group at amortised cost value consistent with IFRS carrying value.

<sup>(2)</sup> Hybrids issued by ING Insurance at amortised cost value consistent with IFRS carrying value.

<sup>(3)</sup> Includes net internal borrowings from the operating subsidiaries, net of cash and current tax liability at the at the holding level and current tax liabilities of the holding companies, mainly ING Verzekeringen N.V. and US Insurance Holdings.

For ING Insurance in total, the capital base for financial leverage purposes is fully based on IFRS accounting, whereas the IGD capital is corrected for some regulatory adjustments. The table below provides a reconciliation.

### Reconciliation between IGD capital and Capital base

	2012	2011
IGD Capital	23,322	21,406
Hybrids issued by ING Group	-2,438	-2,604
Hybrids issued by ING Insurance	-476	-1,726
Revaluation reserve debt securities	-9,282	-4,379
Revaluation reserve crediting to life policyholders	5,673	3,493
Required regulatory adjustments	3,208	2,791
Capital base	20,007	18,981

For ING Insurance EurAsia, Available Financial Resources (AFR) continues to be important, especially as an evolving proxy for the Own Funds derivation from our internal model under Solvency II. The following table presents the reconciliation from the 2011 AFR and EC for ING Insurance EurAsia as reported in the Annual Report 2011, to the comparable basis for ING Insurance EurAsia 2012. This reflects changes in scope and methodology. For the remainder of this paragraph AFR and EC on a comparable basis to 2012 are used.

### AFR and EC 2011 reconciliation

Amounts in billion of euros	AFR	EC
As reported for ING Insurance EurAsia in 2011 <sup>(1)</sup>	17.3	10.3
Difference compared to the 2011 risk paragraph	-	-0.2
Exclude ING Insurance Asia Pacific discontinued business	-6.9	-3.8
ING Insurance EurAsia excluding discontinued business	10.4	6.5
Change in models and methodology	-	-0.9
ING Insurance EurAsia 2011 excluding discontinued business, on a basis comparable to 2012	10.4	5.6

<sup>(1)</sup> EC as reported in the Risk Management chapter of the 2011 Annual Report.

The exclusion of ING Insurance Asia Pacific entities relates to all business units in Asia Pacific, ING's Insurance and investment management businesses and the reinsured Japan VA guarantees to ING Re (Netherlands) N.V. that have been classified as discontinued operations and that were considered in last year's AFR and EC amounts. Reference is made to Note 26 'Discontinued operations'.

## Capital management continued

Economic Capital position, based on a 99.5% confidence interval		
Amounts in billion of euros	2012	2011
AFR	9.6	10.4
EC	5.9	5.6
Excess AFR over EC	3.7	5.8
AFR-EC ratio	163%	186%

The AFR-EC ratio for ING Insurance EurAsia decreased in 2012 as a result of higher EC and lower AFR. EC for ING Insurance EurAsia increased in 2012 primarily due to increases in insurance and business risk, partly offset by de-risking activities in the Benelux and overall lower market valuation leading to lower EC. Credit default risk decreased due to a methodology change and was offset by a lower diversification of this risk with other risk categories. AFR for ING Insurance EurAsia decreased in 2012 mainly due to market impacts (mainly credit and illiquidity spread changes on assets and liabilities), holding company interest, offset by the proceeds received for the divestment of Insurance Malaysia and capital injections from ING Verzekeringen N.V..

For the capital adequacy assessment of ING Insurance's US domiciled regulated insurance business, available capital is measured under US statutory accounting principles and required capital is measured under the US Regulatory Risk Based Capital (RBC) methodology as prescribed by the National Association of Insurance Commissioners (NAIC). For ING's US domiciled regulated insurance business, the consolidated RBC ratio (available capital/required capital) is estimated to be approximately 526% at 31 December 2012. The actual US consolidated RBC ratio may be different from the estimate since the statutory results are not final until filed with the regulators. For ING Insurance's US domiciled regulated insurance business, the RBC ratio was 488% at the end of 2011.

### ING GROUP

The debt/equity ratio of ING Group as at 31 December 2012 was 11.10% (2011: 12.71%).

ING Group reports to the Dutch Central Bank as required under the Dutch implementation of the financial conglomerates directive (FICO). The directive mainly covers risk concentrations in the group, intra-group transactions and an assessment of the capital adequacy of the Group.

In the following table, we show the Group's FICO ratio on the following basis:

- Insurance required capital from applying European Solvency I rules to all ING Insurance entities globally (regardless of local capital requirements);
- Bank required capital based on applying Basel II with the Basel I floor (80% of Basel I Risk Weighted Assets);
- Group FICO capital using an approach similar to that used for Bank BIS capital and Insurance IGD capital whereby Group leverage is deducted.

Regulatory capital adequacy ING Group		
	2012	2011
BIS capital	47,116	47,123
IGD capital	23,322	21,406
Group leverage (core debt)	-7,100	-7,917
Regulatory capital	63,339	60,612
Required capital banking operations	28,774	31,107
Required capital insurance operations	9,523	9,515
Total required capital	38,296	40,622
FICO ratio	165%	149%

## Capital management continued

### Capital adequacy and ratios

Quantitative disclosures on capital measurements and ratios						
	Group		Bank		Insurance	
	2012	2011	2012	2011	2012	2011
<b>Core Tier 1 ratio (Bank)</b>						
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%		
<b>Tier 1 ratio (Bank)</b>						
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%		
<b>BIS ratio (Bank)</b>						
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%		
<b>Insurance Groups Directive</b>						
Year-end actual Capital coverage ratio					245%	225%
Required capital					100%	100%
Target ratio					150%	150%
<b>Debt/Equity ratio (Group)</b>						
Debt/Equity ratio	11.10%	12.71%				
Target maximum Debt/Equity ratio	15.00%	15.00%				

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 2012						
	Standard & Poor's		Moody's		Fitch	
	rating	outlook	rating	outlook	rating	outlook
<b>ING Groep N.V.</b>						
– long-term	A negative		A3 negative		A stable	
<b>ING Bank N.V.</b>						
– short-term	A-1		P-1		F1+	
– long-term	A+ negative		A2 negative		A+ stable	
– financial strength			C-			
<b>ING Verzekeringen N.V.</b>						
– 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.

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 EXECUTIVE BOARD**

J.H.M. Hommen, *CEO and chairman*  
P.G. Flynn, *CFO*  
W.F. Nagel, *CRO*

# Parent company balance sheet of ING Groep N.V.

as at 31 December before appropriation of result

amounts in millions of euros	2012	2011
<b>Assets</b>		
Investments in wholly owned subsidiaries <b>1</b>	<b>64,117</b>	57,949
Other assets <b>2</b>	<b>12,623</b>	11,203
<b>Total assets</b>	<b>76,740</b>	69,152
<b>Equity <b>3</b></b>		
Share capital	<b>919</b>	919
Share premium	<b>16,034</b>	16,034
Non-voting equity securities	<b>2,250</b>	3,000
Legal reserves <sup>(1)</sup>	<b>11,414</b>	7,158
Other reserves	<b>22,096</b>	16,786
Unappropriated result	<b>3,894</b>	5,766
	<b>56,607</b>	49,663
<b>Liabilities</b>		
Subordinated loans <b>4</b>	<b>9,923</b>	10,017
Other liabilities <b>5</b>	<b>10,210</b>	9,472
<b>Total equity and liabilities</b>	<b>76,740</b>	69,152

<sup>(1)</sup> Legal reserves includes Share of associates reserve of EUR 12,377 million (2011: EUR 8,100 million) and Currency translation reserve of EUR –963 million (2011: EUR –942 million).

References relate to the notes starting on page 316. These form an integral part of the parent company annual accounts.

# Parent company profit and loss account of ING Groep N.V.

for the years ended 31 December

amounts in millions of euros	2012	2011
Result of group companies after taxation	<b>4,098</b>	5,337
Other results after taxation	<b>-204</b>	429
Net result	<b>3,894</b>	5,766

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# Parent company statement of changes in equity of ING Groep N.V.

amounts in millions of euros	Share capital	Share premium	Non-voting equity securities	Share of associates reserve	Currency translation reserve	Other reserves <sup>(1)</sup>	Total
Balance as at 1 January 2011	919	16,034	5,000	6,613	-939	18,277	45,904
Unrealised revaluations after taxation				921		224	1,145
Realised gains/losses transferred to profit and loss				723			723
Transfer to insurance liabilities/DAC				-2,004			-2,004
Change in cash flow hedge reserve				1,124			1,124
Unrealised revaluations from net investment hedges				167			167
Exchange rate differences				-150	-3		-153
Total amount recognised directly in equity				781	-3	224	1,002
Net result						5,766	5,766
				781	-3	5,990	6,768
Transfer to share of associates reserve				706		-706	
Employee stock option and share plans						-59	-59
Repayment of non-voting equity securities			-2,000				-2,000
Repurchase premium						-1,000	-1,000
Purchases/sales of treasury shares						50	50
Balance as at 31 December 2011	919	16,034	3,000	8,100	-942	22,552	49,663
Unrealised revaluations after taxation				7,132		118	7,250
Realised gains/losses transferred to profit and loss				-772			-772
Transfer to insurance liabilities/DAC				-2,181			-2,181
Change in cash flow hedge reserve				718			718
Unrealised revaluations from net investment hedges				-142			-142
Exchange rate differences				-771	-21		-792
Total amount recognised directly in equity				3,984	-21	118	4,081
Net result						3,894	3,894
				3,984	-21	4,012	7,975
Transfer to share of associates reserve				293		-293	
Employee stock option and share plans						-161	-161
Repayment of non-voting equity securities			-750				-750
Repurchase premium						-375	-375
Purchases/sales of treasury shares						255	255
Balance as at 31 December 2012	919	16,034	2,250	12,377	-963	25,990	56,607

<sup>(1)</sup> Other reserves includes Retained earnings, Treasury shares, Other reserves and Unappropriated result.

# Accounting policies for the parent company annual accounts of ING Groep N.V.

## BASIS OF PRESENTATION

The parent company accounts of ING Groep 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 with the exception of Investments in group companies and investments in associates which 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 office of 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 Shareholders' equity. Changes in balance sheet values due to the results of these associates, accounted for in accordance with ING Group 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 Share of associates reserve in Other reserves.

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 Groep N.V.

amounts in millions of euros, unless stated otherwise

## 1 INVESTMENTS IN WHOLLY OWNED SUBSIDIARIES

Investments in wholly owned subsidiaries		
	2012	2011
ING Bank N.V.	36,659	34,345
ING Insurance Topholding N.V.	27,281	23,465
Other	177	139
	<b>64,117</b>	<b>57,949</b>

Other includes certain intercompany eliminations between ING Bank N.V. and ING Insurance Topholding N.V.

Changes in investments in wholly owned subsidiaries		
	2012	2011
Opening balance	57,949	54,594
Revaluations	4,190	1,022
Result of group companies	4,098	5,337
Dividend	-2,125	-3,000
	<b>64,112</b>	<b>57,953</b>
Changes in ING Groep N.V. shares held by group companies	5	-4
Closing balance	<b>64,117</b>	<b>57,949</b>

## 2 OTHER ASSETS

Other assets		
	2012	2011
Receivables from group companies	12,228	10,716
Other receivables, prepayments and accruals	395	487
	<b>12,623</b>	<b>11,203</b>

As at 31 December 2012 an amount of EUR 11,093 million (2011: EUR 10,448 million) is expected to be settled after more than one year from the balance sheet date.

## 3 EQUITY

Equity		
	2012	2011
Share capital	919	919
Share premium	16,034	16,034
Non-voting equity securities	2,250	3,000
Share of associates reserve	12,377	8,100
Currency translation reserve	-963	-942
Other reserves	25,990	22,552
Equity	<b>56,607</b>	<b>49,663</b>

The Share of associates reserve includes the following components: Reserve for non-distributable retained earnings of associates of EUR 1,866 million (2011: EUR 1,573 million) and Revaluation reserve of associates of EUR 10,511 million (2011: EUR 6,527 million).

## Notes to the parent company annual accounts of ING Groep N.V. continued

### Share capital

	Ordinary shares (par value EUR 0.24)			
	2012	Number x1,000		Amount 2011
		2011	2012	
Authorised share capital	<b>14,500,000</b>	14,500,000	<b>3,480</b>	3,480
Unissued share capital	<b>10,668,439</b>	10,668,439	<b>2,561</b>	2,561
Issued share capital	<b>3,831,561</b>	3,831,561	<b>919</b>	919

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

### Changes in other reserves and unappropriated result

2012	Retained earnings	Treasury shares	Other reserves	Total Other reserves	Unappropriated result	Total
Opening balance	<b>22,713</b>	<b>-665</b>	<b>-5,262</b>	<b>16,786</b>	<b>5,766</b>	<b>22,552</b>
Result for the year					<b>3,894</b>	<b>3,894</b>
Unrealised revaluations after taxation	<b>118</b>			<b>118</b>		<b>118</b>
Changes in treasury shares		<b>255</b>		<b>255</b>		<b>255</b>
Repurchase premium	<b>-375</b>			<b>-375</b>		<b>-375</b>
Transfer to share of associates reserve	<b>-293</b>			<b>-293</b>		<b>-293</b>
Transfer to retained earnings	<b>5,766</b>			<b>5,766</b>	<b>-5,766</b>	
Employee stock option and share plans	<b>-161</b>			<b>-161</b>		<b>-161</b>
Closing balance	<b>27,768</b>	<b>-410</b>	<b>-5,262</b>	<b>22,096</b>	<b>3,894</b>	<b>25,990</b>

### Changes in other reserves and unappropriated result

2011	Retained earnings	Treasury shares	Other reserves	Total Other reserves	Unappropriated result	Total
Opening balance	21,444	-715	-5,262	15,467	2,810	18,277
Result for the year					5,766	5,766
Unrealised revaluations after taxation	224			224		224
Changes in treasury shares		50		50		50
Transfer to share of associates reserve	-1,000			-1,000		-1,000
Transfer to retained earnings	-706			-706		-706
Employee stock option and share plans	2,810			2,810	-2,810	
Other	-59			-59		-59
Closing balance	22,713	-665	-5,262	16,786	5,766	22,552

As at 31 December 2012, the Share of associates reserve includes an amount of EUR 911 million (2011: EUR 836 million) related to the former Stichting Regio Bank and the former Stichting Vakbondsspaarbank SPN that cannot be freely distributed.

## Notes to the parent company annual accounts of ING Groep N.V. continued

Positive components of the Share of associates reserve and Currency translation reserve cannot be freely distributed. The reserve for cash flow hedges is included in the Share of associates reserve on a net basis. Retained earnings can be freely distributed, except for an amount equal to the negative balance in each of the components of the Currency translation reserve and Share of associates reserve. Unrealised gains and losses on derivatives, other than those used in cash flow hedges, are presented in the profit and loss account and are therefore part of Retained earnings and are not included in Share of associates reserve.

The total amount of Equity in the parent company annual accounts equals Shareholders' equity (parent) in the consolidated annual accounts. Certain components within equity are different, as a result of the following presentation differences between the parent company accounts and consolidated accounts:

- Unrealised revaluations within consolidated group companies, presented in the Revaluation reserve in the consolidated accounts, are presented in the Share of associates reserve in the parent company accounts;
- Foreign currency translation on consolidated group companies, presented in the Currency translation reserve in the consolidated accounts, is presented in the Share of associates reserve in the parent company accounts;
- Revaluations on investment property and certain participations recognised in income and consequently presented in Retained earnings in the consolidated accounts, is presented in the Share of associates reserve in the parent company accounts.

The total amount of non-distributable reserves is EUR 13,340 million (2011: EUR 9,042 million).

See Note 13 'Shareholders' equity (parent)/non-voting equity securities' in the consolidated annual accounts for additional information, including restrictions with respect to dividend and repayment of capital.

Change in treasury shares				
	Amount		Number	
	2012	2011	2012	2011
Opening balance	665	715	49,305,917	51,300,101
Purchased/sold	-86	-17	-14,554,460	-625,803
Share-based payments	-67	-19	-4,638,786	-1,368,381
Other	-102	-14		
Closing balance	410	665	30,112,671	49,305,917

### 4 SUBORDINATED LOANS

Subordinated loans						
Interest rate	Year of issue	Due date	Notional amount in original currency		Balance sheet value	
					2012	2011
9.000%	2008	Perpetual	EUR	10	10	10
8.500%	2008	Perpetual	USD	2,000	1,508	1,527
8.000%	2008	Perpetual	EUR	1,500	1,502	1,500
7.375%	2007	Perpetual	USD	1,500	1,137	1,176
6.375%	2007	Perpetual	USD	1,045	792	804
5.140%	2006	Perpetual	GBP	66	81	79
5.775%	2005	Perpetual	USD	364	288	292
6.125%	2005	Perpetual	USD	700	529	533
4.176%	2005	Perpetual	EUR	169	168	168
Variable	2004	Perpetual	EUR	555	558	527
6.200%	2003	Perpetual	USD	500	369	376
Variable	2003	Perpetual	EUR	430	427	424
7.200%	2002	Perpetual	USD	1,100	820	839
7.050%	2002	Perpetual	USD	800	597	603
Variable	2000	31 December 2030	USD	1,500	1,137	1,159
					<b>9,923</b>	10,017

The Subordinated loans rank subordinated to the Other liabilities in a winding-up of ING Group.

## Notes to the parent company annual accounts of ING Groep N.V. continued

### 5 OTHER LIABILITIES

Other liabilities by type		
	2012	2011
Debtenture loans	6,837	5,500
Amounts owed to group companies	2,250	2,716
Other amounts owed and accrued liabilities	1,001	1,103
Derivatives from group companies	122	153
	<b>10,210</b>	<b>9,472</b>

Debtenture loans			Balance sheet value	
Interest rate	Year of issue	Due date	2012	2011
Variable	2012	18 September 2013	726	
4.000%	2012	18 September 2013	585	
4.125%	2011	23 March 2015	666	653
5.625%	2008	3 September 2013	1,033	1,053
4.699%	2007	1 June 2035	118	117
4.750%	2007	31 May 2017	1,964	1,932
Variable	2006	11 April 2016	998	998
4.125%	2006	11 April 2016	747	747
			<b>6,837</b>	<b>5,500</b>

The number of debtentures held by group companies as at 31 December 2012 is 57,860 with a balance sheet value of EUR 8 million (2011: 369,160 with a balance sheet value of EUR 35 million).

Amounts owed to group companies by remaining term		
	2012	2011
Within 1 year	2,250	2,216
More than 1 year but less than 5 years		500
	<b>2,250</b>	<b>2,716</b>

The interest rate on the Amounts owed to group companies as at 31 December 2012 is 1.282% (2011: 1.896%).

Other amounts owed and accrued liabilities are payable within one year.

Derivatives from group companies by remaining term		
	2012	2011
Within 1 year	1	28
More than 1 year but less than 5 years	121	125
	<b>122</b>	<b>153</b>

### 6 OTHER

#### Guarantees

As at 31 December 2012, ING Groep N.V. had no guarantees outstanding on behalf of third parties (2011: nil). ING Groep N.V. has issued statements of liability in connection with Section 403, Book 2 of the Dutch Civil Code and other guarantees for a number of group companies.

#### Fiscal unity

ING Groep N.V. forms a fiscal unity with several Dutch banking entities for corporation tax purposes. 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, EXECUTIVE BOARD AND SUPERVISORY BOARD

The information on share-based payment plans and remuneration of the members of the Executive Board and the Supervisory Board is included in the Consolidated annual accounts (page 176 up to and including page 178).

### 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 EXECUTIVE BOARD

J.H.M. Hommen, *CEO and chairman*  
P.G. Flynn, *CFO*  
W.F. Nagel, *CRO*

# Independent auditor's report

To: the Shareholders, the Supervisory Board and the Executive Board of ING Groep N.V.

## REPORT ON THE ANNUAL ACCOUNTS

We have audited the accompanying annual accounts 2012 of ING Groep N.V., Amsterdam (as set out on pages 90 to 320). 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 Executive 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, and the standards of the Public Company Accounting Oversight Board (United States). This requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether about 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. 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 Groep N.V. as at 31 December 2012 and of its result and its cash flows 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 Groep 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 Executive 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 Executive 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, except for amounts per share

## PROPOSED APPROPRIATION OF RESULT

The result is appropriated pursuant to Article 37 of the Articles of Association of ING Groep N.V., the relevant stipulations of which state that the Executive Board, subject to the approval of the Supervisory Board, determines what part of the result is to be appropriated to reserves and that the remaining part of the result shall be at the disposal of the General Meeting.

For 2012, the Executive Board, with the approval of the Supervisory Board, has determined to appropriate the entire result to reserves, so that no dividend will be paid.

In 2012 no interim dividend was paid.

Proposed appropriation of result	
Net result	<b>3,894</b>
Addition to reserves pursuant to Article 37 (4) of the Articles of Association	<b>3,894</b>
At the disposal of the General Meeting of Shareholders pursuant to Article 37 (5) of the Articles of Association	<b>0</b>
Dividend of EUR 0.00 per ordinary share	

# Risk factors

Any of the risks described below could have a material adverse effect on the business activities, financial condition, results of operations and prospects of ING. The market price of ING shares could decline due to any of these risks, and investors could lose all or part of their investments. Additional risks of which the Company is not presently aware could also affect the business operations of ING and have a material adverse effect on ING's business activities, financial condition, results of operations and prospects. In addition, the business of a multinational, broad-based financial services firm such as ING is inherently exposed to risks that only become apparent with the benefit of hindsight. The sequence in which the risk factors are presented below is not indicative of their likelihood of occurrence or the potential magnitude of their financial consequences.

## RISKS RELATED TO FINANCIAL CONDITIONS, MARKET ENVIRONMENT AND GENERAL ECONOMIC TRENDS

**Because we are a financial services company conducting business on a global basis, our revenues and earnings are affected by the volatility and strength of the economic, business and capital markets environments specific to the geographic regions in which we conduct business. The ongoing turbulence and volatility of such factors have adversely affected, and may continue to adversely affect, the profitability and solvency of our insurance, banking and asset management business.**

Factors such as interest rates, securities prices, credit spreads, liquidity spreads, exchange rates, consumer spending, changes in client behaviour, business investment, real estate and private equity valuations, government spending, inflation, the volatility and strength of the capital markets, political events and trends, and terrorism all impact the business and economic environment and, ultimately, our solvency, liquidity and the amount and profitability of business we conduct in a specific geographic region. In an economic downturn characterised by higher unemployment, lower family income, lower corporate earnings, higher corporate and private debt defaults, lower business investments, and lower consumer spending, the demand for banking and insurance products is usually adversely affected and ING's reserves and provisions typically would increase, resulting in overall lower earnings. Securities prices, real estate values and private equity valuations may also be adversely impacted, and any such losses would be realised through profit and loss and shareholders' equity. Some insurance products contain minimum return or accumulation guarantees. If returns do not meet or exceed the guarantee levels, we may need to set up additional reserves to fund these future guaranteed benefits. In addition, we may experience an elevated incidence of claims and lapses or surrenders of policies. Our policyholders may choose to defer paying insurance premiums or stop paying insurance premiums altogether. Similarly, a downturn in the equity markets causes a reduction in commission income we earn from managing portfolios for third parties, income generated from our own proprietary portfolios, asset-based fee income on certain insurance products, and our capital base. We also offer a number of insurance and financial products that expose us to risks associated with fluctuations in interest rates, securities prices, corporate and private default rates, the value of real estate assets, exchange rates and credit spreads. See also '—Interest rate volatility and other interest rate changes may adversely affect our profitability', '—Continued turbulence and volatility in the financial markets and the economy generally have adversely affected and may continue to affect our business and results of operations', and '—Market conditions observed over the past few years may increase the risk of loans being impaired. We are exposed to declining property values on the collateral supporting residential and commercial real estate lending' below.

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

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

Shareholders' equity and our net result may be significantly impacted by turmoil and volatility in the worldwide financial markets. Negative developments in financial markets and/or economies may have a material adverse impact on shareholders' equity and net result in future periods, including as a result of the potential consequences listed above. See '—Continued turbulence and volatility in the financial markets and the economy generally have adversely affected and may continue to affect our business and results of operations' below.

### **Adverse capital and credit market conditions may impact our ability to access liquidity and capital, as well as the cost of credit and capital.**

The capital and credit markets have been experiencing extreme volatility and disruption since the second half of 2008. Adverse capital market conditions may affect the availability and cost of borrowed funds, thereby impacting our ability to support or grow our businesses.

We need liquidity in our day-to-day business activities to pay our operating expenses, interest on our debt and dividends on our capital stock, maintain our securities lending activities and replace certain maturing liabilities. Without sufficient liquidity, we will be forced to curtail our operations and our business will suffer. The principal sources of our funding are deposit funds, insurance premiums, annuity considerations and cash flow from our investment portfolio and assets, consisting mainly of cash or assets that are readily convertible into cash. Sources of funding in normal markets may also include a variety of short- and long-term instruments, including repurchase agreements, commercial paper, medium- and long-term debt, subordinated debt securities, capital securities and stockholders' equity.

In the event current resources do not satisfy our needs, we may need to seek additional financing. The availability of additional financing will depend on a variety of factors such as market conditions, the general availability of credit, the volume of trading activities, the overall availability of credit to the financial services industry, our credit ratings and credit capacity, as well as the possibility that customers or

## Risk factors continued

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lenders could develop a negative perception of our long- or short-term financial prospects. Similarly, our access to funds may be limited if regulatory authorities or rating agencies take negative actions against us. If our internal sources of liquidity prove to be insufficient, there is a risk that we may not be able to successfully obtain additional financing on favourable terms, or at all. Any actions we might take to access financing may cause rating agencies to re-evaluate our ratings.

Disruptions, uncertainty or volatility in the capital and credit markets, such as that experienced over the past few years, including in relation to the ongoing European sovereign debt crisis, may also limit our access to capital required to operate our business. Such market conditions may in the future limit our ability to raise additional capital to support business growth, or to counter-balance the consequences of losses or increased regulatory capital requirements. This could force us to (i) delay raising capital, (ii) reduce, cancel or postpone payment of dividends on our shares, (iii) reduce, cancel or postpone interest payments on our other securities, (iv) issue capital of different types or under different terms than we would otherwise, or (v) incur a higher cost of capital than in a more stable market environment. This would have the potential to decrease both our profitability and our financial flexibility. Our results of operations, financial condition, cash flows and regulatory capital position could be materially adversely affected by disruptions in the financial markets.

In the course of 2008 and 2009, governments around the world, including the Dutch government, implemented unprecedented measures to provide assistance to financial institutions, in certain cases requiring (indirect) influence on or changes to governance and remuneration practices. In certain cases governments nationalised companies or parts thereof. The measures adopted in the Netherlands include both liquidity provision and capital reinforcement, and a Dutch Credit Guarantee Scheme. The liquidity and capital reinforcement measures expired on 10 October 2009, and the Credit Guarantee Scheme of the Netherlands expired on 31 December 2010. Our participation in these measures has resulted in certain material restrictions on us, including those required by the European Commission ('EC') as part of our Restructuring Plan. See 'Risks Related to the Restructuring Plan — Our agreements with the Dutch State impose certain restrictions regarding the issuance or repurchase of our shares and the compensation of certain senior management positions', 'Risks Related to the Restructuring Plan — The implementation of the Restructuring Plan and the divestments anticipated in connection with that plan will significantly alter the size and structure of the Group and involve significant costs and uncertainties that could materially impact the Group'. The Restructuring Plan, as well as any potential future transactions with the Dutch State or any other government, if any, or actions by such government regarding ING could adversely impact the position or rights of shareholders, bondholders, customers or creditors and our results, operations, solvency, liquidity and governance.

We are subject to the jurisdiction of a variety of banking and insurance regulatory bodies, some of which have proposed regulatory changes in the recent years that, if implemented, would hinder our ability to manage our liquidity in a centralised manner. Furthermore, regulatory liquidity requirements in certain jurisdictions in which we operate are generally becoming more stringent, including those forming part of the 'Basel III' requirements discussed further below under '—We operate in highly regulated industries. There could be an adverse change or increase in the financial services laws and/or regulations governing our business', undermining our efforts to maintain this centralised management of our liquidity. These developments may cause trapped pools of liquidity, resulting in inefficiencies in the cost of managing our liquidity, and hinder our efforts to integrate our balance sheet, which is an essential element of our Restructuring Plan.

### **The default of a major market participant could disrupt the markets.**

Within the financial services industry the severe distress or default of any one institution (including sovereigns) could lead to defaults or severe distress by other institutions. Such distress or defaults could disrupt securities markets or clearance and settlement systems in our markets. This could cause market declines or volatility. Such a failure could lead to a chain of defaults that could adversely affect us and our contractual counterparties. Concerns about the credit worthiness of a sovereign or financial institution (or a default by any such entity) could lead to significant liquidity and/or solvency problems, losses or defaults by other institutions, because the commercial and financial soundness of many financial institutions may be closely related as a result of their credit, trading, clearing or other relationships. Even the perceived lack of creditworthiness of, or questions about, a sovereign or a counterparty may lead to market-wide liquidity problems and losses or defaults by us or by other institutions. This risk is sometimes referred to as 'systemic risk' and may adversely affect financial intermediaries, such as clearing agencies, clearing houses, banks, securities firms and exchanges with whom we interact on a daily basis and financial instruments of sovereigns in which we invest. Systemic risk could have a material adverse effect on our ability to raise new funding and on our business, financial condition, results of operations, liquidity and/or prospects. In addition, such a failure could impact future product sales as a potential result of reduced confidence in the financial services industry.

Management believes that despite increased attention recently, systemic risk to the markets in which we operate continues to exist, and dislocations caused by the interdependency of financial market participants continues to be a potential source of material adverse changes to our business, results of operations and financial condition.

### **Because our life and non-life insurance and reinsurance businesses are subject to losses from unforeseeable and/or catastrophic events, which are inherently unpredictable, our actual claims amount may exceed our established reserves or we may experience an abrupt interruption of activities, each of which could result in lower net results and have an adverse effect on our results of operations.**

In our life and non-life insurance and reinsurance businesses, we are subject to losses from natural and man-made catastrophic events. Such events include, without limitation, weather and other natural catastrophes such as hurricanes, floods, earthquakes and epidemics that may be more severe or difficult to predict as a result of variable climate conditions, as well as man-made disasters and core infrastructure failures such as acts of terrorism, military actions, power grid and telephone/internet infrastructure failures and political and social unrest.

The frequency and severity of such events, and the losses associated with them, are inherently unpredictable and cannot always be adequately reserved for. Furthermore, we are subject to actuarial and underwriting risks such as, for instance, mortality, longevity, morbidity, and adverse claims development which result from the pricing and acceptance of insurance contracts. In accordance with industry practices, modelling of natural catastrophes is performed and risk mitigation measures are taken. In case claims occur, reserves are established based on estimates using actuarial projection techniques. The process of estimating is based on information available at the time the reserves are originally established and includes updates when more information becomes available. Although we continually review the adequacy of the established claim reserves, there can be no assurances that our actual claims experience will not exceed our estimated claim reserves. If actual claim amounts exceed the estimated claim reserves, our earnings may be reduced and our net results may be adversely affected. Furthermore, claims resulting from a catastrophic event could also materially harm the financial condition of our reinsurers, which would increase the probability of default on reinsurance recoveries. Our ability to write new business could also be adversely affected.

In addition, and as discussed further below under 'Risks Related to the Group's Business, Operations, and Regulatory Environment—Operational risks are inherent in our business', because unforeseeable and/or catastrophic events can lead to an abrupt interruption of activities, our banking and insurance operations may be subject to losses resulting from such disruptions. Losses can relate to property, financial assets, trading positions, insurance and pension benefits to employees and also to key personnel. If our business continuity plans are not able to be put into action or do not take such events into account, our financial condition could be adversely affected.

### **We operate in highly regulated industries. There could be an adverse change or increase in the financial services laws and/or regulations governing our business.**

We are subject to detailed banking, insurance, asset management and other financial services laws and government regulation in the jurisdictions in which we conduct business. Regulatory agencies have broad administrative power over many aspects of the financial services business, which may include liquidity, capital adequacy and permitted investments, ethical issues, anti-money laundering, anti-terrorism measures, privacy, recordkeeping, product and sale suitability, and marketing and sales practices, remuneration policies and our own internal governance practices. Banking, insurance and other financial services laws, regulations and policies currently governing us and our subsidiaries may also change at any time and in ways which have an adverse effect on our business, and it is difficult to predict the timing or form of any future regulatory or enforcement initiatives in respect thereof. Also, regulators and other supervisory authorities in the EU, the U.S. and elsewhere continue to scrutinise payment processing and other transactions and activities of the financial services industry under regulations governing such matters as money-laundering, prohibited transactions with countries subject to sanctions, and bribery or other anti-corruption measures. Regulation is becoming increasingly more extensive and complex and regulators are focusing increased scrutiny on the industries in which we operate, often requiring additional Company resources. These regulations can serve to limit our activities, including through our net capital, customer protection and market conduct requirements, and restrictions on businesses in which we can operate or invest. If we fail to address, or appear to fail to address, appropriately any of these matters, our reputation could be harmed and we could be subject to additional legal risk, which could, in turn, increase the size and number of claims and damages asserted against us or subject us to enforcement actions, fines and penalties.

In light of current conditions in the global financial markets and the global economy, regulators have increased their focus on the regulation of the financial services industry. Most of the principal markets where we conduct our business have adopted, or are currently considering, major legislative and/or regulatory initiatives in response to the financial crisis. Governmental and regulatory authorities in the Netherlands, the United Kingdom, the United States and elsewhere are implementing measures to increase regulatory control in their respective financial markets and financial services sectors, including in the areas of prudential rules, capital requirements, executive compensation, crisis and contingency management, bank levies and financial reporting, among others. Additionally, governmental and regulatory authorities in the Netherlands as well as in a multitude of jurisdictions continue to consider new mechanisms to limit the occurrence and/or severity of future economic crises (including proposals to restrict the size of financial institutions operating in their jurisdictions and/or the scope of operations of such institutions). In December 2012, EU leaders agreed on setting up a Single Supervisory Mechanism ('SSM'), a mechanism composed of national competent authorities and the European Central Bank ('ECB'), as part of the prospective EU banking union. In the SSM, it is expected that the ECB will assume direct responsibility for a significant part of the prudential supervision of ING Bank and its holding company ING Group. The SSM is envisaged to take effect by 1 March 2014 or one year after the Regulation has entered into force and is designed for countries within the Eurozone, with the possibility of non-Eurozone member states to participate by means of close cooperation. While it is at this stage difficult to identify what the exact impact will be on ING Bank and ING Group, it is expected that the SSM will have a significant impact on the way ING's banking operations are supervised in Europe.

Furthermore, we are subject to different tax regulations in each of the jurisdictions where we conduct business. Changes in tax laws could increase our taxes and our effective tax rates. Furthermore, legislative changes could materially impact our tax receivables and liabilities as well as deferred tax assets and deferred tax liabilities which could have a material adverse effect on our business, results of operations and financial condition. One such change relates to the current debate in the U.S. over corporate tax reform and corporate tax rates.

We cannot predict whether or when future legislative or regulatory actions may be taken, or what impact, if any, actions taken to date or in the future could have on our business, results of operations and financial condition. Compliance with applicable laws and regulations is time-consuming and personnel-intensive, and changes in laws and regulations may materially increase the cost of compliance and other expenses of doing business.

## Risk factors continued

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We expect the scope and extent of regulation in the jurisdictions in which we conduct our business, as well as regulatory oversight and supervision, to generally continue to increase. Despite our efforts to maintain effective compliance procedures and to comply with applicable laws and regulations, there are a number of risks in areas where applicable regulations may be unclear, either because they are subject to multiple interpretations or under development, or where they may conflict with one another, or where regulators revise their previous guidance or courts overturn previous rulings, resulting in our failure to meet applicable standards. Regulators and other authorities have the power to bring administrative or judicial proceedings against us, which could result, among other things, in the suspension or revocation of our licenses, cease and desist orders, fines, civil penalties, criminal penalties or other disciplinary action which could materially harm our results of operations and financial condition.

### *Basel III*

In December 2010, the Basel Committee on Banking Supervision ('Basel Committee') announced higher global minimum capital standards for banks and introduced a new global liquidity standard and a new leverage ratio. The Basel Committee's package of reforms, collectively referred to as the 'Basel III' rules, will, among other requirements, increase the amount of common equity required to be held by subject banking institutions, prescribe the amount of liquid assets and the long-term funding a subject banking institution must hold at any given moment, and limit leverage. Banks will be required to hold a 'capital conservation buffer' to withstand future periods of stress such that the total Tier 1 common equity ratio, when fully phased in on 1 January 2019, will rise to 7%. Basel III also introduces a 'countercyclical buffer' as an extension of the capital conservation buffer, which permits national regulators to require banks to hold more capital during periods of high credit growth (to strengthen capital reserves and moderate the debt markets). Further, Basel III has strengthened the definition of capital that will have the effect of disqualifying many hybrid securities, potentially including those issued by the Group, from inclusion in regulatory capital, as well as the higher capital requirements for trading, derivative and securitisation activities as part of a number of reforms to the Basel II framework. In addition, the Basel Committee and the Financial Stability Board ('FSB') published measures in October 2011 that would have the effect of requiring higher loss absorbency capacity, liquidity surcharges, exposure limits and special resolution regimes for, and instituting more intensive and effective supervision of, 'systemically important financial institutions' ('SIFIs') and so-called 'Global' SIFIs ('G-SIFIs'), in addition to the Basel III requirements otherwise applicable to most financial institutions. The implementation of these measures have begun in 2012 and full implementation is targeted for 2019. ING Bank was designated by the Basel Committee and FSB as one of the global systemically important banks ('G-SIBs'), forming part of the G-SIFIs, in November 2011 and November 2012, and by Dutch Central Bank (De Nederlandsche Bank N.V., 'DNB') and the Dutch Ministry of Finance as a domestic SIFI in November 2011. The Basel III proposals and their potential impact are monitored via semi-annual monitoring exercises in which ING Bank participates. As a result of such monitoring exercises and on-going discussions within the regulatory environment revisions have been made to the original Basel III proposals as was the case with the revised Liquidity Coverage Ratio in January 2013. It remains to be seen whether further amendments to the 2010 framework and standards will be made by the Basel Committee in the coming years.

For European banks, these requirements will be implemented through the Capital Requirements Directive ('CRD') IV, which might deviate in its final state from the original Basel III requirements. While the full impact of the Basel III rules, and any additional requirements for SIFIs or G-SIFIs, if and as applicable to the Group, will depend on how they are implemented by national regulators, including the extent to which such regulators and supervisors can set more stringent limits and additional capital requirements or surcharges, as well as on the economic and financial environment at the time of implementation and beyond, we expect these rules can have a material impact on ING's operations and financial condition and may require the Group to seek additional capital. Further, the International Accounting Standards Board ('IASB') has issued and proposed certain amendments to several IFRS standards during the course of 2012, which changes could also have a material impact on our reported results and financial condition.

### *Solvency II*

The European Council has agreed upon a full scale revision of the solvency framework and prudential regime applicable to insurance and reinsurance companies known as 'Solvency II', which was adopted on 25 November 2009 (Directive 2009/138/EG). A key aspect of Solvency II is the closer alignment of the assessment of risks and capital requirements with economic capital methodologies. Under the Solvency II regime, insurance companies may be permitted to make use of an internal economic capital model as a basis for calculation of their capital needs and solvency position (in the Netherlands, such a model (including ING's model) has to be approved by the DNB).

The final text of the Level I Framework Directive includes rules regarding, among other things, own funds, capital requirements, investments and group supervision. Following adoption of this Level I Framework Directive, the European Commission and European Insurance and Occupational Pensions Authority ('EIOPA'), formerly CEIOPS, have initiated the development of detailed rules following the Lamfalussy process. Under this process, Directives related to financial institutions are developed on the basis of a four level approach intended to complement the principles of the Directive. Level 2 measures will be issued by the European Commission (delegated acts and/or implementing technical standards proposed by EIOPA) and Level 3 guidance will be issued by EIOPA.

Solvency II, if implemented, will effect a full revision of the insurance industry's solvency framework and prudential regime and will impose group level supervision mechanisms. Representatives from the European Parliament, the European Commission and the Council of the European Union are currently discussing the 'Omnibus II Directive' proposal, which, once approved, will amend certain aspects of the original Solvency II Directive. In addition, the European Commission is continuing to develop the detailed rules that will complement the high-level principles of the Solvency II Directive, referred to as 'implementing measures'. The implementing measures are not currently expected to be finalised until the Omnibus II Directive has entered into force and the implementation date of Solvency II by member states of the European Economic Area ('EEA') has been postponed from 31 October 2012 to 30 June 2013, and the application date by

companies to 1 January 2014. There is significant uncertainty regarding the timeline and final outcome of this process and we are unable to predict precisely how the regulations resulting from such initiatives and proposals could affect the insurance industry generally or our results of operations, financial condition and liquidity in particular.

Significant efforts towards establishing a more cohesive and streamlined European supervisory framework, including the establishment of the European Systemic Risk Board and the EIOPA, may also affect the Group's operations.

### *EU Insurance Guarantee Scheme*

In July 2010, the European Commission released a white paper detailing the need to establish minimum levels of protection for consumers of life and non-life insurance products in the event that insurance companies in the European Union with which they do business were to become insolvent. Though the mechanisms for providing any such protections remain under review by the European Commission, the European Parliament and the member states, the European Commission may currently be considering providing this protection by (i) mandating the creation of (or harmonisation of existing) national level insurance guarantee schemes and/or (ii) implementing an EU-wide insurance guarantee scheme, which such scheme(s) may require significant prefunding by insurance companies. As of 31 December 2012 no legislative proposal has been made at the EU level. However, the implementation of an insurance guarantee scheme requiring significant levels of prefunding (or, in the event that prefunding is not required, the occurrence of circumstances requiring the commencement of event-driven contributions) may have a material and adverse impact on the liquidity, financial condition and operations of companies engaged in the insurance business, including us.

### *Dodd-Frank Act*

On 21 July 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act ('Dodd-Frank' or 'Dodd-Frank Act') was signed into law in the United States. The Dodd-Frank Act has imposed comprehensive changes to the regulation of financial services in the United States and has implications for non-U.S. financial institutions with a U.S. presence, such as ING. Dodd-Frank directs existing and newly-created government agencies and bodies to promulgate regulations implementing the law, a process that is underway and is expected to continue over the next few years. While some studies have already been completed and the rulemaking process is well underway, there continues to be significant uncertainty regarding the results of ongoing studies and the ultimate requirements of regulations that have not yet been adopted. We cannot predict with certainty how Dodd-Frank and such regulations will affect the financial markets generally, impact the Group's business, credit or financial strength ratings, results of operations, cash flows or financial condition or advise or require the Group to raise additional capital. Key aspects of Dodd-Frank that we have identified to date as possibly having an impact on the Group include:

- The Financial Stability Oversight Council ('FSOC') may designate the Group as a nonbank financial company whose material financial distress, or whose nature, scope, size, scale, concentration, interconnectedness or mix of activities, could pose a threat to the financial stability of the United States. In such an instance, the Group would become subject to the oversight of the Board of Governors of the Federal Reserve System ('Federal Reserve'). If the Group becomes subject to such examination, enforcement and supervisory authority of the Federal Reserve, the Federal Reserve would have authority to impose capital requirements on the Group and its subsidiaries. The Group cannot predict what capital regulations the Federal Reserve will promulgate under these authorisations, either generally or as applicable to organisations with the Group's operations, nor can management predict how the Federal Reserve will exercise potential general supervisory authority over the Group as to its business practices or those of its subsidiaries. If designated as systemically important by the FSOC, the Group would become subject to a comprehensive system of stricter prudential standards, including stricter requirements and limitations relating to risk-based capital, leverage, liquidity and credit exposure, as well as overall risk management requirements, management interlock prohibitions and a requirement to maintain a plan for rapid and orderly dissolution in the event of severe financial distress. The Group may become subject to stress tests to be promulgated by the Federal Reserve in consultation with the Federal Insurance Office (discussed below) to determine whether, on a consolidated basis, the Group has the capital necessary to absorb losses as a result of adverse economic conditions. We cannot predict how the stress tests will be designed or conducted or whether the results thereof will cause the Group to alter its business practices or affect the perceptions of regulators, rating agencies, customers, counterparties or investors about the Group's financial strength. The FSOC may also recommend that state insurance regulators or other regulators apply new or heightened standards and safeguards for activities or practices that the Group and other insurers or other financial services companies engage in.
- Title II of Dodd-Frank provides that a financial company, such as us, may be subject to a special orderly liquidation process outside the federal bankruptcy code, administered by the Federal Deposit Insurance Corporation ('FDIC') as receiver, upon a determination that the company is in default or in danger of default and presents a systemic risk to U.S. financial stability. We cannot predict how ratings agencies or creditors of us or our subsidiaries will evaluate this potential risk or whether it will impact our financing or hedging costs.
- Title VII of Dodd-Frank creates a new framework for regulation of the over-the-counter derivatives markets and certain market participants which could affect various activities of the Group and its subsidiaries. New margin and capital requirements on market participants contained in final regulations adopted by the U.S. Commodity Futures Trading Commission ('CFTC') could substantially increase the cost of hedging and related operations, affect the profitability of our products or their attractiveness to our customers, or cause us to alter our hedging strategy or change the composition of risks we do not hedge.
- Under Title VII of the Dodd-Frank Act, the CFTC has promulgated requirements for recordkeeping and reporting of swap transactions to swap data repositories. The rules require swap counterparties and underlying reference entities to be identified by a legal entity identifier ('LEI'). Recognizing that the rules will come into effect prior to the availability of global LEIs, the CFTC has mandated the use of interim entity identifiers called CFTC Interim Compliant Identifier ('CICI'). In the event that we are unable to obtain a CICI and implement it into our system we may be limited in our ability to engage in hedging transactions.

## Risk factors continued

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- Pursuant to requirements of the Dodd-Frank Act, the SEC and CFTC are currently considering whether stable value contracts should be regulated as 'swap' derivative contracts. In the event that stable value contracts become subject to such regulation, certain aspects of our business could be adversely impacted, including issuance of stable value contracts and management of assets pursuant to stable value mandates.
- Dodd-Frank established the Federal Insurance Office ('FIO') within the United States Department of the Treasury ('Treasury Department') to be headed by a director appointed by the Secretary of the Treasury Department. While not having a general supervisory or regulatory authority over the business of insurance, the director of this office would perform various functions with respect to insurance (other than health insurance), including participating in the FSOC's decisions regarding insurers (potentially including the Group and its subsidiaries), to be designated for stricter regulation. The FIO may recommend enhanced regulations to state insurance regulatory bodies.
- Dodd-Frank also established the Consumer Financial Protection Bureau ('CFPB') as an independent agency within the Federal Reserve to regulate consumer financial products and services offered primarily for personal, family or household purposes. The CFPB will have significant authority to implement and enforce federal consumer financial laws, including the new protections established under Dodd-Frank, as well as the authority to identify and prohibit unfair and deceptive acts and practices. In addition, the CFPB will have broad supervisory, examination and enforcement authority over certain consumer products, such as mortgage lending. Insurance products and services are not within the CFPB's general jurisdiction, and broker-dealers and investment advisers are not subject to the CFPB's jurisdiction when acting in their registered capacity.
- Dodd-Frank also includes various securities law reforms that may affect the Group's business practices and the liabilities and/or exposures associated therewith, including a provision intended to authorise the SEC to impose on broker-dealers fiduciary duties to their customers, as applies to investment advisers under existing law, which new standard could potentially expose certain of ING's U.S. broker-dealers to increased risk of SEC enforcement actions and liability. The SEC staff released a study on this issue.
- Dodd-Frank could result in various ex-post assessments being imposed on us, the costs of which we are unable to estimate at this time.

Although the full impact of Dodd-Frank cannot be determined until the various studies mandated by the law are conducted and implementing regulations are adopted, many of the legislation's requirements could have profound and/or adverse consequences for the financial services industry, including for us. Dodd-Frank could make it more expensive for us to conduct business, require us to make changes to our business model or satisfy increased capital requirements, subject us to greater regulatory scrutiny or to potential increases in whistleblower claims in light of the increased awards available to whistleblowers under Dodd-Frank and have a material effect on our results of operations or financial condition.

### *Foreign Account Tax Compliance Act*

Under the Foreign Account Tax Compliance Act ('FATCA'), U.S. federal tax legislation passed in 2010, a 30% withholding tax will be imposed on 'withholdable payments' made to non-U.S. financial institutions (including non-U.S. investment funds and certain other non-U.S. financial entities) that fail (or, in some cases, that have 50% affiliates which are also non-U.S. financial institutions that fail) to provide certain information regarding their U.S. accountholders and/or certain U.S. investors (such as U.S. accountholders and U.S. investors, 'U.S. accountholders') to the U.S. Internal Revenue Service ('IRS'). For non-U.S. financial institutions that fail to comply, this withholding will generally apply without regard to whether the beneficial owner of a withholdable payment is a U.S. person or would otherwise be entitled to an exemption from U.S. federal withholding tax. 'Withholdable payments' generally include, among other items, payments of U.S.-source interest and dividends and the gross proceeds from the sale or other disposition of property that may produce U.S.-source interest and dividends. Furthermore, FATCA may also impose withholding on non-U.S. source payments by non-U.S. financial institutions that comply with FATCA to non-U.S. financial institutions that fail to comply with FATCA. This withholding will take effect on a 'phased' schedule, starting in January 2014 with withholding on non-U.S. source payments by non-U.S. financial institutions to start no earlier than January 2017. In general, non-publicly traded debt and equity interests in investment vehicles will be treated as 'accounts' and subject to these reporting requirements. In addition, certain insurance policies and annuities are considered accounts for these purposes.

Some countries have entered into, and other countries are expected to enter into, agreements ('intergovernmental agreements' or 'IGAs') with the United States to facilitate the type of information reporting required under FATCA. While the existence of IGAs will not eliminate the risk of the withholding described above, these agreements are expected to reduce that risk for financial institutions and investors in countries that have entered into IGAs. IGAs will often require financial institutions in those countries to report some information on their U.S. accountholders to the taxing authorities of those countries, who will then pass the information to the IRS.

The Group closely monitors all present and new legislation that is or will be applicable for its organisation, and is currently investigating all implications of FATCA and legislation of countries that have entered into IGAs. While investigating these implications, the Group is and will be in close contact with all of its stakeholders, including its peers and financial industry representative organisations.

The Group intends to take all necessary steps to comply with FATCA (including entering into such agreements with the U.S. tax authorities as may be required), in accordance with the timeframe set by the U.S. tax authorities. However, if the Group cannot enter into such agreements or satisfy the requirements thereunder (including as a result of local laws in non-IGA countries prohibiting information-sharing with the IRS, as a result of contracts or local laws prohibiting withholding on certain payments to accountholders, policyholders, annuitants or other investors, or as a result of the failure of accountholders, policyholders, annuitants or other investors to provide requested information), certain payments to the Group may be subject to withholding under FATCA. The possibility of such withholding and the need for accountholders, policyholders, annuitants and investors to provide certain information may adversely affect the sales of

## Risk factors continued

certain of the Group's products. In addition, entering into agreements with the IRS compliance with the terms of such agreements and with FATCA any regulations or other guidance promulgated thereunder or any legislation promulgated under an IGA may substantially increase the Group's compliance costs. Because legislation and regulations implementing FATCA and the IGAs remain under development, the future impact of this law on the Group is uncertain.

### *Dutch Intervention Act*

In June 2012, the 'Intervention Act' (Wet bijzondere maatregelen financiële ondernemingen) came into force in the Netherlands, with retroactive effect from 20 January 2012. The Intervention Act mainly amends the Dutch Financial Supervision Act and the Dutch Insolvency Act and allows Dutch authorities to take certain actions when banks and insurers fail and cannot be wound up under ordinary insolvency rules due to concerns regarding the stability of the overall financial system. It is composed of two categories of measures. The first category includes measures related to the timely and efficient liquidation of failing banks and insurers and would give the DNB the power to transfer customer deposits (only in the case of banks), assets and/or liabilities other than deposits and issued shares of an entity to third parties or to a bridge bank if the DNB deems that, in respect of the relevant bank or insurance company, there are signs of an adverse development with respect to its funds, solvency, liquidity or technical provisions and it can be reasonably foreseen that such development will not be sufficiently or timely reversed. The DNB would also be granted the power to influence the internal decision-making of failing institutions through the appointment of an 'undisclosed administrator'. The second category includes measures intended to safeguard the stability of the financial system as a whole and grants the authority to the Minister of Finance to take immediate measures or proceed to expropriation of assets of or shares in the capital of failing financial institutions. For example, on 1 February 2013, the Dutch State nationalised the SNS Reaal bank and insurance group ('SNS Reaal') by expropriating shares, core tier 1 securities and other subordinated debts issued by SNS Reaal. The Dutch Ministry of Finance has stated that it will impose in 2014 an aggregate EUR 1 billion one-time levy on Dutch banks, including ING Bank, to share the costs of the SNS Reaal nationalisation. Based on the currently available information, this is estimated to result in a charge of EUR 300-350 million for us. Currently, there is a debate in the Netherlands on the effectiveness of the legal regime, which may result in an implementation of more onerous legislation and/or regulations. The future form, amount and timing of the levy, and its future impact on us, our operations and our financial position, remain unclear.

The Intervention Act also includes measures that limit the ability of counterparties to exercise their rights after any of the measures mentioned above has been put into place, with certain exceptions. Also in June 2012, the European Commission published a proposal for a Directive establishing a framework for the recovery and resolution of credit institutions and investment firms ('Recovery and Resolution Directive'), which includes, among other things, the obligation for institutions to draw up a recovery plan and the obligation for resolution authorities in the member states to draw up a resolution plan, early intervention measures and a European System of financing arrangements.

A few provisions of the Intervention Act, including the provision with respect to the future financing of the deposit guarantee and the investor compensation scheme, have not yet come into force and there are certain differences between the provisions of the Intervention Act and the Recovery and Resolution Directive proposal, which may further bring out future changes in the law. We are unable to predict what specific effects the Intervention Act and the future adoption of the Recovery and Resolution Directive may have on the financial system generally, our counterparties, or on us, our operations or our financial position.

ING Bank has set up an all-encompassing recovery planning process to enhance its readiness and decisiveness to tackle financial crises on its own strength. ING Bank's recovery plan has been submitted to and approved by the DNB in November 2012. 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, end 2013, provided by DNB.

The Financial Stability Board In addition to the adoption of the foregoing measures, regulators and lawmakers around the world are actively reviewing the causes of the financial crisis and exploring steps to avoid similar problems in the future. In many respects, this work is being led by the FSB, consisting of representatives of national financial authorities of the G20 nations. The G20 and the FSB have issued a series of papers and recommendations intended to produce significant changes in how financial companies, particularly companies that are members of large and complex financial groups, should be regulated. These proposals address such issues as financial group supervision, capital and solvency standards, systemic economic risk, corporate governance including executive compensation, and a host of related issues associated with responses to the financial crisis. The lawmakers and regulatory authorities in a number of jurisdictions in which the Group's subsidiaries conduct business have already begun introducing legislative and regulatory changes consistent with G20 and FSB recommendations, and the potential impact of such changes on our business, results of operation and financial condition remains unclear.

### *Additional Governmental Measures*

Governments in the Netherlands and abroad have also intervened over the past few years on an unprecedented scale, responding to stresses experienced in the global financial markets. Some of the measures adopted subject us and other institutions for which they were designed to additional restrictions, oversight or costs. For restrictions related to the Core Tier 1 Securities and the IABF, see 'Risks related to the Restructuring Plan — Our agreements with the Dutch State impose certain restrictions regarding the issuance or repurchase of our shares and the compensation of certain senior management positions'. As a result of having received state aid through the Dutch State Transactions, we were required to submit our Restructuring Plan to the EC in connection with obtaining final approval for the Dutch State

## Risk factors continued

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Transactions. See 'Risks related to the Restructuring Plan — The implementation of the Restructuring Plan and the divestments anticipated in connection with that plan will significantly alter the size and structure of the Group and involve significant costs and uncertainties that could materially impact the Group'.

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.

On 14 February 2013, the European Commission adopted a proposal setting out the details of the financial transaction tax, which mirrors the scope of its original proposal of September 2011, to be levied on transactions in financial instruments by financial institutions if at least one of the parties to the transaction is located in the 'FTT-zone', currently limited to 11 participating member states (Austria, Belgium, Estonia, France, Germany, Greece, Italy, Portugal, Slovakia, Slovenia and Spain). The adopted proposal foresees the financial transaction tax for the 11 participating member states entering into effect on 1 January 2014, which would then require us to pay a tax on transactions in financial instruments with parties (including Group affiliates) located in such FTT-zone. The actual implementation date would depend on the future approval by the European Council and consultation of other EU institutions, and the subsequent transposition into local law. Furthermore, the Dutch Parliament passed a bill on bank tax, which went into effect as of 1 October 2012. This tax results in increased taxes on ING's Banking operations, which could negatively impact our operations, financial condition and liquidity. [In addition, it is possible that the United States Congress may adopt a form of 'financial crisis responsibility' fee and tax on banks and other financial firms to mitigate costs to taxpayers of various government programs established to address the financial crisis and to offset the costs of potential future crises. The Obama Administration's 2013 revenue proposals include such a fee. Any regulations resulting from these financial transaction tax initiatives and proposals could affect our operational results, financial condition and liquidity, and could negatively impact the costs and scope of our transactions, including transactions with other financial institutions.

In May 2012, the International Association of Insurance Supervisors ('IAIS'), of which the DNB is a member, published a proposed assessment methodology for designating global systemically important insurers ('G-SIIs'), as part of the global initiative to identify G-SIFIs. Insurers identified as G-SIIs would be subject to additional policy measures. IAIS stated that the proposed policy measures released in October 2012, as endorsed for consultation by the FSB will be finalised at the same time as the first group of G-SIIs is identified. The initial list of G-SIIs is expected to be published by the FSB in April 2013, with annual updates thereafter. The proposed policy measures, which would need to be implemented by legislation or regulation in relevant jurisdictions, include higher capital requirements (both for non-traditional and non-insurance activities and for G-SIIs overall), enhanced supervision (including more detailed and frequent reporting, removal of barriers to orderly resolution of the G-SII and reduction of the G-SII's systemic risk over time), as well as additional measures to improve the degree of self-sufficiency of a G-SII's different business segments (including separate legal structures for traditional insurance and non-traditional or non-insurance activities, and restrictions on intercompany subsidies). If ING were identified as a G-SII, compliance costs will increase and its competitive position relative to other life insurers that were not designated as G-SIIs may be adversely affected.

### **Continued turbulence and volatility in the financial markets and the economy generally have adversely affected and may continue to affect our business and results of operations.**

#### **General**

Our business and results of operations are materially affected by conditions in the global capital markets and the economy generally. Concerns over the slow economic recovery, the European sovereign debt crisis, the ability of certain countries to remain in the Eurozone, unemployment, the availability and cost of credit, the level of U.S. national debt and the U.S. housing market, inflation levels, energy costs and geopolitical issues all have contributed to increased volatility and diminished expectations for the economy and the markets in recent years.

While certain of such conditions have improved over 2011 and 2012, these conditions have generally resulted in greater volatility, widening of credit spreads and overall shortage of liquidity and tightening of financial markets throughout the world. In addition, prices for many types of asset-backed securities ('ABS') and other structured products have significantly deteriorated. These concerns have since expanded to include a broad range of fixed income securities, including those rated investment grade and especially the sovereign debt of some EEA countries and the United States, the international credit and interbank money markets generally, and a wide range of financial institutions and markets, asset classes, such as public and private equity, and real estate sectors. As a result of these and other factors, sovereign governments across the globe, including in regions where the Group operates, have also experienced budgetary and other financial difficulties, which have resulted in austerity measures, downgrades in credit rating by credit agencies, planned or implemented bail-out measures and, on occasion, civil unrest (for further details regarding sovereign debt concerns, see ' – U.S. Sovereign Credit Rating' and ' – European Sovereign Debt Crisis' below). As a result, the market for fixed income instruments has experienced decreased liquidity, increased price volatility, credit downgrade events, and increased probability of default. In addition, the confluence of these and other factors has resulted in volatile foreign exchange markets. Securities that are less liquid are more difficult to value and may be hard to dispose of.

International equity markets have also been experiencing heightened volatility and turmoil, with issuers, including ourselves, that have exposure to the real estate, mortgage, private equity and credit markets particularly affected. These events and market upheavals, including extreme levels of volatility, have had and may continue to have an adverse effect on our revenues and results of operations, in part because we have a large investment portfolio and extensive real estate activities around the world. In addition, the confidence of customers in financial institutions is being tested. Consumer confidence in financial institutions may, for example, decrease due to our or our competitors' failure to communicate to customers the terms of, and the benefits to customers of, complex or high-fee financial products. Reduced confidence could have an adverse effect on our revenues and results of operations, including through an increase of lapses or surrenders of policies and withdrawal of deposits. Because a significant percentage of our customer deposit base is originated via Internet banking, a loss of customer confidence may result in a rapid withdrawal of deposits over the Internet.

As a result of the ongoing and unprecedented volatility in the global financial markets since 2007, we incurred in past years substantial negative revaluations and impairments on our investment portfolio, which have impacted our shareholders' equity and earnings. During 2010, 2011 and 2012 the revaluation reserve position improved substantially, positively impacting shareholders' equity. Although we believe that reserves for insurance liabilities are generally adequate at the Group, inadequacies in certain product areas have developed. The aforementioned developments in the global financial markets and in particular the decreasing interest rates resulted in a decrease in our overall reserves adequacy and may further continue to produce reserves inadequacies in the future, potentially leading to reserve strengthening.

The aforementioned impacts have arisen primarily as a result of valuation and impairment issues arising in connection with our investments in real estate (both in and outside the U.S.) and private equity, exposures to European sovereign debt and to U.S. mortgage-related structured investment products, including sub-prime and Alt-A Residential and Commercial Mortgage-Backed Securities ('RMBS' and 'CMBS', respectively), Collateralised Debt Obligations ('CDOs') and Collateralised Loan Obligations ('CLOs'), monoline insurer guarantees, private equity and other investments. In many cases, the markets for investments and instruments have been and remain highly illiquid, and issues relating to counterparty credit ratings and other factors have exacerbated pricing and valuation uncertainties. Valuation of such investments and instruments is a complex process involving the consideration of market transactions, pricing models, management judgment and other factors, and is also impacted by external factors such as underlying mortgage default rates, interest rates, rating agency actions and property valuations. We continue to monitor our exposures, however there can be no assurances that we will not experience further negative impacts to our shareholders' equity or profit and loss accounts in future periods.

### *U.S. Sovereign Credit Rating*

After a period of uncertainty as to whether U.S. lawmakers would be able to reach the political consensus needed to raise the federal debt ceiling, and notwithstanding that U.S. lawmakers passed legislation to raise the federal debt ceiling before the U.S. actually defaulted on any of its obligations, in 2011, Standard & Poor's Ratings Group, Inc. ('S&P') lowered its long-term sovereign credit rating on the United States of America from AAA to AA+. Although other ratings agencies have not similarly lowered the long term sovereign credit rating of the United States of America, they have put that credit rating on review. Amid the lingering uncertainty over the future economic performance of the U.S. within the global economy and potential future budgetary restrictions in the U.S., there continues to be a perceived risk of a future sovereign credit ratings downgrade of the U.S. government, including the rating of U.S. Treasury securities. It is foreseeable that the ratings and perceived creditworthiness of instruments issued, insured or guaranteed by institutions, agencies or instrumentalities directly linked to the U.S. government could also be correspondingly affected by any such downgrade. Instruments of this nature are key assets on the balance sheets of financial institutions and are widely used as collateral by financial institutions to meet their day-to-day cash flows in the short-term debt market. A downgrade of the sovereign credit ratings of the U.S. government and the perceived creditworthiness of U.S. government-related obligations could impact our ability to obtain funding that is collateralised by affected instruments, as well as affecting the pricing of that funding when it is available. A downgrade may also adversely affect the market value of such instruments. We cannot predict if, when or how any changes to the credit ratings or perceived creditworthiness of these organisations will affect economic conditions. Such ratings actions could result in a significant adverse impact to the Group.

### *European Sovereign Debt Crisis*

In 2010, a financial crisis emerged in Europe, triggered by high budget deficits and rising direct and contingent sovereign debt in Greece, Ireland, Italy, Portugal and Spain, which created concerns about the ability of these EU 'peripheral' states to continue to service their sovereign debt obligations. Significant concerns regarding the sovereign debt of these countries, as well as certain other countries, of the 'core' European Union member states are ongoing and in some cases have required countries to obtain emergency financing. These concerns impacted financial markets and resulted in high and volatile bond yields on the sovereign debt of many EU nations. If these or other countries require additional financial support or if sovereign credit ratings continue to decline, yields on the sovereign debt of certain countries may continue to increase, the cost of borrowing may increase and credit may become more limited. Despite assistance packages to Greece, Ireland and Portugal, the creation of a joint EU-IMF European Financial Stability Facility in May 2010, the approval of further bailout of Greece by the relevant government and monetary bodies of the Eurozone and the International Monetary Fund in March 2012, and the establishment of the European Stability Mechanism on 27 September 2012 (which provided its first financial assistance in February 2013 for the recapitalisation of Spain's banking sector), uncertainty over the outcome of the EU governments' financial support programs and worries about sovereign finances persisted during the course of 2012. Market concerns over the direct and indirect exposure of European banks and insurers to the EU sovereign debt further resulted in a widening of credit spreads and increased costs of funding for some European financial institutions. In December 2011, European leaders agreed to implement steps (and continue to meet regularly to review, amend and supplement such steps) to encourage greater long-term fiscal responsibility on the part of the individual member states

## Risk factors continued

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and bolster market confidence in the Euro and European sovereign debt, and the Treaty of Stability, Coordination and Governance ('Fiscal Treaty') was signed by 25 EU member states on 2 March 2012; however, such proposed steps are subject to final agreement (and in some cases, ratification and/or other approvals) by the European Union member states that are party to such arrangements and thus the implementation of such steps in their currently-contemplated form remains uncertain, and even if such steps are implemented, there is no guarantee that they will ultimately and finally resolve uncertainties regarding the ability of Eurozone states to continue to service their sovereign debt obligations. Further, even if such long-term structural adjustments are ultimately implemented, the future of the Euro in its current form, and with its current membership, remains uncertain. The financial turmoil in Europe continues to be a threat to global capital markets and remains a challenge to global financial stability.

Risks and ongoing concerns about the debt crisis in Europe, as well as the possible default by, or 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 and other financial institutions, including us. Additionally, the possibility of capital market volatility spreading through a highly integrated and interdependent banking system remains elevated. In the event of any default or similar event with respect to a sovereign issuer, some financial institutions may suffer significant losses for which they would require additional capital, which may not be available. Market and economic disruptions stemming from the crisis in Europe have affected, and may continue to affect, consumer confidence levels and spending, bankruptcy rates, levels of incurrence of and default on consumer debt and home prices, among other factors. There can be no assurance that the market disruptions in Europe, including the increased cost of funding for certain government and financial institutions, will not spread, nor can there be any assurance that future assistance packages will be available or, even if provided, will be sufficient to stabilise the affected countries and markets in Europe or elsewhere. To the extent uncertainty regarding the economic recovery continues to negatively impact consumer confidence and consumer credit factors, our business and results of operations could be significantly and adversely impacted. In addition, 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 create significant uncertainties regarding the enforceability and valuation of Euro denominated contracts to which we (or our counterparties) are a party and thereby materially and adversely affect our and/or our counterparties' liquidity, financial condition and operations. Such uncertainties may include the risk that (i) an obligation that was expected to be paid in Euros is redenominated into a new currency (which may not be easily converted into other currencies without significant cost), (ii) currencies in some European Union member states may devalue relative to others, (iii) former Eurozone member states may impose capital controls that would make it complicated or illegal to move capital out of such countries, and/or (iv) some courts (in particular, courts in countries that have left the Eurozone) may not recognise and/or enforce claims denominated in Euros (and/or in any replacement currency). 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 also cause other significant market dislocations and lead to other adverse economic and operational impacts that are inherently difficult to predict or evaluate, and otherwise have potentially materially adverse impacts on us and our counterparties, including our depositors, lenders, borrowers and other customers. These factors, combined with volatile oil prices, reduced business and consumer confidence and continued high unemployment, have negatively affected the economy of main geographic regions where we conduct our business. Our results of operations, investment portfolio and AUM are exposed to these risks and may be adversely affected as a result. In addition, in the event of extreme prolonged market events, such as the recent global credit crisis, we could incur significant losses.

On 13 January 2012, S&P proceeded to downgrade the credit ratings of France, Austria, Italy, Spain, Portugal and a handful of other EEA states (while reaffirming the credit ratings of Germany, the Netherlands, Ireland and other EEA states and changed the outlook to 'negative' for 15 Eurozone countries). Further related downgrades of European sovereign ratings and of corporate ratings have occurred since that date, including the downgrade of Greece's sovereign credit rating to 'selective default' by S&P on 27 February 2012 as a result of a debt restructuring that is expected to impose significant losses on private creditors (including ING) and Fitch Ratings Ltd.'s downgrade of Spain's sovereign credit rating from A to BBB on 7 June 2012. Moody's also followed S&P's steps in downgrading France's credit rating in November 2012. These announcements, as well as any further future downgrades, could negatively affect borrowing costs of the affected entities, increase overall economic volatility, and affect the operation of our businesses.

### **Because we operate in highly competitive markets, including our home market, we may not be able to increase or maintain our market share, which may have an adverse effect on our results of operations.**

There is substantial competition in the Netherlands and the other countries in which we do business for the types of insurance, commercial banking, investment banking, asset management and other products and services we provide. Customer loyalty and retention can be influenced by a number of factors, including brand recognition, reputation, relative service levels, investment performance of our products, the prices and attributes of products and services, scope of distribution, perceived financial strength, credit ratings and actions taken by competitors. A decline in our competitive position as to one or more of these factors could adversely impact our ability to maintain or further increase our market share, which would adversely affect our results of operations. Such competition is most pronounced in our more mature markets of the Netherlands, Belgium, the rest of Western Europe, the United States and Australia. In recent years, however, competition in emerging markets, such as Latin America, Asia and Central and Eastern Europe, has also increased as large financial services companies from more developed countries have sought to establish themselves in markets which are perceived to offer higher growth potential, and as local institutions have become more sophisticated and competitive and have sought alliances, mergers or strategic relationships with our competitors. The Netherlands and the United States are our largest markets. Our main competitors in the banking sector in the Netherlands are ABN AMRO Bank and Rabobank. Our main competitors in the insurance sector in the Netherlands are Achmea, ASR, Delta Lloyd and Aegon. Our main competitors in the United States are insurance companies such as Lincoln National, Hartford, Aegon Americas, AXA, Met Life, Prudential, Nationwide and Principal Financial. Competition could also increase due to new

entrants in the markets that may have new operating models that are not burdened by potentially costly legacy operations. Increasing competition in these or any of our other markets may significantly impact our results if we are unable to match the products and services offered by our competitors. Future economic turmoil may accelerate additional consolidation activity. Over time, certain sectors of the financial services industry have become more concentrated, as institutions involved in a broad range of financial services have been acquired by or merged into other firms or have declared bankruptcy. These developments could result in our competitors gaining greater access to capital and liquidity, expanding their ranges of products and services, or gaining geographic diversity. We may experience pricing pressures as a result of these factors in the event that some of our competitors seek to increase market share by reducing prices. In addition, under the Restructuring Plan we were required to agree to certain restrictions imposed by the EC, including with respect to our price leadership in EU banking markets and our ability to make acquisitions of financial institutions and other businesses. See 'Risks related to the Restructuring Plan — The limitations required by the EC on our ability to compete and to make acquisitions or call certain debt instruments could materially impact the Group'. Furthermore, if our financial strength and credit ratings are lower than those of our competitors, we may experience increased surrenders and/or a significant decline in sales of insurance and annuities products. Due to the competitive nature of the financial services industry, there can be no assurance that we will continue to effectively compete within the industry or that competition will not have a material adverse impact on our business, results of operations and financial conditions.

### **Because we do business with many counterparties, the inability of these counterparties to meet their financial obligations could have a material adverse effect on our results of operations.**

#### **General**

Third parties that owe us money, securities or other assets may not pay or perform under their obligations. These parties include the issuers and guarantors (including sovereigns) of securities we hold, borrowers under loans originated, customers, trading counterparties, counterparties under swaps, credit default and other derivative contracts, clearing agents, exchanges, clearing houses and other financial intermediaries. Severe distress or defaults by one or more of these parties on their obligations to us due to bankruptcy, lack of liquidity, downturns in the economy or real estate values, operational failure or other factors, or even rumours about potential severe distress or defaults by one or more of these parties or regarding the financial services industry generally, could lead to losses for us, and defaults by other institutions. In light of experiences with significant constraints on liquidity and high cost of funds in the interbank lending market, and given the high level of interdependence between financial institutions, we are and will continue to be subject to the risk of deterioration of the commercial and financial soundness, or perceived soundness, of sovereigns and other financial services institutions. This is particularly relevant to our franchise as an important and large counterparty in equity, fixed-income and foreign exchange markets, including related derivatives, which exposes it to concentration risk.

We routinely execute a high volume of transactions with counterparties in the financial services industry, including brokers and dealers, commercial banks, investment banks, mutual and hedge funds, insurance companies and other institutional clients, resulting in large daily settlement amounts and significant credit exposure. As a result, we face concentration risk with respect to specific counterparties and customers. We are exposed to increased counterparty risk as a result of recent financial institution failures and weakness and will continue to be exposed to the risk of loss if counterparty financial institutions fail or are otherwise unable to meet their obligations. A default by, or even concerns about the creditworthiness of, one or more financial services institutions could therefore lead to further significant systemic liquidity problems, or losses or defaults by other financial institutions.

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

In addition, we are subject to the risk that our rights against third parties may not be enforceable in all circumstances. The deterioration or perceived deterioration in the credit quality of third parties whose securities or obligations we hold could result in losses and/or adversely affect our ability to rehypothecate or otherwise use those securities or obligations for liquidity purposes. A significant downgrade in the credit ratings of our counterparties could also have a negative impact on our income and risk weighting, leading to increased capital requirements. While in many cases we are permitted to require additional collateral from counterparties that experience financial difficulty, disputes may arise as to the amount of collateral we are entitled to receive and the value of pledged assets. Our credit risk may also be exacerbated when the collateral we hold cannot be realised or is liquidated at prices not sufficient to recover the full amount of the loan or derivative exposure that is due to us, which is most likely to occur during periods of illiquidity and depressed asset valuations, such as those experienced during the recent financial crisis. The termination of contracts and the foreclosure on collateral may subject us to claims for the improper exercise of our rights under such contracts. Bankruptcies, downgrades and disputes with counterparties as to the valuation of collateral tend to increase in times of market stress and illiquidity.

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

### Reinsurers

Our insurance operations have bought protection for risks that exceed certain risk tolerance levels set for both our life and non-life businesses. This protection is bought through reinsurance arrangements in order to reduce possible losses. However, we remain liable to the underlying policyholders, even if the reinsurer defaults on its obligations. Because in most cases we must pay the policyholders first, and then collect from the reinsurer, we are subject to credit risk with respect to each reinsurer for all such amounts. As a percentage of our net reinsurance exposure as of 31 December 2012, the greatest exposure after collateral to an individual external reinsurer was approximately 19%, approximately 46% related to four other external reinsurers and the remainder of the reinsurance exposure related to various other reinsurers. The inability or unwillingness of any one of these reinsurers to meet its financial obligations to us, or the insolvency of our reinsurers, could have a material adverse effect on our net results and our financial results.

### **Market conditions observed over the past few years may increase the risk of loans being impaired. We are exposed to declining property values on the collateral supporting residential and commercial real estate lending.**

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

Economic and other factors could lead to further contraction in the residential mortgage and commercial lending market and to further decreases in residential and commercial property prices which could generate substantial increases in impairment losses.

### **Interest rate volatility and other interest rate changes may adversely affect our profitability.**

Changes in prevailing interest rates may negatively affect our business including the level of net interest revenue we earn, and for our banking business the levels of deposits and the demand for loans. In a period of changing interest rates, interest expense may increase and interest credited to policyholders may change at different rates than the interest earned on assets. Accordingly, changes in interest rates could decrease net interest revenue. Central banks around the world, including the European Central Bank, the Bank of England, the Bank of Japan, the Bank of Australia, the Central Bank of Brazil and the Central Bank of China, followed the actions of the Federal Reserve to lower interest rate in 2012, in response to concerns about Europe's sovereign debt crisis and slowing global economic growth. Changes in the interest rates may negatively affect the value of our assets and our ability to realise gains or avoid losses from the sale of those assets, all of which also ultimately affect earnings. In addition, our insurance and annuity products and certain of our retirement and investment products are sensitive to inflation rate fluctuations. A sustained increase in the inflation rate in our principal markets may also negatively affect our business, financial condition and results of operation. For example, a sustained increase in the inflation rate may result in an increase in nominal market interest rates. A failure to accurately anticipate higher inflation and factor it into our product pricing assumptions may result in mispricing of our products, which could materially and adversely impact our results of operations.

Declining interest rates may result in:

- life insurance and annuity products being relatively more attractive to consumers due to minimum guarantees with respect to such products that are frequently mandated by regulators;
- increased premium payments on products with flexible premium features;
- a higher percentage of insurance and annuity contracts remaining in force from year-to-year than we anticipated in our pricing, potentially resulting in greater claims costs than we expected and creating asset liability cash flow mismatches;
- additional provisions for guarantees included in life insurance and annuity contracts, as the guarantees become more valuable to policyholders;
- lower investment earnings because the interest earnings on our fixed income investments will likely have declined in parallel with market interest rates on our assets recorded at fair value;
- reserve strengthening by affecting the results of our reserve adequacy testing;
- higher prepayment or redemption of mortgages and fixed maturity securities in our investment portfolios as borrowers seek to borrow at lower interest rates. Consequently, we may be required to reinvest the proceeds in securities bearing lower interest rates;
- lower profitability as the result of a decrease in the spread between interest rates charged to policyholders and returns on our investment portfolios;
- higher costs for certain derivative instruments that may be used to hedge certain of our product risks; and/or
- lower profitability since we may not be able to fully track the decline in interest rates in our savings rate.

Accordingly, during periods of declining interest rates, our profitability may suffer as the result of a decrease in the spread between interest rates credited to insurance policyholders and annuity contract owners. An extended period of declining interest rates may also cause us to change our long-term view of the interest rates that we can earn on our investments. In addition, certain statutory capital and reserve requirements are based on formulas and models that consider interest rates, and an extended period of low interest rates may increase the statutory capital we are required to hold and the amount of assets we must maintain to support statutory reserves.

## Risk factors continued

Rapidly increasing interest rates may result in:

- decrease the demand for loans;
- increase in policy loans, and withdrawals from and/or surrenders of life insurance policies and fixed annuity contracts as policyholders choose to forego insurance protection and seek higher investment returns. Obtaining cash to satisfy these obligations may require us to liquidate fixed maturity investments at a time when market prices for those assets are depressed because of increases in interest rates. This may result in realised investment losses. Regardless of whether we realise an investment loss, these cash payments would result in a decrease in total invested assets, and may decrease our net income. Premature withdrawals may also cause us to accelerate amortisation of deferred policy acquisition costs, which would also reduce our net income;
- prepayment losses if prepayment rates are lower than expected or if interest rates increase to rapidly to adjust the accompanying hedges;
- higher interest rates to be paid on debt securities we have issued or may issue on the financial markets from time to time to finance our operations, which would increase our interest expenses and reduce our results of operations;
- a material adverse effect on the value of our investment portfolio by, for example, decreasing the estimated fair values of the fixed income securities within our investment portfolio;
- a significant collateral posting requirement associated with our interest rate hedge programs, which could materially and adversely affect liquidity; and/or
- decreased fee income associated with a decline in the value of variable annuity account balances invested in fixed income funds.

### **We may incur losses due to failures of banks falling under the scope of state compensation schemes.**

In the Netherlands and other jurisdictions, deposit guarantee schemes and similar funds ('Compensation Schemes') have been implemented from which compensation may become payable to customers of financial services firms in the event the financial service firm is unable to pay, or unlikely to pay, claims against it. In many jurisdictions in which we operate, these Compensation Schemes are funded, directly or indirectly, by financial services firms which operate and/or are licensed in the relevant jurisdiction. As a result of the increased number of bank failures, in particular since the fall of 2008, we expect that levies in the industry will continue to rise as a result of the Compensation Schemes. In particular, we are a participant in the Dutch Deposit Guarantee Scheme, which guarantees an amount of EUR 100,000 per person per bank (regardless of the number of accounts held). The costs involved with making compensation payments under the Dutch Deposit Guarantee Scheme are allocated among the participating banks by the DNB based on an allocation key related to their market shares with respect to the deposits protected by the Dutch Deposit Guarantee Schemes. Given our size, we may incur significant compensation payments to be made under the Dutch Deposit Guarantee Scheme, which we may be unable to recover from the bankrupt estate. The ultimate costs to the industry of payments which may become due under the Compensation Schemes remains uncertain although they may be significant and these and the associated costs to us may have a material adverse effect on our results of operations and financial condition. As of 1 July 2015, the Dutch Deposit Guarantee Scheme will change from an ex-post scheme, where we contribute after the failure of a firm, to an ex-ante scheme where we will pay risk-weighted contributions to the Dutch Deposit Guarantee Scheme. The fund is to grow to a target size of 1% of all deposits guaranteed under the Dutch Deposit Guarantee Scheme, approximately EUR 4 billion at present. The target size has to be reached in 15 years. The costs associated with potential future ex-ante contributions are today unknown and will depend on the methodology used to calculate risk-weighting, but given our size may be significant. See also '—We operate in highly regulated industries. There could be an adverse change or increase in the financial services laws and/or regulations governing our business—Dutch Intervention Act'.

## **RISKS RELATED TO THE GROUP'S BUSINESS, OPERATIONS, AND REGULATORY ENVIRONMENT**

### **We may be unable to manage our risks successfully through derivatives.**

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

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

## Risk factors continued

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

### **ING Group may be unable to retain key personnel.**

As a financial services enterprise with a decentralised management structure, ING Group relies to a considerable extent on the quality of local management in the various countries in which ING Group operates. The success of ING Group's operations is dependent, among other things, on ING Group's ability to attract and retain highly qualified professional personnel. Competition for key personnel in most countries in which ING Group operates is intense. ING Group's ability to attract and retain key personnel, in particular senior officers, experienced portfolio managers, mutual fund managers and sales executives, is dependent on a number of factors, including prevailing market conditions and compensation packages offered by companies competing for the same talent.

As a part of the responses of the European Commission and governments throughout Europe to the financial crisis in 2008, there have been and will be various legislative initiatives, including those set out in Directive 2010/76/EU (CRD III), the Guidelines on Remuneration Policies and Practices published by (the predecessor of) the European Banking Authority ('EBA') and the Regulation of the DNB on Sound Remuneration Policies (Regeling beheerst belongingsbeleid Wft 2011) and the Dutch law with respect to the limitation of liability of the DNB and AFM and the prohibition of the payment of variable remuneration to board members and day-to-day policy makers of financial institutions that receive state aid (Wet aansprakelijkheidsbeperking DNB en AFM en bonusverbod staatsgesteunde ondernemingen), to ensure that financial institutions' remuneration policies and practices are consistent with and promote sound and effective risk management, and that impose restrictions on the remuneration of personnel, in particular senior management, with a focus on risk alignment of performance-related remuneration. Since the financial crisis, ING has adopted its remuneration policies to the new national and international standards. In March 2011, ING Group's Executive Board had announced that it had decided not to accept the variable remuneration awarded to it until the remaining capital support from the Dutch state has been fully repaired. No base salary increase in relation to 2013 has been proposed and, as of 31 December 2012, the remuneration level of the Executive Board of ING Group was below the median of our EURO Stoxx 50 benchmark, which is made up of similar European financial and non-financial institutions. These restrictions will continue to have an impact on existing ING Group's remuneration policies and individual remuneration packages of personnel.

These restrictions, alone or in combination with the other factors described above, could adversely affect ING Group's ability to retain or attract qualified employees.

### **We may not be able to protect our intellectual property and may be subject to infringement claims.**

We rely on a combination of contractual rights with third parties and copyright, trademark, patent and trade secret laws to establish and protect our intellectual property. Although we endeavour to protect our rights, third parties may infringe or misappropriate our intellectual property. We may have to litigate to enforce and protect our copyrights, trademarks, patents, trade secrets and know-how or to determine their scope, validity or enforceability. This would represent a diversion of resources that may be significant and our efforts may not prove successful. The inability to secure or protect our intellectual property assets could have a material adverse effect on our business and our ability to compete.

We may also be subject to claims by third parties for (i) patent, trademark or copyright infringement, (ii) breach of copyright, trademark or license usage rights, or (iii) misappropriation of trade secrets. Any such claims and any resulting litigation could result in significant expense and liability for damages. If we were found to have infringed or misappropriated a third-party patent or other intellectual property right, we could in some circumstances be enjoined from providing certain products or services to our customers or from utilizing and benefiting from certain methods, processes, copyrights, trademarks, trade secrets or licenses. Alternatively, we could be required to enter into costly licensing arrangements with third parties or implement a costly work around. Any of these scenarios could have a material adverse effect on our business and results of operations.

### **Because we use assumptions about factors to calculate the amount of certain items, the use of different assumptions about these factors may have an adverse impact on our results of operations.**

The establishment of insurance provisions, including the impact of minimum guarantees which are contained within certain variable annuity products, the adequacy test performed on the provisions for life policies and the establishment of Deferred Acquisition Costs ('DAC') and Value of Business Acquired ('VOBA') are inherently uncertain processes involving assumptions about factors such as court decisions, changes in laws, social, economic and demographic trends, inflation, investment returns, policyholder behaviour (e.g., lapses, persistency, etc.) and other factors, and, in the life insurance business, assumptions concerning mortality, longevity and morbidity trends. The use of different assumptions about these factors could have a material effect on insurance provisions and underwriting expense. Changes in assumptions may lead to changes in the insurance provisions over time. Furthermore, some of these assumptions can be volatile.

### **Because we use assumptions to model client behaviour for the purpose of our market risk calculations, the difference between the realisation and the assumptions may have an adverse impact on the risk figures and future results.**

We use assumptions in order to model client behaviour for the risk calculations in our banking and insurance books. Assumptions are used to determine insurance liabilities, the price sensitivity of savings and current accounts and to estimate the embedded optional risk in the mortgage and investment portfolios. The realisation or use of different assumptions to determine the client behaviour could have material adverse effect on the calculated risk figures and ultimately future results.

ING Insurance has a significant exposure to the take-up of policy options by policyholders. The exposure is greatest for variable annuity business with guarantees deeply in-the-money, policyholder behaviour is difficult to predict and small changes in the proportion of policyholders taking up an option can have a significant financial impact. Furthermore, assumptions about policyholder behaviour are sometimes made for new insurance business without a substantial amount of experiential data. These assumptions may prove imperfect, which can have a material impact on results. See 'Because we use assumptions about factors to calculate the amount of certain items, the use of different assumptions about these factors may have an adverse impact on our results of operations'.

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

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

### **Our risk management policies and guidelines may prove inadequate for the risks we face.**

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

### **We are subject to a variety of regulatory risks as a result of our operations in certain countries.**

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

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

### **Because we are continually developing new financial products, we might be faced with claims that could have an adverse effect on our operations and net result if clients' expectations are not met.**

When new financial products are brought to the market, communication and marketing aims to present a balanced view of such products. Whilst we engage in a due diligence process when we develop products, if the products do not generate the expected profit, or result in a loss, or otherwise do not meet expectations, customers may file mis-selling claims against us. Mis-selling claims are claims from customers who allege that they have received misleading advice or other information from either ING internal or external advisors (even though ING does not always have full control over the external advisors). Complaints may also arise if customers feel that they have not been treated reasonably or fairly, or that the duty of care has not been complied with. While a considerable amount of time and money has been invested in reviewing and assessing historic sales practices, and in the maintenance of risk management, legal and compliance procedures to monitor current sales practices, there can be no assurance that all of the issues associated with current and historic sales practices have

## Risk factors continued

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been or will be identified, nor that any issues already identified will not be more widespread than presently estimated. The negative publicity associated with any sales practices, any compensation payable in respect of any such issues and/or regulatory changes resulting from such issues could have a material adverse effect on our reputation, operations and net result. Customer protection regulations, as well as changes in interpretation and perception by both the public at large and governmental authorities of acceptable market practices, might influence client expectations.

### **Ratings are important to our business for a number of reasons. A downgrade or a potential downgrade in our financial strength or our credit ratings could have an adverse impact on our operations and net results.**

Credit ratings represent the opinions of rating agencies regarding an entity's ability to repay its indebtedness. Our credit ratings are important to our ability to raise capital through the issuance of debt and to the cost of such financing. In the event of a downgrade the cost of issuing debt will increase, having an adverse effect on net results. Certain institutional investors may also be obliged to withdraw their deposits from ING following a downgrade, which could have an adverse effect on our liquidity. We have credit ratings from Standard & Poor's Ratings Service, Moody's Investor Service and Fitch Ratings. Each of the rating agencies reviews its ratings and rating methodologies on a recurring basis and may decide on a downgrade at any time. For example, on 15 June 2012, Moody's downgraded the long-term debt ratings of ING Groep N.V. from A1 to A3 with negative outlook and ING Bank from Aa3 to A2 with negative outlook. At the same time, Moody's took negative ratings actions with respect to a number of European-based banking organisations.

Claims-paying ability, at the Group or subsidiary level, and financial strength ratings are factors in establishing the competitive position of insurers. A rating downgrade could elevate lapses or surrenders of policies requiring cash payments by current customers seeking companies with higher financial strength ratings, which might force us to sell assets at a price that may result in realised investment losses. Among others, total invested assets decreases and deferred acquisition costs might need to be accelerated, adversely impacting earnings. Furthermore, sales of assets to meet customer withdrawal demands could also result in losses, depending on market conditions. In addition, a downgrade in either our financial strength or credit ratings could potentially, among other things, increase our borrowing costs and make it more difficult to access financing; adversely affect access to the commercial paper market or the availability of letters of credit and other financial guarantees; result in additional collateral requirements, or other required payments or termination rights under derivative contracts or other agreements; and/or impair, or cause the termination of, our relationships with creditors, broker-dealers, distributors of our products and services and customers, reinsurers or trading counterparties, which could potentially negatively affect our profitability, new sales, liquidity, capital and/or our competitive position.

Furthermore, ING Bank's assets are risk-weighted. Downgrades of these assets could result in a higher risk-weighting, which may result in higher capital requirements. This may impact net earnings and the return on capital, and may have an adverse impact on our competitive position. For ING's insurance businesses in a number of jurisdictions, such as the U.S. and the EU, downgrades of assets will similarly affect the capital requirements for ING Insurance in those jurisdictions.

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

### **Our business may be negatively affected by a sustained increase in inflation.**

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

- (1) decrease the estimated fair value of certain fixed income securities we hold in our investment portfolios resulting in:
  - reduced levels of unrealised capital gains available to us which could negatively impact our solvency position and net income, and/or
  - a decrease of collateral values,
- (2) result in increased surrenders of certain life & savings products, particularly, those with fixed rates below market rates,
- (3) require us, as an issuer of securities, to pay higher interest rates on debt securities we issue in the financial markets from time to time to finance our operations which would increase our interest expenses and reduce our results of operations, and/or
- (4) result in decreased fee income associated with a decline in the variable annuity balances invested in fixed income funds.

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

- (1) result in impairment charges to equity securities that we hold in our investment portfolios and reduced levels of unrealised capital gains available to us which would reduce our net income and negatively impact our solvency position,
- (2) negatively impact performance, future sales and surrenders of certain products where underlying investments are often allocated to equity funds,

## Risk factors continued

- (3) negatively impact the ability of our asset management subsidiaries to retain and attract assets under management, as well as the value of assets they do manage, which may negatively impact their results of operations, and/or
- (4) result in decreased fee income associated with a decline in the variable annuity balances invested in fixed income funds. In addition, in the context of certain property & casualty risks underwritten by our insurance subsidiaries (particularly 'long-tail' risks), a sustained increase in inflation with a resulting increase in market interest rates may result in (i) claims inflation (i.e., an increase in the amount ultimately paid to settle claims several years after the policy coverage period or event giving rise to the claim), coupled with (ii) an underestimation of corresponding claims reserves at the time of establishment due to a failure to fully anticipate increased inflation and its effect on the amounts ultimately payable to policyholders, and, consequently, (iii) actual claims payments significantly exceeding associated insurance reserves which would negatively impact our results of operations. In addition, a failure to accurately anticipate higher inflation and factor it into our product pricing assumptions may result in a systemic mispricing of our products resulting in underwriting losses which would negatively impact our results of operations.

### **Operational risks are inherent in our business.**

Our businesses depend on the ability to process a large number of transactions efficiently and accurately. Although we endeavour to safeguard our systems, losses can result from inadequately trained or skilled personnel, IT failures, inadequate or failed internal control processes and systems, regulatory breaches, human errors, employee misconduct including fraud, or from external events that interrupt normal business operations. We depend on the secure processing, storage and transmission of confidential and other information in our computer systems and networks. The equipment and software used in our computer systems and networks may not always be capable of processing, storing or transmitting information as expected. Despite our business continuity plans and procedures, certain of our computer systems and networks, may have insufficient recovery capabilities in the event of a malfunction or loss of data. In addition, whilst we have policies and processes to protect our systems and networks they may be vulnerable to unauthorised access, computer viruses or other malicious code and other external attacks or internal breaches that could have a security impact and jeopardise our confidential information or that of our clients or our counterparts. These events can potentially result in financial loss, harm to our reputation and hinder our operational effectiveness.

We also face the risk that the design and operating effectiveness of our controls and procedures prove to be inadequate. Widespread outbreaks of communicable diseases, such as the outbreak of the H1N1 influenza virus, may impact the health of our employees, increasing absenteeism, or may cause a significant increase in the utilisation of health benefits offered to our employees, either or both of which could adversely impact our business. Unforeseeable and/or catastrophic events can lead to an abrupt interruption of activities, and our operations may be subject to losses resulting from such disruptions. Losses can result from destruction or impairment of property, financial assets, trading positions, and the loss of key personnel. If our business continuity plans are not able to be implemented or do not sufficiently take such events into account, losses may increase further. We have suffered losses from operational risk in the past and there can be no assurance that we will not suffer material losses from operational risk in the future.

### **Reinsurance may not be available, affordable or adequate to protect us against losses. We may also decide to reduce, eliminate or decline primary insurance or reinsurance coverage.**

As part of our overall risk and capacity management strategy, we purchase reinsurance for certain risks underwritten by our various insurance business segments. Market conditions beyond our control determine the availability and cost of the reinsurance protection we purchase. Accordingly, we may be forced to incur additional expenses for reinsurance or may not be able to obtain sufficient reinsurance on acceptable terms, which could adversely affect our ability to write future business.

In addition, we determine the appropriate level of primary insurance and reinsurance coverage based on a number of factors and from time to time decide to reduce, eliminate or decline coverage based on our assessment of the costs and benefits involved. In such cases, the uninsured risk remains with us.

### **Our business may be negatively affected by adverse publicity, regulatory actions or litigation with respect to us, other well-known companies or the financial services industry in general.**

Adverse publicity and damage to our reputation arising from our failure or perceived failure to comply with legal and regulatory requirements, financial reporting irregularities involving other large and well-known companies, possible findings of government authorities in various jurisdictions which are investigating several rate setting processes, increasing regulatory and law enforcement scrutiny of 'know your customer' anti-money laundering, prohibited transactions with countries subject to sanctions, and bribery or other anti-corruption measures and anti-terrorist-financing procedures and their effectiveness, regulatory investigations of the mutual fund, banking and insurance industries, and litigation that arises from the failure or perceived failure by us to comply with legal, regulatory and compliance requirements, could result in adverse publicity and reputation harm, lead to increased regulatory supervision, affect our ability to attract and retain customers, maintain access to the capital markets, result in cease and desist orders, suits, enforcement actions, fines and civil and criminal penalties, other disciplinary action or have other material adverse effects on us in ways that are not predictable for our employees. Some of the legal proceedings may be brought on behalf of a class and plaintiffs may seek large or indeterminate amounts of damage, including compensatory, liquidated, treble and/or punitive damages. Our reserves for litigation may prove to be inadequate. It is possible that our results of operations or cash flow in a particular quarterly or annual period could be materially affected by an ultimate unfavourable resolution of pending litigation depending, in part, upon the results of operations or cash flow for such period. Given the large or indeterminate amounts sometimes sought, and the inherent unpredictability of litigation, it is also possible that in certain cases an ultimate unfavourable resolution of one or more pending litigation matters could have a material adverse effect on our financial condition.

### RISKS RELATED TO THE RESTRUCTURING PLAN

**The implementation of the Restructuring Plan and the divestments anticipated in connection with that plan will significantly alter the size and structure of the Group and involve significant costs and uncertainties that could materially impact the Group.**

In November 2008 the Dutch State purchased the Core Tier 1 Securities, and in the first quarter of 2009 we entered into the Illiquid Asset Back-up Facility ('IABF') with the Dutch State, the structure of which has been since then modified as per the Amended and Restated Illiquid Assets Back-up Facility of 13 November 2012, in connection with the sale of ING Direct U.S. in February 2012. As a result of having received state aid through the Dutch State Transactions, we were required to submit a restructuring plan to the European Commission ('EC') in connection with obtaining final approval for the Dutch State Transactions under the EC state aid rules. On 26 October 2009, we announced our restructuring plan ('Initial Restructuring Plan'), pursuant to which we were required to divest by the end of 2013 all of our insurance business, including the investment management business, as well as ING Direct U.S., which operated our direct banking business in the United States, and certain portions of our retail banking business in the Netherlands. The EC's approval of the Initial Restructuring Plan was issued on 18 November 2009. On 28 January 2010 ING lodged an appeal with the General Court of the European Union ('General Court') against specific elements of the EC's decision regarding the Initial Restructuring Plan. On 2 March 2012, the General Court partially annulled the EC's decision of 18 November 2009. Subsequently, the EC filed an appeal against the General Court's judgment before the Court of Justice of the European Union. 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 the Initial Restructuring Plan. On the same date, the EC adopted an interim decision which opened an investigation concerning certain amendments and elements of the Initial 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 the Initial Restructuring Plan.

On 19 November 2012, ING and the Dutch State announced that they reached an agreement with the EC on significant amendments to the Initial Restructuring Plan ('Amended Restructuring Plan', and together with the Initial Restructuring Plan, 'Restructuring Plan'). The Amended Restructuring Plan extended the time horizon and increased the flexibility for the completion of divestments and adjusted other commitments set forth in the Initial Restructuring Plan.

As a result of the Amended Restructuring Plan, the EC has closed its formal investigations as announced on 11 May 2012, and ING has withdrawn its appeal with the General Court filed in July 2012. Although EC's appeal against the March 2012 ruling of the General Court is expected to continue, ING, the Dutch State and the EC have agreed that any outcome of this procedure will not affect the approval of the Amended Restructuring Plan. See Note 34 of the Notes to the consolidated annual accounts of ING Group in the 2012 Annual Report of ING Groep N.V for more information on and implications of the Amended Restructuring Plan.

The restrictions imposed by the Restructuring Plan could adversely affect our ability to maintain or grow market share in key markets as well as our results of operations. See 'Risks Related to the Restructuring Plan. See '— The limitations required by the EC on our ability to compete and to make acquisitions or call certain debt instruments could materially impact the Group'.

There can be no assurance that we will be able to implement the Restructuring Plan successfully or complete the announced divestments on favorable terms or at all, particularly in light of the market developments in general as well as the fact that other financial institutions may place similar assets for sale during the same time period and may seek to dispose of assets in the same manner. Any failure to successfully implement the Restructuring Plan may result in EC enforcement actions or EC procedures and may have a material adverse impact on the assets, profitability, capital adequacy and business operations of the Group. Moreover, in connection with the implementation of the Restructuring Plan, including any proposed divestments, we or potential buyers may need to obtain various approvals, including of shareholders, works councils and regulatory and competition authorities, and we and potential buyers may face difficulties in obtaining these approvals in a timely manner or at all. In addition, the implementation of the Restructuring Plan may strain relations with our employees, and specific proposals in connection with the implementation may be opposed by labor unions or works councils. Furthermore, following the announcement of the Initial Restructuring Plan, for example, several of our subsidiaries were downgraded or put on credit watch by rating agencies. See 'Risks Related to the Group's Business, Operations, and Regulatory Environment — Ratings are important to our business for a number of reasons. A downgrade or a potential downgrade in our financial strength or our credit ratings could have an adverse impact on our operations and net results'.

Other factors that may impede our ability to implement the Restructuring Plan successfully include an inability of prospective purchasers to obtain funding due to the deterioration of the credit markets, insufficient access to equity capital markets, a general unwillingness of prospective purchasers to commit capital in the current market environment, antitrust concerns, any adverse changes in market interest rates or other borrowing costs and any declines in the value of the assets to be divested. Similarly, it may also be difficult to divest all or part of our insurance or investment management business through one or more initial public offerings. There can also be no assurance that we could obtain favorable pricing for a sale of all or part of our insurance or investment management business in the public markets or succeed in turning the relevant subsidiaries into viable stand-alone businesses. A divestment may also release less regulatory capital than we would otherwise expect.

Any failure to complete the divestments on favorable terms, could have a material adverse impact on our assets, profitability, capital adequacy and business operations. If we are unable to complete the announced divestments in a timely manner, we would be required to find alternative ways to reduce our leverage, and we could be subject to enforcement actions or proceedings by the EC. In particular, if we do not succeed in

completing divestitures as described in the Amended Restructuring Plan within the timelines set out therein and/or do not succeed in satisfying the commitments with respect to Nationale Nederlanden Bank by year-end 2015 as described in the Amended Restructuring Plan, the Dutch State will re-notify this to the EC who may take any enforcement action, require additional restructuring measures and/or request the Dutch State to appoint a divestiture trustee with a mandate to complete the relevant divestiture with no minimum price.

The implementation of the divestments announced in connection with the Restructuring Plan, including the separation of the insurance and most of the investment management operations from the banking operations, will also give rise to additional costs related to the legal and financial assessment of potential transactions. The implementation may also result in increased operating and administrative costs. The process of completing the steps contemplated by the Restructuring Plan may be disruptive to our business and the businesses we are trying to sell and may cause an interruption or reduction of our business and the businesses to be sold as a result of, among other factors, the loss of key employees or customers and the diversion of management's attention from our day-to-day business as a result of the need to manage the divestment process as well as any disruptions or difficulties that arise during the course of the divestment process. We may face other difficulties in implementing the Restructuring Plan and completing the planned divestments. For instance, the divestments, individually or in the aggregate, may trigger provisions in various contractual obligations, including debt and capital instruments, which could require us to modify, restructure or refinance those or other related obligations. We may not be able to effect any such restructuring or refinancing on similar terms as the current contractual obligations or at all. In addition, the announced divestments could be the subject of challenges or litigation, and a court could delay any of the divestment transactions or prohibit them from occurring on their proposed terms, or from occurring at all, which could adversely affect our ability to use the funds of the divestments to repay the remaining amount of the Core Tier 1 Securities, reduce or eliminate our double leverage and strengthen our capital ratios as anticipated and eliminate the constraints on competition imposed by the EC.

### **The limitations required by the EC on our ability to compete and to make acquisitions or call certain debt instruments could materially impact the Group.**

As part of our Restructuring Plan, we have undertaken with the EC to accept certain limitations on our ability to compete in certain retail, private and direct banking markets in the European Union and on our ability to acquire (i) financial institutions and (ii) businesses insofar this would delay our repayment of the remaining Core Tier 1 Securities held by the Dutch State. These restrictions in principle apply until the earlier of (1) 18 November 2015, and (2) the date upon which more than 50% of the required divestments has been made. We were also required to agree to limitations on our ability to call Tier-2 capital and Tier-1 hybrid debt instruments, which remain subject to authorisations by the EC on a case-by-case basis until the earlier of 18 November 2014 or the repayment of the remaining Core Tier 1 Securities (including the relevant accrued interest on Core Tier 1 coupons and exit premium fees). If the EC does not approve the calling of Tier-2 capital and Tier-1 hybrid debt instruments in the future, this may have adverse consequences for us, result in additional payments on these instruments and limit our ability to seek refinancing on more favorable terms. ING is furthermore restricted to a maximum ratio for mortgage production at ING Retail Banking Netherlands in relation to the mortgage production of Nationale-Nederlanden Bank until year-end 2015. The limitations described above will impose significant restrictions on our banking business operations and on our ability to take advantage of market conditions and growth opportunities. Such restrictions could adversely affect our ability to maintain or grow market share in key markets, as well as our results of operations.

### **Upon the implementation of the Restructuring Plan, we will be less diversified and may experience competitive and other disadvantages.**

Following completion of the planned divestments under the Restructuring Plan, we expect to become a significantly smaller, regional financial institution focused on retail, direct and commercial banking in the Benelux region and certain other parts of Europe, as well as selected markets outside Europe. Although we will remain focused on banking operations, we may become a smaller bank than that represented by our current banking operations. In the highly competitive Benelux market and the other markets in which we operate, our competitors may be larger, more diversified and better capitalised and have greater geographical reach than us, which could have a material adverse effect on our ability to compete, as well as on our profitability. The divested businesses may also compete with the retained businesses, on their own or as part of the purchasers' enlarged businesses. In addition, the restrictions on our ability to be a price leader and make acquisitions and on our compensation policies could further hinder our capacity to compete with competitors not burdened with such restrictions, which could have a material adverse effect on our results of operations. There can be no assurance that the implementation of the Restructuring Plan will not have a material adverse effect on the market share, business and growth opportunities and results of operations for our remaining core banking businesses.

### **Our restructuring programs may not yield intended reductions in costs, risk and leverage.**

Projected cost savings and impact on our risk profile and capital associated with the Restructuring Plan are subject to a variety of risks, including:

- contemplated costs to effect these initiatives may exceed estimates;
- divestments planned in connection with the Restructuring Plan may not yield the level of net proceeds expected, as described under 'Risks Related to the Restructuring Plan — The implementation of the Restructuring Plan and the divestments anticipated in connection with that plan will significantly alter the size and structure of the Group and involve significant costs and uncertainties that could materially impact the Group';
- initiatives we are contemplating may require consultation with various regulators as well as employees and labor representatives, and such consultations may influence the timing, costs and extent of expected savings;
- the loss of skilled employees in connection with the initiatives; and
- projected savings may fall short of targets.

## Risk factors continued

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While we have begun and expect to continue to implement these strategies, there can be no assurance that we will be able to do so successfully or that we will realise the projected benefits of these and other restructuring and cost-saving initiatives. If we are unable to realise these anticipated cost reductions, our business may be adversely affected. Moreover, our continued implementation of restructuring and cost saving initiatives may have a material adverse effect on our business, financial condition, results of operations and cash flows.

### **Our agreements with the Dutch State impose certain restrictions regarding the issuance or repurchase of our shares and the compensation of certain senior management positions.**

In connection with the transactions with the Dutch State, the Dutch State was granted the right to nominate two candidates for appointment to the Supervisory Board ('State Nominees'). The Dutch State's nominees have veto rights over certain material transactions. For so long as the Dutch State holds at least 25% of the Core Tier 1 Securities, for so long as the IABF is in place or for so long as any of the government-guaranteed senior unsecured bonds issued by ING Bank N.V. under the Credit Guarantee Scheme of the Netherlands ('Government Guaranteed Bonds') are outstanding, we are prohibited from issuing or repurchasing any of our own shares (other than as part of regular hedging operations and the issuance of shares according to employment schemes) without the consent of the State Nominees. In addition, under the terms of the Core Tier 1 Securities and IABF, we have agreed to institute certain restrictions on the compensation of the members of the Executive Board and senior management, including incentives or performance-based compensation. These restrictions could hinder or prevent us from attracting or retaining the most qualified management with the talent and experience to manage our business effectively. See 'Risks Related to the Group's Business, Operations, and Regulatory Environment — ING Group may be unable to retain key personnel' above. Our agreements with the Dutch State have also led to certain restrictions imposed by the EC as part of the Restructuring Plan, including with respect to our price leadership in EU banking markets and our ability to make acquisitions of financial institutions and other businesses. See '— The limitations required by the EC on our ability to compete and to make acquisitions or call certain debt instruments could materially impact the Group' above.

### **Whenever the overall return on the (remaining) Core Tier 1 securities issued to the Dutch State is expected to be lower than 10% p.a. and/or in the event that ING does not repay the remaining Core Tier 1 securities in accordance with the repayment schedule that was submitted to the European Commission as part of the Amended Restructuring Plan, the European Commission may consider the imposition of additional behavioural constraints.**

As stated in the decision of the European Commission of 12 November 2008 (in State aid N 528/2008 – The Netherlands), the Core Tier 1 state-aid measure must be (re)notified to the European Commission by the Dutch authorities if the overall return on the Core Tier 1 Securities of at least 10% p.a. is not expected to be achieved. In such a case, the European Commission may require additional (behavioural) constraints as a condition of the compatibility of the measure.

In 2011, ING reported to the Dutch authorities that ING has abstained from paying dividends on its shares for a period of two consecutive years (i.e. 2009 and 2010) as a result of which the EC opened an investigation into ING's restructuring process. Following the approval of the Amended Restructuring Plan, the EC closed its formal investigations, and on 26 November 2012 ING repaid its first tranche of EUR 1,125 million to the Dutch State. This tranche consisted of EUR 750 million in repayment of Core Tier 1 Securities and EUR 375 million in premiums and interest. The remaining three tranches of EUR 1,125 million each will have a similar composition and are expected to be paid in November 2013, March 2014 and May 2015, respectively, translating into an overall internal rate of return of 12.5%. Any repayment of the remaining Core Tier Securities is conditional on approval from the DNB. Upon reaching the agreement on the Amended Restructuring Plan, ING indicated that it aims to repay the remaining Core Tier 1 Securities as soon as possible and accelerate repayments to the extent it is deemed prudent under prevailing financial circumstances. If the repayment of a tranche cannot be made in full or in part, ING will be required to make it up by a corresponding increase of the subsequent tranche to be repaid.

The Netherlands committed to re-notify the recapitalisation measure in the event that ING does not repay in full two consecutive tranches. Moreover, if ING does not repay a total of EUR 4.5 billion by 15 May 2015, the Dutch State commits to re-notify the recapitalisation measure.

If ING is unable to repay the remaining Core Tier 1 Securities according to the above-mentioned deadlines and other terms agreed with the European Commission, this could result in the European Commission imposing additional (behavioural) constraints on us or taking any enforcement action against us.

### ADDITIONAL RISKS RELATING TO OWNERSHIP OF ING SHARES

**Because we are a Dutch company and because the Stichting ING Aandelen holds more than 99.9% of our Ordinary Shares, the rights of our depositary receipt holders may differ from the rights of shareholders in other jurisdictions or companies that do not use a similar trust structure, which could affect your rights as an equity investor.**

While holders of our bearer depositary receipts are entitled to attend and speak at our General Meeting of Shareholders ('General Meeting'), voting rights are not attached to the bearer depositary receipts. Stichting ING Aandelen ('Trust') holds more than 99.9% of our Ordinary Shares, and exercises the voting rights attached to the Ordinary Shares (for which bearer depositary receipts have been issued). Holders of bearer depositary receipts who attend — in person or by proxy — the General Meeting must obtain and are entitled to voting rights by proxy from the Trust. Holders of bearer depositary receipts and holders of the American Depositary Shares ('ADSs') representing the bearer depositary receipts who do not attend the General Meeting may give binding voting instructions to the Trust. The Trust is entitled to vote on any Ordinary Shares underlying the bearer depositary receipts for which the Trust has not granted voting proxies, or voting instructions have not been given to the Trust. In exercising its voting discretion, the Trust is required to be guided primarily by the interests of the holders of bearer depositary receipts, while also taking into account:

- our interests, and
- the interests of our affiliates.

The Trust may, but has no obligation to, consult with the holders of bearer depositary receipts in exercising its voting rights in respect of any Ordinary Shares for which it is entitled to vote. These arrangements differ from practices in other jurisdictions, and accordingly may affect the rights of the holders of bearer depositary receipts and their power to affect ING's business and operations.

### **The share price of ING shares has been, and may continue to be, volatile.**

The share price of our bearer depositary receipts has been volatile in the past, and the share price and trading volume of our bearer depositary receipts may continue to be subject to significant fluctuations due, in part, to changes in our actual or forecast operating results and the inability to fulfil the profit expectations of securities analysts, as well as to the high volatility in the securities markets generally and more particularly in shares of financial institutions. Other factors, besides our financial results, that may impact our share price include, but are not limited to:

- market expectations of the performance and capital adequacy of financial institutions in general;
- investor perception of the success and impact of our strategies;
- investor perception of our positions and risks;
- a downgrade or review of our credit ratings;
- the implementation and outcome of our Restructuring Plan;
- potential litigation or regulatory action involving ING or sectors we have exposure to through our insurance and banking activities;
- announcements concerning financial problems or any investigations into the accounting practices of other financial institutions; and
- general market circumstances.

### **There can be no assurance that we will pay dividends on our Ordinary Shares in the future.**

It is ING's policy to pay dividends in relation to the long-term underlying development of cash earnings. Dividends can only be declared by shareholders when the Executive Board considers such dividends appropriate, taking into consideration the financial conditions then prevailing and the longer-term outlook. Given the uncertain financial environment, ING will not pay a dividend over 2012 and until all remaining Core Tier 1 Securities have been repaid to the Dutch State and the Basel III requirements have been met. Furthermore, there can be no assurance that we will pay dividends in the future.

### **The remaining Core Tier 1 Securities issued to the Dutch State may be converted into Ordinary Shares or bearer depositary receipts and dilute existing shareholders.**

The terms of the Core Tier 1 Securities permit us, on or after 12 November 2011, to convert any or all of the remaining Core Tier 1 Securities (EUR 2.25 billion per 26 November 2012) into Ordinary Shares or bearer depositary receipts on the basis of one Core Tier 1 Security for 1,335 Ordinary Shares on a one for one basis (subject to customary adjustments as may be necessary to preserve economic equivalence) or bearer depositary receipts. Any such conversion would dilute existing shareholders. If we exercise our conversion right, the Dutch State may opt to require us to redeem the Core Tier 1 Securities on the conversion date at the original issue price of EUR 10 per Core Tier 1 Security, together with the pro rata coupon, if due, accrued to such date.

### **Certain holders of ING shares may not be able to participate in future equity offerings with subscription rights.**

We may undertake future equity offerings with or without subscription rights. In case of equity offerings with subscription rights, holders of ING shares in certain jurisdictions, however, may not be entitled to exercise such rights unless the rights and the related shares are registered or qualified for sale under the relevant legislation or regulatory framework. Holders of ING shares in these jurisdictions may suffer dilution of their shareholding should they not be permitted to participate in future equity offerings with subscription rights.

# 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 are 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**

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### **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		
	2012	2011
<b>Credit risk</b>		
Portfolios subject to standardised approach	<b>2,415</b>	2,455
Portfolios subject to AIRB approach		
– Sovereigns	<b>217</b>	234
– Institutions	<b>1,121</b>	1,277
– Corporate	<b>7,773</b>	8,664
– Residential mortgages	<b>3,524</b>	4,798
– Other retail	<b>1,286</b>	1,303
Total portfolios subject to AIRB approach	<b>13,920</b>	16,276
Securitisation exposures	<b>442</b>	1,489
Equity portfolios in the banking book under the simple risk weight approach	<b>201</b>	207
Other Non-Credit Obligation Assets	<b>1,708</b>	2,046
Total Credit Risk	<b>18,685</b>	22,473
<b>Market risk</b>		
Standardised approach	<b>28</b>	34
Internal models approach - trading book	<b>744</b>	1,091
Total Market risk	<b>772</b>	1,125
<b>Operational risk</b>		
Advanced measurement approach	<b>2,836</b>	2,836
Total Basel II required Regulatory Capital	<b>22,292</b>	26,434
Basel I floor*	<b>28,767</b>	31,107
<b>Additional capital requirement</b>	<b>6,475</b>	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

<b>ING Bank Regulatory Capital flow statement</b>		
In EUR million	2012	2011
<b>Core Tier 1 capital</b>		
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
<b>Additional Tier 1 capital</b>		
Opening amount	6,850	8,438
Issued capital		571
Redeemed capital		-2,349
Exchange rate differences	-75	190
Closing amount	6,774	6,850
<b>Tier 2 capital</b>		
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
<b>Total regulatory capital</b>	<b>47,116</b>	<b>47,123</b>

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)	
<b>RWA as at 31 December 2011</b>	<b>252.7</b>
Book size <sup>(1)</sup>	-5.1
Book quality <sup>(2)</sup>	3.3
De-risking	-3.5
Model updates <sup>(3)</sup>	0.3
Methodology and policy <sup>(4)</sup>	-3.3
Acquisitions and divestments	-32.4
Foreign exchange movements	0.0
Other	-2.4
Total movement	-43.0
<b>RWA as at 31 December 2012</b>	<b>209.7</b>

Excluding equities and ONCOA.

<sup>(1)</sup> Book size: organic changes in book size and composition (including new business and maturing loans).

<sup>(2)</sup> Book quality: quality of book changes caused by experience such as underlying customer behaviour or demographics.

<sup>(3)</sup> Model updates: model implementation, change in model scope or any change to address model malfunctions including changes through model calibrations / realignments.

<sup>(4)</sup> 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.

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.

## Additional Pillar 3 information continued

### 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												
	Sovereigns		Institutions		Corporate		Retail		Total 2012		Total 2011	
	READ	RWA	READ	RWA	READ	RWA	READ	RWA	READ	RWA	READ	RWA
<b>SA approach</b>												
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
<b>Total</b>	<b>4,062</b>	<b>3,103</b>	<b>2,020</b>	<b>1,024</b>	<b>12,684</b>	<b>12,460</b>	<b>23,933</b>	<b>13,603</b>	<b>42,699</b>	<b>30,190</b>	<b>42,927</b>	<b>30,682</b>
<b>AIRB approach</b>												
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
<b>Total</b>	<b>84,463</b>	<b>2,710</b>	<b>85,995</b>	<b>14,014</b>	<b>252,650</b>	<b>97,157</b>	<b>329,074</b>	<b>60,126</b>	<b>752,182</b>	<b>174,006</b>	<b>857,302</b>	<b>203,444</b>
<b>SEC AIRB</b>												
On-balance									9,118	3,391	33,397	18,112
Off-balance									2,983	2,134	2,572	495
<b>Total</b>									<b>12,101</b>	<b>5,525</b>	<b>35,970</b>	<b>18,607</b>
<b>Total Bank</b>	<b>88,525</b>	<b>5,813</b>	<b>88,015</b>	<b>15,038</b>	<b>265,335</b>	<b>109,617</b>	<b>353,007</b>	<b>73,729</b>	<b>806,982</b>	<b>209,722</b>	<b>936,199</b>	<b>252,733</b>

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.

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 cyclical 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

## Additional Pillar 3 information continued

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				
		2012	2011	Delta %
Sovereigns	<b>Rating</b>	<b>88,525</b>	111,145	-20.3%
	Performing	<b>88,524</b>	111,144	-20.3%
	Impaired/Non-performing	<b>1</b>	1	-8.5%
Sovereigns	<b>Geography/business units</b>	<b>88,525</b>	111,145	-20.3%
	Africa	<b>313</b>	344	-8.9%
	America	<b>487</b>	10,429	-95.3%
	Asia	<b>5,677</b>	5,480	3.6%
	Australia	<b>261</b>	60	333.8%
	Europe	<b>81,787</b>	94,832	-13.7%
	<b>Europe</b>	<b>81,787</b>	94,832	-13.7%
	Netherlands	<b>19,393</b>	36,922	-47.5%
	Belgium	<b>16,372</b>	13,589	20.5%
	Germany	<b>16,174</b>	16,095	0.5%
	Other Europe	<b>29,847</b>	28,227	5.8%
Sovereigns	<b>Product Type</b>	<b>88,525</b>	111,145	-20.3%
	Bond Investments	<b>53,491</b>	55,016	-2.7%
	Revolving	<b>13,833</b>	12,716	8.8%
	Money Market	<b>10,445</b>	27,278	-61.7%
	Term Loans	<b>4,743</b>	13,276	-64.3%
	Lending	<b>2,500</b>		-
	Other	<b>3,512</b>	2,859	22.9%
Sovereigns	<b>PD Bands</b>	<b>88,525</b>	111,145	-20.3%
	<0.05%	<b>70,958</b>	93,797	-24.3%
	0.05% to 0.5%	<b>14,422</b>	13,670	5.5%
	0.5% to 5%	<b>2,971</b>	3,356	-11.4%
	5% to 10%	<b>126</b>	142	-11.8%
	10% to 20%	<b>45</b>	21	109.1%
	20% to 50%	<b>2</b>	157	-98.4%
	>50%	<b>1</b>	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. 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.

## Additional Pillar 3 information continued

### 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				
		2012	2011	Delta %
Institutions	<b>Rating</b>	<b>88,015</b>	102,422	-14.0%
	Performing	<b>87,245</b>	101,637	-14.1%
	Impaired/Non-performing	<b>769</b>	784	-1.9%
Institutions	<b>Geography/business units</b>	<b>88,015</b>	102,422	-14.0%
	Africa	<b>439</b>	585	-25.0%
	America	<b>4,659</b>	10,149	-54.1%
	Asia	<b>11,547</b>	12,728	-9.3%
	Australia	<b>6,116</b>	6,295	-2.8%
	Europe	<b>65,253</b>	72,664	-10.2%
	<b>Europe</b>	<b>65,253</b>	72,664	-10.2%
	Netherlands	<b>2,982</b>	2,862	4.2%
	Belgium	<b>6,266</b>	5,929	5.7%
	Germany	<b>13,908</b>	12,000	15.9%
	Rest of Europe	<b>42,097</b>	51,873	-18.8%
Institutions	<b>Product Type</b>	<b>88,015</b>	102,422	-14.0%
	Bond Investments	<b>30,892</b>	43,068	-28.3%
	Derivatives	<b>18,527</b>	18,747	-1.2%
	Money Market	<b>11,922</b>	8,906	33.9%
	Term Loans	<b>9,473</b>	10,752	-11.9%
	Revolving	<b>9,075</b>	9,888	-8.2%
	Other	<b>8,126</b>	11,061	-26.5%
Institutions	<b>PD Bands</b>	<b>88,015</b>	102,422	-14.0%
	<0.05%	<b>19,953</b>	20,404	-2.2%
	0.05% to 0.5%	<b>53,074</b>	73,579	-27.9%
	0.5% to 5%	<b>13,698</b>	7,103	92.9%
	5% to 10%	<b>371</b>	239	55.7%
	10% to 20%	<b>111</b>	194	-42.7%
	20% to 50%	<b>38</b>	119	-68.3%
	more than >50%	<b>769</b>	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				
		2012	2011	Delta %
Corporate	<b>Rating</b>	<b>265,335</b>	286,599	-7.4%
	Performing	255,715	278,807	-8.2%
	Impaired/Non-performing	9,620	7,792	23.5%
Corporate	<b>Geography/business units</b>	<b>265,335</b>	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%
	<b>Europe</b>	<b>201,010</b>	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	<b>Industry</b>	<b>265,335</b>	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	<b>PD Bands</b>	<b>265,335</b>	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				
		2012	2011	Delta %
Retail	<b>Rating</b>	<b>353,007</b>	400,064	-11.7%
	Performing	<b>347,508</b>	394,262	-11.8%
	Impaired/Non-performing	<b>5,499</b>	5,802	-5.2%
Retail	<b>Customer Segment</b>	<b>353,007</b>	400,064	-11.7%
	Private Persons	<b>321,384</b>	366,529	-12.3%
	Small Mid-sized Enterprises	<b>22,281</b>	24,539	-9.2%
	Private Banking	<b>3,553</b>	2,514	41.4%
	Other	<b>5,790</b>	6,483	-10.7%
Retail	<b>Geography/business units</b>	<b>353,007</b>	400,064	-11.7%
	Africa	<b>57</b>	53	7.6%
	America	<b>146</b>	55,279	-99.7%
	Asia	<b>1,684</b>	1,528	10.2%
	Australia	<b>34,438</b>	34,243	0.6%
	Other	<b>30</b>	925	-96.8%
	Europe	<b>316,652</b>	308,035	2.8%
	<b>Europe</b>	<b>316,652</b>	308,035	2.8%
	Netherlands	<b>164,777</b>	165,534	-0.4%
	Belgium	<b>39,703</b>	38,051	4.4%
	Germany	<b>68,457</b>	64,292	6.5%
	Rest of Europe	<b>43,715</b>	40,158	8.9%
Retail	<b>PD Bands</b>	<b>353,007</b>	400,064	-11.7%
	<0.05%	<b>22,009</b>	11,556	90.5%
	0.05% to 0.5%	<b>192,850</b>	217,225	-11.2%
	0.5% to 5%	<b>113,563</b>	133,863	-15.1%
	5% to 10%	<b>8,525</b>	18,010	-52.7%
	10% to 20%	<b>6,792</b>	7,824	-13.2%
	20% to 50%	<b>3,769</b>	5,784	-34.8%
	more than >50%	<b>5,499</b>	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.

	2012		2011	
	LTV	READ	LTV	READ
Netherlands <sup>(1)</sup>	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 <sup>(2)</sup>	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.

<sup>(1)</sup> Netherlands includes Domestic Bank NL and Westland Utrecht.

<sup>(2)</sup> 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.

### Corporate credit risk disclosure in READ

		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.

## Additional Pillar 3 information continued

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.

Risk Weight Buckets	2012			2011		
	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%						
<b>Total</b>	<b>61,700</b>	<b>61,301</b>	<b>42,699</b>	<b>58,951</b>	<b>58,562</b>	<b>42,927</b>

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							
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
<b>Performing</b>							
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
<b>Non-Performing</b>							
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.

## Additional Pillar 3 information **continued**

### 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'.

Model approaches per exposure class							
	Sovereigns	Institutions	Corporate	Residential mortgages	Other retail	Total	Total
	2012						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						
	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, then 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
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

	Commercial Banking	Retail Banking Benelux	Retail Banking International	Total ING Bank
<b>Impaired loan book movements</b>				
<b>Impaired loans at 1 January 2012</b>	5,245	5,362	2,763	13,370
Classified as impaired during the year <sup>(1)</sup>	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 <sup>(2)</sup>			-1,007	-1,007
Exchange and other movements <sup>(3)</sup>		-2	13	10
Other	-21	-68	21	-68
<b>Impaired loans at 31 December 2012</b>	6,476	6,172	2,278	14,925
<b>Impairment allowances - movements</b>				
<b>Impairment allowances at 1 January 2012</b>	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
<b>Impaired allowances at 31 December 2012</b>	2,303	1,864	1,338	5,505

<sup>(1)</sup> Unadjusted for exchange rate fluctuations.

<sup>(2)</sup> Sale of ING Direct US and ING Direct Canada.

<sup>(3)</sup> 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.

## Additional Pillar 3 information continued

### Cumulative provisions by industry

	Sovereigns	Institutions	Corporate	Residential mortgages	Other retail	Total	Total
						<b>2012</b>	2011
Real Estate			<b>1,121</b>		<b>49</b>	<b>1,170</b>	764
Private Individuals			<b>2</b>	<b>753</b>	<b>394</b>	<b>1,150</b>	1,605
Builders & Contractors			<b>421</b>		<b>96</b>	<b>517</b>	394
Food, Beverages & Personal Care			<b>366</b>		<b>119</b>	<b>485</b>	424
General Industries			<b>297</b>		<b>68</b>	<b>365</b>	459
Services			<b>243</b>		<b>100</b>	<b>344</b>	368
Transportation & Logistics			<b>253</b>		<b>48</b>	<b>301</b>	442
Media			<b>176</b>		<b>62</b>	<b>238</b>	74
Retail			<b>149</b>		<b>66</b>	<b>215</b>	182
Natural Resources			<b>172</b>		<b>10</b>	<b>182</b>	152
Chemicals, Health & Pharmaceutical			<b>112</b>		<b>17</b>	<b>129</b>	116
Automotive			<b>77</b>		<b>35</b>	<b>112</b>	125
Non-Bank Financial Institutions		<b>9</b>	<b>86</b>		<b>17</b>	<b>112</b>	244
Telecom			<b>59</b>		<b>4</b>	<b>63</b>	87
Other <sup>(1)</sup>	<b>3</b>	<b>26</b>	<b>50</b>		<b>43</b>	<b>122</b>	98
<b>Total</b>	<b>3</b>	<b>35</b>	<b>3,586</b>	<b>753</b>	<b>1,128</b>	<b>5,505</b>	5,533

\* Includes both AIRB and SA portfolios; excludes securitisations, equities and ONCOA.

\* Excludes revaluations made directly through the equity account.

<sup>(1)</sup> 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	Total
			<b>2012</b>	2011
Private Individuals	<b>5,788</b>	<b>290</b>	<b>6,078</b>	6,368
Other <sup>(1)</sup>		<b>461</b>	<b>461</b>	281
<b>Total</b>	<b>5,788</b>	<b>750</b>	<b>6,539</b>	6,649

\* Includes both AIRB and SA portfolios; excludes securitisations, equities and ONCOA.

\* Excludes revaluations made directly through the equity account.

<sup>(1)</sup> 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

	Sovereigns	Institutions	Corporate	Residential mortgages	Other retail	Total	Total
						<b>2012</b>	2011
Netherlands		<b>1</b>	<b>1,264</b>	<b>236</b>	<b>387</b>	<b>1,889</b>	1,509
Belgium		<b>1</b>	<b>393</b>	<b>54</b>	<b>197</b>	<b>646</b>	558
Germany			<b>81</b>	<b>380</b>	<b>139</b>	<b>600</b>	582
Other Europe	<b>1</b>	<b>15</b>	<b>1,315</b>	<b>66</b>	<b>381</b>	<b>1,779</b>	1,491
Americas			<b>212</b>			<b>213</b>	940
Asia / Pacific	<b>1</b>	<b>16</b>	<b>319</b>	<b>17</b>	<b>22</b>	<b>375</b>	448
ROW	<b>1</b>	<b>1</b>	<b>1</b>			<b>3</b>	6
<b>Total</b>	<b>3</b>	<b>35</b>	<b>3,586</b>	<b>753</b>	<b>1,128</b>	<b>5,505</b>	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)

	Residential mortgages	Other Retail	Total	Total
			<b>2012</b>	2011
Netherlands	<b>2,653</b>	<b>8</b>	<b>2,661</b>	2,055
Belgium	<b>1,217</b>	<b>393</b>	<b>1,610</b>	1,500
Germany	<b>200</b>	<b>10</b>	<b>210</b>	197
Other Europe	<b>289</b>	<b>311</b>	<b>600</b>	478
Americas	<b>6</b>		<b>6</b>	465
Asia / Pacific	<b>1,421</b>	<b>29</b>	<b>1,450</b>	1,930
ROW	<b>3</b>	<b>1</b>	<b>4</b>	23
<b>Total</b>	<b>5,788</b>	<b>751</b>	<b>6,539</b>	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

	2012			2011		
	AIRB	SA	Total	AIRB	SA	Total
REL	<b>5,972</b>	<b>n.a</b>	<b>5,972</b>	6,299	n.a.	6,299
Provisions	<b>4,774</b>	<b>731</b>	<b>5,505</b>	4,968	565	5,533
Shortfall	<b>1,199</b>	<b>n.a</b>	<b>n.a</b>	1,367	n.a	n.a
Shortfall %	<b>20%</b>	<b>n.a</b>	<b>n.a</b>	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							
	Sovereigns	Institutions	Corporate	Residential mortgages	Other retail	Total	Total
						<b>2012</b>	2011
Under SA approach	<b>13</b>	<b>82</b>	<b>719</b>	<b>147</b>	<b>4,581</b>	<b>5,541</b>	7,425
Under AIRB Approach	<b>310</b>	<b>1,517</b>	<b>60,619</b>	<b>9,888</b>	<b>11,902</b>	<b>84,235</b>	83,514
Total	<b>322</b>	<b>1,599</b>	<b>61,338</b>	<b>10,035</b>	<b>16,483</b>	<b>89,776</b>	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, GMRA's, 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 its counterparties may agree to pledge additional collateral to each other in the event that either party is downgraded by one of the established rating agencies. ING 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							
	Sovereigns	Institutions	Corporate	Residential mortgages	Other retail	Total	Total
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
<b>Total</b>	<b>1,819</b>	<b>18,526</b>	<b>13,278</b>		<b>83</b>	<b>33,705</b>	<b>36,541</b>

\* 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	2012	
	Notional	MtM
OTC derivatives		
CCP	1,417,454	-4,430
Non-CCP	2,020,068	-3,154
ETD derivatives	24,000	n/a*
<b>Total</b>	<b>3,461,522</b>	<b>-7,584</b>

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%).

### 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.

## Additional Pillar 3 information continued

### Securities financing by product type in READ

	Sovereigns	Institutions	Corporate	Residential mortgages	Other retail	Total	Total
						<b>2012</b>	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
<b>Total</b>	<b>1,424</b>	<b>3,463</b>	<b>5,665</b>	-	-	<b>10,552</b>	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.

### 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

	Gross MtM before netting and collateral	MtM after netting	MtM after netting and collateral	READ	Cover Values* Mortgages	Cover Values Eligible Financial Collateral*	Cover Values Guarantees*	Cover Values Other*
<b>AIRB Portfolio</b>								
<b>Sovereigns</b>				84,463	135	3	1,520	73
of which Pre Settlement	4,406	1,138	1,130	1,138				
<b>Institutions</b>				85,995	82	92	13,533	569
of which Pre Settlement	140,132	36,213	24,967	32,532				
<b>Corporates</b>				252,650	84,085	16,870	38,049	73,070
of which Pre Settlement	10,032	9,030	8,868	9,041				
<b>Residential Mortgages</b>				292,650	416,874	n.a	32,917	169
of which Pre Settlement								
<b>Other Retail</b>				36,424	15,527	794	8,193	9,010
of which Pre Settlement	327	327	327	327				
<b>Securitisations</b>				12,101				
of which Pre Settlement								
<b>Total AIRB</b>				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.

## Additional Pillar 3 information continued

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		
	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.

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							
	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.

## Additional Pillar 3 information continued

### Outstandings by tenor bucket (credit risk outstandings)

	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.

### 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

	2012	2011	Delta %
Securitisations <b>Geography</b>			
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%
<b>Europe</b>			
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 <b>Product Type</b>			
Residential Mortgage Backed Securities	5,874	12,416	-52.7%
Asset Backed Securities	2,399	3,242	-26.0%
Synthetic Investment Bonds <sup>(1)</sup>	1,439	0	-
Securitisation Liquidity <sup>(2)</sup>	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 <b>Exposure Class <sup>(3)</sup></b>			
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.

<sup>(1)</sup> This represents the guarantee granted by ING for the sold ALT-A bonds under the Alignment Transaction with the Dutch State.

<sup>(2)</sup> 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.

<sup>(3)</sup> Securitisation benefits are excluded. Own originated securitisations explained in separate section.

## Additional Pillar 3 information continued

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.

Purchased exposures per risk weight band	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.

## Additional Pillar 3 information continued

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.

Exposures securitised (amounts in EUR million)						
	Cut-off Date	Initial Pool	Outstandings	Credit Events	Past due Assets	Losses
<b>2012</b>						
<b>Residential Mortgages</b>						
Memphis 2005*						
Memphis 2006	31-Oct-12	4,000	3,914	18	212	10
<b>SME</b>						
Mars 2006*						
BEL SME 2006	30-Nov-12	2,500	684	15	4	3
<b>Total</b>						

\* Both Memphis 2005 and Mars 2006 have been unwound in 2012, respectively on May 21 and August 28.

Exposures securitised (amounts in EUR million)						
	Cut-off Date	Initial Pool	Outstandings	Credit Events	Past due Assets	Losses
<b>2011</b>						
<b>Residential Mortgages</b>						
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			
<b>SME</b>						
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
<b>Total</b>		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.

## Additional Pillar 3 information continued

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### 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.

### 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.

# Financial glossary

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## **ACTUARIAL AND UNDERWRITING RISK**

These risks (mortality, longevity, morbidity, adverse motor or home claims, etc.), result from the pricing and acceptance of insurance contracts. Actuarial risk is the risk that premium levels and provisions in respect of insurance risk may turn out to be (no longer) correct. Underwriting risk is the risk that an issuer will receive a claim under an insurance policy it issues/underwrites. Maximum underwriting exposures are limited through exclusions, cover limits and reinsurance.

## **ADVANCED MEASUREMENT APPROACH (AMA)**

The risk methodology to calculate the regulatory Operational Risk capital.

## **ALT-A RESIDENTIAL MORTGAGE BACKED SECURITY (ALT-A RMBS)**

A type of United States residential mortgage which is considered riskier than 'prime' and less risky than 'sub-prime' mortgages. Parameters generally taken into account are borrower credit scores, residential property values and loan-to-value ratios. Alt-A mortgages are further characterised by a limited degree of income and/or asset verification.

## **AMORTISED COST**

The amount at which the financial asset or liability is measured at initial recognition less principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction for impairment or uncollectability.

## **ASSET AND LIABILITY COMMITTEE (ALCO)**

Manages the balance sheet of ING, especially with regard to strategic non-trading risk. These risks comprise interest rate exposures, equity risk, real estate risk, liquidity, solvency and foreign exchange risk and fluctuations.

## **ASSET LIABILITY MANAGEMENT (ALM)**

The practice of managing a business such that decisions on assets and liabilities are coordinated. It involves the ongoing process of formulating, implementing, monitoring and revising strategies related to assets and liabilities.

## **ASSET BACKED COMMERCIAL PAPER (ABCP)**

Commercial paper that is collateralised by other financial assets.

## **ASSET BACKED SECURITIES (ABS)**

A type of bond or note that is based on pools of assets, or collateralised by the cash flows from a specified pool of underlying assets.

## **ASSOCIATE**

An entity over which the Group has significant influence, generally accompanying a shareholding of between 20% and 50% of the voting rights, and that is not a subsidiary not a joint venture.

## **AVAILABLE FINANCIAL RESOURCES (AFR)**

The available financial resources equal the market value of assets minus market value of liabilities, excluding hybrids issued by ING Group which is counted as capital. ING's policy is that the available financial resources should exceed economic capital for Bank, Insurance and Group.

## **AVAILABLE-FOR-SALE FINANCIAL ASSETS**

Those non-derivative financial assets that are designated as available-for-sale or are not classified as:

- loans and receivables;
- held-to-maturity investments; or
- financial assets at fair value through profit and loss.

## **BASEL I**

Regulatory requirements issued by the Basel Committee on Banking Supervision for the solvency calculation, which are superseded by Basel II, for ING, from 2008 onwards.

## **BASEL II**

Regulatory requirements issued by the Basel Committee on Banking Supervision for the solvency calculation, which, for ING, apply from 2008 onwards. Basel II is an international standard for calculating the required capital based on internal models that take into account the financial and operational risks.

## **BASEL III**

Regulatory requirements issued by the Basel Committee on Banking Supervision for the solvency calculation and liquidity requirements, which will supersede Basel II. We expect these requirements to start to apply as of 1 January 2014 in Europe, with the full requirements being effective as of 1 January 2018.

## **BASIS POINT VALUE (BPV)**

The change in the Net Present Value of a cash flow or a pool of cash flows due to a one basis point change of the yield curve.

## **BASIS RISK**

This risk arises from an imperfect correlation in the adjustment of the rates earned and paid on different financial instruments. Examples of products in which these risks are inherent are demand deposits, saving accounts and mortgages with prepayment options.

## **BIS**

An international organisation which fosters international monetary and financial co-operation and serves as a bank for central banks. BIS has set a minimum for the solvency ratio reflecting the relationship between capital and risk weighted assets. The ratio should be at least 8%.

## **BUSINESS RISK**

The exposure to value loss due to fluctuations in volumes, margins and costs. These fluctuations can occur because of internal, industry, or wider market factors. It is the risk inherent to strategy decisions and internal efficiency.

## **CERTIFICATES OF DEPOSIT**

Short-term negotiable bearer debt instruments issued by banks.

## **CLAIM**

A demand for payment of a policy benefit because of the occurrence of an insured event, such as the death or disability of the insured or the maturity of an endowment, the incurrance of hospital or medical bills, the destruction or damage of property and related deaths or injuries, defects in, liens on, or challenges to the title to real estate, or the occurrence of a surety loss.

### CLAIMS RATIO

Claims, including claims handling expenses, expressed as a percentage of net earned premiums.

### COLLATERALISED DEBT OBLIGATION (CDO)

A type of asset-backed security which provides investors exposure to the credit risk of a pool of fixed income assets.

### COLLATERALISED LOAN OBLIGATION (CLO)

A type of CDO which is backed primarily by leveraged bank loans.

### COMBINED RATIO

The sum of the claims ratio and the cost ratio for a non-life insurance company or a reinsurance company. A combined ratio of more than 100% does not necessarily mean that there is a loss on non-life insurance policies, because the result also includes the allocated investment income.

### COMMERCIAL PAPER

Promissory note (issued by financial institutions or large firms) with very-short to short maturity period (usually 2 to 30 days, and not more than 270 days), and unsecured.

### COMPLIANCE RISK

Compliance risk is defined as the risk of damage to ING's reputation as a result of failure or perceived failure to comply with relevant laws, regulations, internal policies and procedures or ethical standards.

### CONCENTRATIONS OF CREDIT RISK

Concentrations of credit risk exist when changes in economic, industry or geographical factors similarly affect groups of counterparties whose aggregate exposure is material in relation to ING Group's total exposure.

### CONTINGENT LIABILITIES

Possible obligations that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or a present obligation that arises from past events but is not recognised because:

- it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or
- the amount of the obligation cannot be measured with sufficient reliability.

### CONTROL

The power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

### CONVERTIBLE DEBENTURES

Debentures with embedded options issued by corporations. The holder has the right to exchange a convertible debenture for equity in the issuing company at certain times in the future according to a certain exchange ratio. Very often, the conversion is callable. This means that it can be repurchased by the issuer at a certain price at certain times in the future. Once the debentures have been called, the holder can always choose to convert prior to repurchase.

### CONVEXITY

The non-linear relationship between changes in the interest rates and changes in bond prices and their Net Present Value. It is a very important market risk measure for portfolios containing (embedded) options.

### CORE DEBT

Investments in ING Group subsidiaries minus the equity of the holding company including hybrids.

### CORE TIER-1 CAPITAL

Tier-1 capital excluding hybrid capital.

### COST OF CAPITAL

The costs related to owning capital. These can be split into the cost of equity, hybrids and debt, taking a target leverage into account.

### COST RATIO

Underwriting costs expressed as a percentage of premiums written.

### COUNTRY RISK

The risk that a government will not fulfil its obligations or obstructs the remittance of funds by debtors, either for financial reasons (transfer risk) or for other reasons (e.g. political risk).

### CREDIT INSTITUTIONS

All institutions that are subject to banking supervision by public authorities, including mortgage banks, capital market institutions, multilateral development banks and the International Monetary Fund (IMF).

### CREDIT RISK

The risk of loss from default by borrowers (including bond issuers) or counterparties. Credit risks arise in ING's lending, presettlement and investment activities, as well as in its trading activities. Credit risk management is supported by dedicated credit risk information systems and internal rating methodologies for debtors and counterparties.

### DEFERRED TAX LIABILITIES

The amounts of income tax payable in future periods in respect of taxable temporary differences between carrying amounts of assets or liabilities in the balance sheet and tax base, based on tax rates that are expected to apply in the period when the assets are realised or the liabilities are settled.

### DEFINED BENEFIT PLAN

Post-employment benefit plans other than defined contribution plans.

### DEFINED CONTRIBUTION PLAN

Post-employment benefit plans under which an enterprise pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

### DEPOSITARY RECEIPT

Depository receipt for ordinary and preference shares, issued by the ING Trust Office, in exchange for ordinary and preference shares issued by ING Group.

### DERIVATIVES

Financial instruments, which include forwards, futures, options and swaps, whose value is based on an underlying asset, index or reference rate.

### DISCOUNTED BILLS

Bills that are sold under deduction of interest giving the owner the right to receive an amount of money on a given date.

### DISCONTINUED OPERATIONS

When a group of assets that is classified as held for sale represents a major line of business or geographical area the disposal group classifies as discontinued operations.

### DISCRETIONARY PARTICIPATION FEATURE

A contractual right to receive, as a supplement to guaranteed benefits, additional benefits that: are likely to be a significant portion of the total contractual benefits, whose amount or timing is contractually at the discretion of the insurer, that are contractually based on the performance of a specified pool or type of contract, (un)realised investment returns on a specified pool of assets held by the insurer, or the profit of the company, fund, or other entity that issues the contract.

### EARNINGS SENSITIVITY (ES)

Measures the impact on earnings resulting from changes in economic and financial conditions over a one-year horizon.

### ECONOMIC CAPITAL

The minimum amount of capital that is required to absorb unexpected losses in times of severe stress. Given ING Group's A target rating, ING calculates economic capital requirements for ING Bank at a 99.95% level of confidence. This confidence level is derived from the historical default frequency of AA-rated companies (probability of default of 1 in 2000 years or 0.05%). For ING Insurance the economic capital is calculated based on a confidence level of 99.5%, which is aligned with the Solvency II.

### EFFECTIVE INTEREST METHOD

A method of calculating the amortised cost of a financial asset or liability and of allocating the interest income or interest expense over the relevant period.

### ELIMINATION

A process by which intercompany transactions are matched with each other and deducted, so that the assets, liabilities, income and expenses are not inflated.

### EMPLOYEE BENEFITS

All forms of consideration given by a company in exchange for service rendered by (current and former) employees.

### FAIR VALUE

The amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

### FINANCE LEASE

A lease that transfers substantially all the risks and rewards associated with ownership of an asset to the lessee. Title may or may not eventually be transferred.

### FINANCIAL ASSET

Any asset that is:

- cash;
- an equity instrument of another company;
- a contractual right to:
  - receive cash or another financial asset from another company; or
  - exchange financial instruments with another company under conditions that are potentially favourable; or
- certain contract that will or may be settled in ING's own equity instruments.

### FINANCIAL INSTRUMENTS

Contracts that give rise to both a financial asset for one company and a financial liability or equity instrument for another company.

### FINANCIAL LIABILITY

Any liability that is a contractual obligation:

- to deliver cash or another financial asset to another company; or
- to exchange financial instruments with another company under conditions that are potentially unfavourable; or
- certain contracts that will or may be settled in ING's own equity instruments.

### FIRST CALL DATE

Perpetual subordinated loans have no set maturity. The first call date is the date on which ING has the option to repay and cancel the particular subordinated loan.

### FORBEARANCE ACTIVITIES

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.

### FOREIGN EXCHANGE RATE RISK

Probability of loss occurring from an adverse movement in foreign exchange rates.

### FORWARD CONTRACTS

Commitments to exchange currencies or to buy or sell other financial instruments at specified future dates.

### FUTURE CONTRACTS

Commitments to exchange currencies or to buy or sell other financial instruments at specified future dates. Exchanges act as intermediaries and require daily cash settlement and collateral deposits.

### GROSS PREMIUMS WRITTEN

Total premiums (whether or not earned) for insurance contracts written or assumed during a specific period, without deduction for premiums ceded.

### HELD FOR SALE

A business or group of assets for which the carrying amount will be recovered principally through a sale transaction rather than through continuing use. When a business or a group of assets are to be sold together in a single transaction, and the sale is considered to be highly probable, these are classified separately in the balance sheet as Assets held for sale. A sale is highly probable when management is demonstrably committed to the sale, which is expected to occur within one year from the date of classification as held for sale. Liabilities directly associated with those assets, and that are included in the transaction are included in the balance sheet as 'liabilities held for sale'.

### HELD-TO-MATURITY INVESTMENTS

Non-derivative financial assets with fixed or determinable payments and fixed maturity that ING Group has the positive intention and ability to hold to maturity other than:

- those that ING Group upon initial recognition designates as at fair value through profit and loss;
- those that ING Group designates as available-for-sale; and
- those that meet the definition of loans and receivables.

### HISTORICAL SIMULATION

A model to calculate Value at Risk, assuming that future changes in risk factors will have the same distribution as they had in the past taking into account the non-linear behaviour of financial products.

### IMPAIRMENT LOSS

The amount by which the carrying amount of an asset exceeds its recoverable amount.

### INTEREST BEARING INSTRUMENT

A financial asset or a liability for which a time-proportionate compensation is paid or received in relation to a notional amount.

### INTERNAL RATE OF RETURN (IRR)

Internal rate of return is the discount rate at which the present value of distributable earnings from new business equals the investment in new business (i.e. the projected return on the investment in new business) is calculated.

### INTEREST-RATE REBATES

Profit sharing for group life insurance business. A rebate granted to policyholders based on the discounted value of the difference between the interest rate used to calculate the premiums and the expected yield on investment. The profit sharing is granted by means of a premium discount related to the yield on government bonds.

### INTEREST RATE RISK

Probability that the market interest rates will rise significantly higher than the interest rate earned on investments such as bonds, resulting in their lower market value.

### IN THE MONEY

A call option is said to be in the money if the exercise price is lower than the price of the underlying value; a put option is said to be in the money if the exercise price is higher than the price of the underlying value.

### INVESTMENT RISK

Investment risk is the credit default and risk rating migration risk that is associated with ING Group's investments in bonds, commercial paper, securitisations, and other similar publicly traded securities. Investment risk arises when ING purchases a (synthetic) bond with the intent to hold the bond for a longer period of time (generally through maturity).

### INVESTMENT PORTFOLIO

Comprises those assets which are intended for use on a continuing basis, and have been identified as such. These investments are held in order to cover the insurance provisions and to manage interest rate, capital and liquidity risks.

### IRREVOCABLE FACILITIES

Mainly constitute unused portions of irrevocable credit facilities granted to corporate clients and commitments made to purchase securities to be issued by governments and private issuers.

### IRREVOCABLE LETTERS OF CREDIT

Concerns an obligation on behalf of a client to pay an amount of money under submission of a specific document or to accept a bill of exchange, subject to certain conditions. An irrevocable letter of credit cannot be cancelled or adjusted by the bank that has granted it during the duration of the agreement unless all those concerned agree.

### JOINT VENTURE

A contractual arrangement whereby two or more parties undertake an economic activity which is subject to joint control.

### LEGAL RISK

Legal risk is the risk related to:

- a failure (or perceived failure) to adhere to applicable laws, regulations and standards;
- contractual liabilities or contractual obligations that are defaulted or cannot be enforced as intended, or are enforced in an unexpected or adverse way; and
- liability (tort) towards third parties due to an act or omission contributable to ING; (potentially) resulting in impairment of ING's integrity, leading to damage to ING's reputation, legal or regulatory sanctions, or financial loss.

### LENDING RISK

Lending risk arises when ING Group grants a loan to a customer, or issues guarantees on behalf of a customer. This is the most common risk category, and includes term loans, mortgages, revolving credits, overdrafts, guarantees, letters of credit, etc. The risk is measured at the notional amount of the financial obligation that the customer has to repay to ING, excluding any accrued and unpaid interest, or discount/premium amortisations or impairments.

### LIQUIDITY RISK

The risk that ING Group or one of its subsidiaries cannot meet its financial liabilities when they fall due, at reasonable costs and in a timely manner.

### MARKET RISK

Market risk is the risk that movements in market variables, such as interest rates, equity prices, implied volatilities, foreign exchange rates, real estate prices negatively impact the earnings or market value.

### MINORITY INTERESTS

The part of the profit and loss and net assets of a subsidiary attributable to an interest which is not owned, directly or indirectly, by the parent company.

### MONETARY ASSETS AND LIABILITIES

Assets and liabilities which are fixed in terms of units of currency by contract or otherwise. Examples are cash, short or long-term accounts, notes receivable in cash and notes payable in cash.

### MONEY MARKET RISK

Money market risk arises when ING Group 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 (1-7 days is common). In the event of a counterparty default, ING Group may lose the deposit placed. Money market risk is therefore measured simply as the notional value of the deposit, excluding any accrued and unpaid interest or the effect of any impairment.

### MONOLINER

A financial company that deals specifically with one particular branch of the financial industry.

### MONTE CARLO SIMULATION

A model to calculate Value at Risk, assuming that changes in risk factors are (jointly) normally distributed taking into account nonlinear behaviour of financial products.

### MORTGAGE BACKED SECURITIES (MBS)

A security whose cash flows are backed by typically the principal and/ or interest payments of a pool of mortgages.

### NEW SALES

New sales of life insurance, measured as Annual Premium Equivalent (APE), have been defined as the total of annual premiums and 10% of single premiums received on production in a given period.

### NET ASSET VALUE

Used in the equity method of accounting. The initial net asset value of the investment is determined by the fair value of the assets and liabilities of the investee. After the initial valuation of assets and liabilities of the investee at fair value, the assets and liabilities of the investee are valued in accordance with the accounting policies of the investor. The profit and loss account reflects the investor's share in the results of operations of the investee.

### NET PREMIUMS WRITTEN

Gross premiums written for a given period less premiums ceded to retrocessionaires during the given period.

### NET PRESENT VALUE AT RISK (NPV-AT-RISK)

Establishes what the value of future cash flows is in terms of today's monetary value. NPV-at-Risk establishes the change in value of future cash flows as a result of interest rate changes in terms of today's monetary value.

### NON-VOTING EQUITY SECURITIES

Core Tier 1 securities issued to the Dutch State in November 2008 for a total consideration of EUR 10 billion. In December 2009 EUR 5 billion, in May 2011 EUR 2 billion and in November 2012 EUR 750 million was paid back to the Dutch State. This capital injection qualifies as core Tier 1 capital for regulatory purposes.

### NOTIONAL AMOUNTS

Represent units of account which, in respect of derivatives, reflect the relationship with the underlying assets. They do not reflect, however, the credit risks assumed by entering into derivative transactions.

### OPERATING LEASE

A lease other than a finance lease.

### OPERATING RESULT

Operating result is a measure to analyse the Insurance Underlying result. It is the underlying result before tax excluding realised gains/ losses and impairments on debt and equity securities, revaluations and market and other impacts.

### OPERATIONAL RISK

The risk of a direct or indirect loss resulting from inadequate or failed internal processes, people and systems or from external events.

### OPTION CONTRACTS

Give the purchaser, for a premium, the right, but not the obligation, to buy or sell within a limited period of time a financial instrument or currency at a contracted price that may also be settled in cash. Written options are subject to market risk, but not to credit risk since the counterparties have already performed in accordance with the terms of the contract by paying a cash premium up front.

### ORDINARY SHARE

An equity instrument that is subordinate to all other classes of equity instruments. Ordinary shares participate in the net profit for the financial year after other types of shares such as preference shares.

### OUT OF THE MONEY

A call option is said to be out of the money if the exercise price is higher than the price of the underlying value; a put option is said to be out of the money if the exercise price is lower than the price of the underlying value.

### OVER-THE-COUNTER INSTRUMENT

A non-standardised financial instrument not traded on a stock exchange but directly between market participants.

### PLAN ASSETS

Comprise assets held by a long-term employee benefit fund and qualifying insurance policies. Assets held by a long-term employee benefit fund are assets (other than non-transferable financial instruments issued by the reporting enterprise) that:

- are held by an entity (a fund) that is legally separate from the reporting enterprise and exists solely to pay or fund employee benefits; and
- are available to be used only to pay or fund employee benefits, are not available to the reporting enterprise's own creditors (even in bankruptcy), and cannot be returned to the reporting enterprise, unless either the remaining assets of the fund are sufficient to meet all the related employee benefit obligations of the plan or the reporting enterprise or the assets are returned to the reporting enterprise to reimburse it for employee benefits already paid.

A qualifying insurance policy is an insurance policy issued by an insurer that is not a related party of the reporting enterprise, if the proceeds of the policy:

- can be used only to pay or fund employee benefits under a defined benefit plan; and
- are not available to the reporting enterprise's own creditors (even in bankruptcy) and cannot be paid to the reporting enterprise, unless either the proceeds represent surplus assets that are not needed for the policy to meet all the related employee benefit obligations or the proceeds are returned to the reporting enterprise to reimburse it for employee benefits already paid.

### POST-EMPLOYMENT BENEFIT PLANS

Formal or informal arrangements under which a company provides post-employment benefits for one or more employees. Post-employment benefits are employee benefits other than termination benefits and equity compensation benefits, which are payable after the completion of employment.

### PREFERENCE SHARE

Similar to an ordinary share but carries certain preferential rights. These rights usually concern the guarantee of a fixed (cumulative) return to the shareholder or a guaranteed return on the investment.

### PREMIUMS EARNED

The portion of net premiums written in current and past periods which applies to the expired portion of the policy period, calculated by subtracting movements in unearned premium reserves from net premiums.

### PRE-SETTLEMENT RISK

Pre-settlement risk arises when a counterparty defaults on a transaction before settlement and ING Group has to replace the contract by a trade with another counterparty at the then prevailing (possibly unfavourable) market price. The pre-settlement risk (potential or expected risk) is the cost of ING Group 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 outstanding is generally based on the replacement value (mark-to-market) plus potential future volatility concept, using an historical 7 year time horizon and a 99% confidence level.

### PRIVATE LOAN

Loans to governments, other public bodies, public utilities, corporations, other institutions or individuals with a loan agreement as the only instrument of title.

### PRIVATE PLACEMENT

A placement in which newly issued shares or debentures come into possession of a limited group of subscribers who are prepared to buy the new securities.

### PROJECTED UNIT CREDIT METHOD

An actuarial valuation method that considers each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

### QUALIFYING ASSET (WITHIN THE MEANING OF BORROWING COSTS)

An asset that necessarily takes a substantial period of time to get ready for its intended use or sale.

### RECOGNITION

The process of incorporating in the balance sheet or profit and loss account an item that meets the definition of an element and satisfies the following criteria for recognition:

- it is probable that any future economic benefit associated with the item will flow to or from the enterprise; and
- the item has a cost or value that can be measured reliably.

### RECOVERABLE AMOUNT

The higher of an asset's net selling price and its value in use.

### REDEMPTION VALUE

With respect to investments in fixed-interest securities, the amount payable on the maturity date.

### REINSURANCE

The practice whereby one party, called the reinsurer, in consideration for a premium paid to him, agrees to indemnify another party, called the reinsured or ceding company, for part or all of the liability assumed by the reinsured under a contract or contracts of insurance which the reinsured has issued. The reinsured may also be referred to as the original or primary insurer, the direct writing company, or the ceding company.

### RETURN ON EQUITY (ROE)

The return on equity is the net result as percentage of the average equity.

### RISK-WEIGHTED ASSETS ('RWA' UNDER BASEL I)

Assets which are weighted for credit risk according to a formula used by the Dutch central bank (De Nederlandsche Bank), which conforms to the capital adequacy guidelines of the BIS (Bank of International Settlements). On and off-balance-sheet items are weighted for risk, with off-balance-sheet items converted to balance-sheet equivalents (using credit-conversion factors) before being allocated a risk weight.

### **RISK-WEIGHTED ASSETS ('RWA' UNDER BASEL II)**

Assets which are weighted for credit and market risk in accordance with the Basel II methodology. The risk-weighted assets are calculated using internal models approved by The Dutch central bank (De Nederlandsche Bank). Regulatory capital requirements for operational risk are calculated without use of risk-weighted assets.

### **SETTLEMENT RISK**

Settlement risk arises when there is an exchange of value (funds, instruments or commodities) for the same or different value dates and receipt is not verified or expected until ING Group has paid or delivered its side of the trade. The risk is that ING Group delivers, but does not receive delivery from the counterparty.

### **SIGNIFICANT INFLUENCE**

The power to participate in the financial and operating policy decisions of an entity, but not to have control over these policies. Significant influence may be gained by share ownership, statute or agreement.

### **SOLVENCY II**

The fundamental reform of European insurance solvency and risk governance legislation.

### **SUB-PRIME MORTGAGES**

Mortgage loans made to borrowers who cannot get a regular mortgage because they have a bad credit history or limited income.

### **SUBSIDIARY**

An entity that is controlled by another entity.

### **SURRENDER**

The termination of a life or retirement contract at the request of the policyholder after which the policyholder receives the cash surrender value, if any, on the contract.

### **SWAP CONTRACTS**

Commitments to settle in cash at a specified future date, based on differentials between specified financial indices as applied to a notional principal amount. Generally, no cash is exchanged at the outset of the contract and no principal payments are made by either party.

### **TIER-1 CAPITAL**

Tier-1 capital comprises paid up share capital, reserves excluding revaluation reserves, retained earnings, minority interests and hybrid capital. Where a reference is made to Basel III, we follow the definition of the Basel Committee on Banking Supervision, which means that revaluation reserves are included, but goodwill, intangibles, defined benefit pension fund assets and part of the deferred tax assets and minority interests are excluded.

### **TIER-1 RATIO**

Reflecting the Tier 1 capital of ING Bank as a percentage of its total risk weighted assets. The minimum set by the Dutch central bank is 4%.

### **TIER-2 CAPITAL**

Tier-2 capital, or supplementary capital, consists of mainly subordinated debt meeting the conditions set by the Basel Commission and is a constituent of ING Bank's capital base. The Basel III accord sets tighter conditions which ING Bank's current Tier-2 capital instruments do not meet. However these instruments will be grandfathered under the Basel III accord in descending degree over the years 2013-2022.

### **TRADING PORTFOLIO**

Comprises those financial instruments which are held to obtain short-term transaction results, to facilitate transactions on behalf of clients or to hedge other positions in the trading portfolio.

### **TRANSFER RISK**

Probability of loss due to currency conversion (exchange) restrictions imposed by a foreign government that make it impossible to move money out of the country.

### **TREASURY BILLS**

Generally short-term debt certificates issued by a central government. Dutch Treasury Certificates are regarded as Dutch Treasury bills.

### **TREASURY SHARES**

An entity's own equity instruments, held by the entity or other members of the consolidated group.

### **UNDERLYING RESULT**

Underlying result is a measure to evaluate the result of the segments. It is derived from the result in accordance with IFRS-EU by excluding the impact of divestments, discontinued operations and special items.

### **VALUE AT RISK (VAR)**

Quantifies, with a one-sided confidence level of at least 99%, the maximum overnight loss in Net Present Value that could occur due to changes in risk factors (e.g. interest rates, foreign exchange rates, equity prices, credit spreads, implied volatilities) if positions remain unchanged for a time interval of one day.

### **VALUE IN USE**

The present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life.

### **VARIANCE-COVARIANCE**

A model to calculate Value at Risk, assuming that changes in risk factors are (jointly) normally distributed and that the change in portfolio value is linearly dependent on all risk factor changes.

### **WARRANT**

A financial instrument that gives the holder the right to purchase ordinary shares.

### **WEIGHTED AVERAGE COST OF CAPITAL (WACC)**

The weighted average cost of capital is used as the discount rate for calculating the present value of future cash flows.

# General information

## Disclaimer

Certain of the statements contained in this Annual Report are not historical facts, including, without limitation, certain statements made of future expectations and other forward-looking statements that are based on management's current views and assumptions and involve known and unknown risks and uncertainties that could cause actual results, performance or events to differ materially from those expressed or implied in such statements. Actual results, performance or events may differ materially from those in such statements due to, without limitation: (1) changes in general economic conditions, in particular economic conditions in ING's core markets, (2) changes in performance of financial markets, including developing markets, (3) consequences of a potential (partial) break-up of the euro, (4) the implementation of ING's restructuring plan to separate banking and insurance operations, (5) changes in the availability of, and costs associated with, sources of liquidity such as interbank funding, as well as conditions in the credit markets generally, including changes in borrower and counterparty creditworthiness, (6) the frequency and severity of insured loss events, (7) changes affecting mortality and morbidity levels and trends, (8) changes affecting persistency levels, (9) changes affecting interest rate levels, (10) changes affecting currency exchange rates, (11) changes in investor, customer and policyholder behaviour, (12) changes in general competitive factors, (13) changes in laws and regulations, (14) changes in the policies of governments and/or regulatory authorities, (15) conclusions with regard to purchase accounting assumptions and methodologies, (16) changes in ownership that could affect the future availability to us of net operating loss, net capital and built-in loss carry forwards, (17) changes in credit-ratings, (18) ING's ability to achieve projected operational synergies and (19) the other risk factors and uncertainties detailed in the Risk Factors section contained in this Annual Report.

Any forward-looking statements made by or on behalf of ING speak only as of the date they are made, and, ING assumes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information or for any other reason.

## General information continued

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### ING PUBLICATIONS

- Annual Report in English
- Annual Report on Form 20-F, in English  
(in accordance with SEC guidelines)

These publications are available on [www.ing.com](http://www.ing.com).

The publications can be ordered on the internet:

[www.ing.com](http://www.ing.com), button 'Publications',

by fax: +31 411 652 125, or

by mail: P.O. Box 258,  
5280 AG Boxtel,  
the Netherlands.

This Annual Report contains the Reports of the Executive Board and Supervisory Board as well as the Annual Accounts and Other information for the financial year 2012 in their original language (English).

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