2010

Qualitative and Quantitative Disclosures Relating to Capital Adequacy of the Capital Group of ING Bank Śląski S.A. for the year 2010

INTRODUCTION

Pursuant to Article 111 a. of the Banking Law Act dated 29 August 1997 (Journal of Laws of 2002 No. 72, item 665 as amended), hereinafter referred to as the "Banking Law Act", ING Bank Śląski S.A., hereinafter referred to as the Bank, is obliged to reveal qualitative and quantitative disclosures relating to the capital adequacy, excluding irrelevant information and information whose disclosure might have an adverse impact on the Bank's standing in the relevant market, within the meaning of regulations on competition and consumer protection and information covered by legal secrecy.

Pursuant to resolution 16/III/2010 of the Bank Supervisory Board of 5th March 2010, disclosures relating to the capital adequacy of the Capital Group of ING Bank Śląski S.A. are published.

Disclosures in this document are based on the data from the annual consolidated financial report of the Capital Group of ING Bank Śląski S.A. for the year 2010.

Other disclosures from the annual statements of ING Group (a dominant entity in the holding) are published in the enclosure hereto.

1. OWN FUNDS

1.1 OWN CAPITAL

The capital comprises: the share capital, the share premium account, revaluation capital and retained earnings. All capitals and funds are recognised at their face value.

The share capital is recognised at its face value, in accordance with the statute and entry into the commercial register.

The share premium account comprises the share premium earned from the issue of shares less the direct costs thereof.

The revaluation capital comprises:

- measurement of financial assets available for sale
- measurement of financial instruments hedging the cashflow
- measurement of fixed assets measured at fair value
- measurement of share based payments

Charges for deferred tax connected with the abovementioned measurements are carried through the revaluation capital. The revaluation capital is not subject to distribution.

Retained earnings represent the profits earned by the Bank in the previous term less paid up dividends. Retained earnings comprise:

- other supplementary capital
- capital reserve
- general risk fund
- undistributed profit/loss of past years
- net financial result for shareholders of the dominant entity

Other supplementary capital is established from earnings after tax with the aim of covering the balance sheet loss. The decision on using the supplementary capital is taken by the General Meeting.

The capital reserve is established separately from the supplementary capital from earnings after tax in the amount decided by the General Shareholder Meeting. The capital reserve is earmarked for covering special losses and expenses. The decision on using the capital reserve is taken by the General Meeting.

The General Risk Fund is established under the Banking Law Act from earnings after tax and is earmarked for covering unidentified risk of banking operations. The decisions on using the fund are taken by the Management Board.

1.2 SHORT-TERM CAPITAL

As per 31 December 2010 the short-term capital was calculated in accordance with Ordinance Fin/31/08 of the President of the Bank Management Board dated 17 January 2008, compliant with the regulations in this area. In view of the fact that the Bank's trading activity is material, the short-term capital is used in order to determine the capital adequacy standard.

The short-term capital is the sum of:

- the market profit including the daily market result on operations classified to the trading portfolio and the daily market result due to the exchange rate variations and prices of goods in operations classified to the banking portfolio, calculated on a cumulative basis until the reporting date, less the known charges,
- the losses (negative value) on all operations classified to the banking portfolio, calculated on a cumulative basis until the reporting date, excluding losses due to exchange rate variations and prices of goods.

A positive value of the short-term capital is taken into consideration when setting the capital adequacy standard, up to the level not exceeding the sum of capital requirements for market risk.

1.3 CALCULATION OF OWN FUNDS

Disclosures relating to the capital fund per Basel II were presented in line with Article 127 of the Banking Law Act and Resolution 381/2008 of the Polish Financial Supervisory Authority (KNF) dated 17 December 2008 replaced with Resolution 367/2010 of the Polish Financial Supervisory Authority (KNF) dated 12 October 2010 concerning other reductions of Tier I capital, their volume, scope and conditions of Tier 1 capital reductions, other balance sheet items which are taken to Tier II capital, reductions of Tier II capital, their volume, scope and conditions of Tier 2 capital; and the scope and method of organising the activities of banks in calculating capital funds.

The capital fund and the short-term capital per Basel II in thousands PLN

	31.12.2010	31.12.2009
I. Tier I capital	**4 849 374**	**4 157 990**
1. Core capital	**1 161 405**	**1 161 281**
- Paid up capital	130 100	130 100
- Share premium account	956 250	956 250
- Other supplementary capital elements	75 055	74 931
2. Capital reserve	**3 180 003**	**2 533 873**
- Capital reserve, including undistributed profit of past years	2 808 602	2 273 276
- Minority capitals	2 352	2 314
- Net profit of the current term and profit under approval	369 049	263 524
- Tier I capital revaluation	0	-5 241
3. General Risk Fund	**850 179**	**790 179**
4. Reductions of Tier I capital	**-342 213**	**-327 343**
- Intangible assets	-342 213	-327 343
II. Tier II capital	**8 125**	**2 858**
- Tier I capital revaluation adjustment recognised as Tier II capital	8 125	2 858
III. Reductions of Tier I and Tier II capitals	**-40 000**	**-40 000**
- Reductions of Tier I capital	-31 875	-37 142
- Reductions of Tier II capital	-8 125	-2 858
Total capital funds	**4 817 499**	**4 120 848**
Short-term capital	**26 506**	**65 495**
Total capital funds for capital adequacy purposes	**4 844 005**	**4 186 343**

The capital reserve includes profit in the process of approval and the net profit of the current reporting term less expected charges and dividend in the amount not exceeding the profit amount as verified by the chartered accountant.

Tier II capital comprises the Tier I capital revaluation adjustment recognised as Tier II capital in regard to unrealised earnings on debt and capital instruments available for sale.

Pursuant to KNF Resolution 367/2010 (article 4), the Group diminished Tier I and Tier II capitals by the value of capital exposures in financial institutions (in the event of the Capital Group of ING Bank Śląski it is the amount of exposure in the affiliated entity, ING Powszechne Towarzystwo Emerytalne S.A.). The reductions cover first Tier II capital and then Tier I capital.

The short-term capital is calculated in accordance with article 5 of KNF Resolution 76/2010.

2. CAPITAL REQUIREMENTS

2.1 CALCULATION OF CAPITAL REQUIREMENTS

The Bank applies the standard approach to the credit risk.

The standard approach compliant with Basel II is used to calculate the requirement for market risk and the requirement due to exposure concentration limit and large exposures limit overrun.

The capital requirement for operational risk was estimated using the Basic Indicator Approach (BIA).

	31.12.2010	**31.12.2009**
Total capital requirements for the following risks: credit risk, counterparty's credit risk, dilution and delivery of instruments at a later date	2 581 597	2 432 020
Capital requirement for settlement-delivery risk	5 064	2 187
Total capital requirements for the following risks: prices of equity securities, risk of debt instrument prices, FX and commodity price risk	1 753	15 308
Total capital requirements for operational risk	326 871	290 789
Capital requirement for overall interest rate risk	19 689	48 000
Capital requirement due to exposure concentration limit and large exposures limit overrun	11 998	0
Total capital requirements	**2 946 972**	**2 788 304**

The capital requirement for credit risk represents approx. 88% of the Group's overall capital requirement and has the greatest impact on capital adequacy calculation.

The table below presents the structure of credit exposures and the volume of exposures for individual risk weights:

Risk weight	Exposure value before off-balance-sheet exposure conversion ratio	Fully adjusted exposures of off-balance-sheet items per conversion ratios				Exposure value	Risk-weighted exposure value	Total capital requirements for the following risks: credit risk, counterparty's credit risk, dilution and delivery of instruments at a later date
		0%	20%	50%	100%			
0%	**61 964 283**	**34 058 580**	**0**	**0**	**0**	**28 019 537**	**0**	**0**
20%	**4 198 982**	**60 953**	**976**	**426 941**	**45**	**3 809 918**	**761 984**	**60 959**
50%	**10 189 700**	**4 828 728**	**11 106**	**266 070**	**1 232**	**4 038 655**	**2 019 328**	**161 546**
75%	**15 605 056**	**61 169**	**700**	**2 681 495**	**31 245**	**14 173 215**	**10 629 911**	**850 393**
100%	**26 248 634**	**3 409 713**	**191 140**	**6 245 205**	**1 532 013**	**18 649 740**	**18 649 740**	**1 491 979**
150%	**153 806**	**3 471**	**0**	**4 601**	**1 604**	**139 334**	**209 001**	**16 720**
Total	**118 360 462**	**42 422 615**	**203 922**	**9 624 311**	**1 566 140**	**68 830 400**	**32 269 965**	**2 581 597**

3. SOLVENCY RATIOS

The solvency ratio is calculated as percentage, namely a fraction whose:

– numerator is the value of the capital fund plus short-term capital,

– denominator is the overall capital requirement multiplied by 12.5,

multiplied by 100.

The consolidated solvency ratio of the ING Bank Śląski S.A. Capital Group as at 31 December 2010 is 13.15 %.

4. INTERNAL CAPITAL

The economic capital – a term used by ING Group for the internal capital - is defined as the capital required in order to cover all material risks in the bank's operations. The economic capital's volume should cover the level of unexpected losses, assumed by the bank, that the bank may be exposed to in the future. When estimating the level of capital indispensable to protect the bank against the adverse impact of risk, the yearly time span is assumed as well as the confidence level corresponding to AA rating, i.e. 99.95%. ING Bank Śląski uses methodologies developed by ING Group for the needs of the economic capital calculation. Please note that methodologies used were adjusted for the purposes of local market requirements.

ING Bank Śląski identifies and measures the following types of economic capital:

1. Capital for coverage of the credit risk
   - includes the risk of the creditor's default,
   - is determined on the basis of the parameters of transactions and client risk (EAD, PD, LGD) as well as transaction's correlation with the entire Bank's portfolio;

2. Capital for coverage of the transfer risk
   - includes the risk of default in the event of transactions in foreign currencies,
   - is determined similarly to the credit risk, on the basis of the sovereign risk parameters;

3. Capital for coverage of the market risk
   - includes the risk of loss resulting from adverse developments in the financial market, including among others the interest rate risk, FX rate risk and the risk of changes in prices of financial instruments being part of the bank's portfolio,
   - is determined using the Value at Risk (VaR) method, i.e. the statistical estimation of the potential loss within the assumed time;

4. Capital for coverage of the operational risk
   - includes the risk of direct or indirect loss resulting from inadequate or faulty internal processes, people and systems, IT risk and internal events, reputational risk and litigation risk,
   - is determined using the Advanced Measurement Approach (AMA);

5. Capital for coverage of the business risk
   - includes two types of risk: cost risk and customer behaviour risk. Cost risk is a risk of actual cost deviation from the expected cost. Customer behaviour risk covers risk of potential losses due to uncertainty of customers actions,
   - Capital for customer behaviour risk represents potential losses which can arise from the structural mismatch between replicating portfolio and customer behaviour,
   - Capital for cost risk is based on actual costs and its changes over time;

The total value of the economic capital is the sum of the above mentioned capitals. The calculation of individual capitals does not account for correlations between specific risks the bank is exposed to, thus the calculated total capital level is adjusted with the diversification ratio. Taking account of the diversification effect is based on the assumption that the probability of materialisation of all risks at the same time is insignificant. Thus, the diversification ratio allows for avoiding overestimation of the overall economic capital needed to protect the bank against the risk.

The economic capital calculation models were developed at the ING Group level. Most of the parameters used for calculation of the economic capital is also calculated at this level.

ATTACHMENT

Additional Pillar 3 information

INTRODUCTION

This Pillar 3 section includes information that Basel II requires to be made publicly available (unless it has already been provided in the risk management section). The information relates to ING Bank N.V. and all of its subsidiaries. The information contained in this section has not been audited by ING Bank's external auditors.

NEW CAPITAL ADEQUACY RULES – BASEL II ACCORD

The rules on capital adequacy, also referred to as Regulatory Capital (RECAP), 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 subordinated loans 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. Since the new regulations adopt a 'risk-based approach' to determine the required capital base, there is a significant difference in the measurement of capital compared to the former rules. Therefore, the Dutch government adopted legislation to implement the new rules in stages.

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 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). Individually, these portfolios are relatively small, very specialised, or are related to new acquisitions in companies that themselves did not yet follow the AIRB Approach. In some cases, the Standardised Approach is mandated in conjunction with transition restrictions imposed by local regulators. The AIRB and SA approach are explained in more detail in their separate sections, provided below.

During 2010 ING reducedraised its SA Portfolio by 14% in terms of credit risk outstandings, which fell short of the goal of reducing the SA portfolio by 50%. The lower rate of reduction was caused by slower regulatory approvals of internal models in certain countriesexposures. ING continues to work towards reducing the portion of its portfolio which falls under the Standardised Approach.

ING uses the AIRB and the Internal Assessment Approach (IAA) for liquidity lines provided to Asset Backed Commercial Paper programs. For a number of portfolios that are either on an exit strategy or immaterial in terms of size and risk profile, the Standardised Approach is used.

Additional Pillar 3 information (continued)

REGULATORY CAPITAL REQUIREMENTS

Regulatory capital requirements	2010	2009
Credit risk		
Portfolios subject to standardised approach	**2,812**	**2,540**
Portfolios subject to advanced IRB approach		
– Central governments and central banks	**107**	**245**
– Institutions	**1,412**	**1,235**
– Corporate	**8,823**	**9,629**
– Residential mortgages	**4,799**	**4,360**
– Other retail	**1,235**	**1,129**
Total portfolios subject to advanced IRB approach	**16,376**	**16,598**
Securitisation exposures	**1,227**	**1,156**
Equity portfolios in the banking book under the simple risk weight approach	**310**	**364**
Other Non-Credit Obligation Assets (ONCOA)	**1,727**	**2,132**
Total credit risk	**22,452**	**22,790**
Market risk		
Standardised approach	**137**	**150**
Internal models approach - trading book	**227**	**341**
Total market risk	**364**	**491**
Operational risk		
Advanced measurement approach	**2,872**	**3,309**
Total Basel II required Regulatory Capital	**25,688**	**26,590**
Basel II floor*	**29,870**	**28,709**
Additional capital requirement (due to floor)	**4,182**	**2,119**

* the floor is 80% of Basel I required Regulatory Capital

In order to prevent large short term effects on capital requirements, the regulators introduced transition rules (the 'capital floor') for institutions implementing the new capital adequacy reporting. For 2009 and 2010 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 4,182 million for 2010 (EUR 2,119 million in 2009).

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 section under the heading 'Regulatory Capital'.

CREDIT RISK

BASIS OF PRESENTATION FOR CREDIT RISK

For credit risk, data included in these tables is related to ING Bank's core credit risk activities in the areas of: Securities Financing, Derivatives (collectively Pre-Settlement Risk); Money Market activities (including reserve deposits at Central Banks); Lending (both on and off balance sheet); and Investment risks.

The amounts presented in this section relate to amounts used for credit risk management purposes, which follow ING's interpretation of the definitions as prescribed under the Basel II accords. Therefore, the numbers are different than the accounting numbers as reported in the annual accounts under IFRS-EU. 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, etc.

Figures associated with Money Market and Lending activities are generally the nominal amounts, while amounts associated with Investment activities are based on the original amount invested less repayments. 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 statistically 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 oustandings".

Additional Pillar 3 information (continued)

Exposures associated with Securitisations (Asset Backed Financing, Commercial/Residential Mortgage Backed Securities and Covered Bonds) are shown separately. These amounts also relate to the amount invested prior to any impairment activity or mark-to-market adjustments. This amount is also considered to be "credit risk outstandings".

Unless otherwise stated, the tables included in this Section focus on the measurement of Exposure at Default (EAD) and Risk Weighted Assets (RWA) under the Basel II definitions. EAD 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. Additionally, the risk weighting amounts (plus add-ons) are included. Multiplying RWA by 8% will result in the level of Regulatory Capital (RECAP) that is required to be held against these portfolios (for the credit risk portion of the activities).

PILLAR 3 CREDIT RISK IN PRACTICE

The Basel II Accord not only changes the way ING reports its credit risk for regulatory purposes; it also affects the daily operations and practices of all types of risk management at all levels within ING Bank. It has no effect on ING Insurance or Asset Management operations.

One of the key elements of the Basel II Accord is the “Use Test”, which requires ING to use Basel concepts in its day-to-day activities. The diagram below illustrates where ING has incorporated the Basel II concepts into its daily activities, both globally and locally:

RISK MEASUREMENT AND REPORTING

ING distinguishes three separate information requirements from senior management related to the Advanced IRB (AIRB) approach for credit risk:

– Reporting on (minimum) regulatory capital requirements;
– Model monitoring reports; and
– Stress testing reports.

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.

Additional Pillar 3 information (continued)

Exposure Classes
The Basel II 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 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 Leasing Companies, 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;

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.

Gross credit risk exposures (EAD) by exposure class

	Central governments and central banks	Institutions	Corporate	Residential mortgages	Other retail	Total 2010	Total 2009
Standardized Approach	10,497	3,196	17,548	8,345	12,643	52,229	**45,739**
Advanced IRB Approach	82,582	109,848	267,796	321,149	34,033	815,408	**768,798**
Total	93,079	113,044	285,344	329,494	46,676	867,637	**814,537**

* includes both AIRB and SA portfolios; Excludes securitisations, equities and ONCOA

Gross credit risk exposures (EAD) by geographic area

	Central governments and central banks	Institutions	Corporate	Residential mortgages	Other retail	Total 2010	Total 2009
Netherlands	25,232	2,236	73,833	143,284	18,116	262,701	260,790
Belgium	10,405	4,934	30,623	25,754	9,580	81,296	77,969
Other Europe	45,516	71,279	107,919	75,022	17,196	316,932	296,851
Americas	6,671	11,700	45,706	51,305	873	116,255	105,356
Asia / Pacific	4,904	22,317	26,477	33,223	779	87,700	70,826
Rest of World	351	578	786	906	132	2,753	2,745
Total	93,079	113,044	285,344	329,494	46,676	867,637	**814,537**

* includes both AIRB and SA portfolios; Excludes securitisations, equities and ONCOA

The figures presented in this table are EAD based on the country of the 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. Nor do these figures represent the economic exposure that is present in a given country. Figures associated with ING's transfer risk positions and economic country risk exposure can be found in risk management section, including their corresponding definitions.

Additional Pillar 3 information (continued)

Gross credit risk exposures (EAD) by economic sector								
		Central governments and central banks	Institutions	Corporate	Residential mortgages	Other retail	Total 2010	Total 2009
Private Individuals				189	329,493	18,719	348,401	321,174
Commercial Banks		1,856	86,071	1,470		37	89,434	88,494
Central Governments		62,716					62,716	64,675
Non-Bank Financial Institutions			12,231	52,763		867	65,861	50,645
Real Estate				55,852		2,955	58,807	56,706
Natural Resources				36,650		465	37,115	31,603
Services				17,130		5,420	22,550	21,366
Lower Public Administration		8,932	13,807			89	22,828	20,642
Transportation & Logistics				21,472		1,603	23,075	22,497
General Industries				15,863		3,008	18,871	16,870
Food, Beverages & Personal Care				16,741		2,963	19,704	19,517
Central Banks		19,558					19,558	22,022
Builders & Contractors				13,434		3,062	16,496	16,087
Other		15	934	53,781		7,488	62,218	62,239
Total		93,077	113,043	285,345	329,493	46,676	867,634	814,537

* includes both AIRB and SA portfolios; Excludes securitisations, equities and ONCOA

The figures presented above are based on the Basel II defined EAD, and differ from the industry distribution figures that are presented in the annual accounts. Note that all other sectors have exposures that are less than EUR 15.0 billion.

ING uses a common industry classification methodology based on the NAICS system (North American Industry Classification System). This methodology has over 1,500 detailed industry descriptions, which are aggregated into 22 industry classes at the highest level. Certain countries require ING 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.

Outstandings by Tenor Bucket (based on credit risk outstandings)								
		Central governments and central bank	Institutions	Corporates	Residential mortgages	Other retail	Total 2010	Total 2009
current outstandings		86,904	114,653	240,053	316,658	34,962	793,230	**752,371**
1 month		81,428	113,002	234,230	316,237	34,220	779,117	**736,401**
3 month		70,628	90,217	216,677	315,776	33,583	726,881	**679,992**
6 month		68,690	84,852	203,256	314,923	32,534	704,255	**659,523**
1 year		65,032	79,977	166,394	311,453	23,121	645,977	**597,945**
2 years		54,783	70,091	133,714	306,815	20,337	585,740	**551,220**
3 years		49,528	61,934	108,262	299,705	17,716	537,145	**504,325**
5 years		38,176	45,512	69,611	276,369	12,626	442,294	**423,278**
7 years		30,240	34,723	47,338	264,795	10,052	387,148	**365,098**
10 years		9,288	15,860	33,833	239,128	7,548	305,657	**291,183**

* includes both AIRB and SA portfolios; Excludes securitisations, equities and ONCOA
* problem Loans (rating 20-22) are excluded in the figures above

Basel II does not include a cash flow methodology that would look at future portfolio runoff. This table, therefore, presents figures that are based on credit risk outstandings, and not EAD. Credit Risk outstandings include amounts associated with both on and off balance sheet products, but exclude amounts related to unused limits. For derivatives and securities financing, the mark-to-market plus add-on methodology is applied, but the add-ons are generally less conservative than the add-ons applied under the Basel II definitions.

Additional Pillar 3 information (continued)

The figures above assume 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'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 EAD.

Further, all figures assume that no new credit risks are introduced into the portfolio and that there are no delays in repayments associated with problem loans, nor are there write offs associated with provisions or impairments. The portfolio runoff is implied by the difference in the figures between two periods.

LOAN LOSS 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, individualized provisions are still required. These are generally loans that exceed the threshold amount. The threshold amount varies per business unit, but generally is EUR 0 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, ongoing cash flows, sale of a business/subsidiary, etc. ISFA provisions are all calculated using a common tool across ING Bank.

- Incurred But Not Recognized (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 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 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.

Cumulative Provisions by geographic area

Country		Central Governments and Central Banks	Institutions	Corporates	Residential mortgages	Other Retail	Total 2010	Total 2009
Netherlands			1	803	151	369	1,324	1,039
Belgium				283	42	154	479	429
Other Europe		2	23	1,293	367	378	2,063	1,700
Americas			1	390	566	4	961	986
Asia / Pacific		1	10	251	33	67	362	239
Rest of World		1	1	2	2		6	6
Total		4	36	3,022	1,161	972	5,195	4,399

* both AIRB and SA portfolios; Excludes securitisations, equities and ONCOA
* excludes revaluations made directly through the equity account

Above presentation of the cumulative provisions is based on the country of residence of the obligor.

Additional Pillar 3 information (continued)

Cumulative Provisions by economic sector

		Central governments and central banks	Institutions	Corporate	Residential mortgages	Other retail	Total 2010	Total 2009
Private Individuals				4	1,161	384	1,549	1,379
Real Estate				539		32	571	379
General Industries				403		61	464	407
Food, Beverages & Personal Care				322		75	397	295
Builders & Contractors				306		88	394	355
Services				250		90	340	265
Transportation & Logistics				275		41	316	173
Non-Bank Financial Institutions			4	260		19	283	196
Retail				121		64	185	133
Natural Resources				158		9	167	135
Media				101		24	125	101
Automotive				102		21	123	136
Chemicals, Health & Pharmaceuticals				90		14	104	84
Other		4	32	91		50	177	361
Total		4	36	3,022	1,161	972	5,195	4,399

* includes both AIRB and SA portfolios; Excludes securitisations, equities and ONCOA
* excludes impairments made directly to the equity accounts

The tables above should be read in conjunction with the corresponding tables below related to Past due loans by geographic area and Past due loans by economic sector as well as information and statements in the annual accounts. Economic sectors not shown in above table have cumulative provisions of less than EUR 50 million, and are grouped under Other.

Past due loans by geographic area (based on outstandings)

		Residential mortgages	Other Retail	Total 2010	Total 2009
Netherlands		**1,793**	**2**	**1,795**	**2,397**
Belgium		**1,012**	**215**	**1,227**	**2,525**
Other Europe		**432**	**253**	**685**	**350**
Americas		**509**	**1**	**510**	**634**
Asia / Pacific		**1,386**	**21**	**1,407**	**1,032**
Rest of World		**14**		**14**	**466**
Total		**5,146**	**492**	**5,638**	**7,404**

* includes both AIRB and SA portfolios; Excludes securitisations, equities and ONCOA
* excludes revaluations made directly through the equity account

Above presentation of the past due loans is based on the country of residence of the obligor.

Past due loans by economic sector (based on outstandings)

		Residential mortgages	Other retail	Total 2010	Total 2009
Private Individuals		**5,146**	**225**	**5,371**	**7,056**
Other			**267**	**267**	**348**
Total		**5,146**	**492**	**5,638**	**7,404**

* includes both AIRB and SA portfolios; Excludes securitisations, equities and ONCOA
* excludes revaluations made directly through the equity account

Additional Pillar 3 information (continued)

Economic sectors not shown in above table have past due loans of less than EUR 150 million, and are grouped under Other.

The tables above should be read in conjunction with the corresponding tables below related to cumulative provisions by geographic area and cumulative provisions by economic sector as well as information and statements in the annual accounts.

ING 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 has adopted a policy to classify the obligor as a problem 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 certain exposure classes show no figures).

The figures above are based on credit risk outstandings, and not EAD. Credit Risk outstandings include amounts associated with both on and off balance sheet products, but exclude amounts related to unused limits. For derivatives and securities financing, the mark-to-market plus add-on methodology is applied, but the add-ons are generally less conservative than the add-ons applied under the Basel II definitions.

Loan Loss Provision Shortfall

The Loan Loss Provision Shortfall is the difference between the EL and 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.

At December 31, 2010, the loan loss provision shortfall (before tax) was: EUR 1,553 million. The relative level of loan loss shortfall compared to actual provisioning levels will generally increase in periods where loan loss provisions are decreasing and will decrease in periods where loan loss provisions are increasing.

PORTFOLIOS UNDER THE STANDARDISED APPROACH

The 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.

Exposures (EAD) and amounts deducted for standardised approach portfolios

	2010		2009	
	Exposure before risk mitigation	Exposure after risk mitigation	Exposure before risk mitigation	Exposure after risk mitigation
Risk buckets used:				
0%	6,281	6,281	4,722	5,055
10%				
20%	7,628	7,628	9,012	9,029
35%	7,565	7,565	5,639	5,639
50%	9,312	9,312	6,802	7,217
75%	17,961	17,357	16,263	15,636
100%	33,930	33,686	30,808	29,852
150%	704	704	799	745
200%				
1250%				

* includes only the SA Portfolios; excludes securitisations, equities and ONCOA
* excludes revaluations made directly through the equity account

Additional Pillar 3 information (continued)

Under the standardized approach there are two principal methods for reducing or mitigating credit risk:

a) reduction of credit risk through the acceptance of pledged financial assets as collateral, such as marketable securities or cash; or

b) mitigation or shifting of credit risks to a lower risk weighting group by accepting guarantees from unrelated third parties.

PORTFOLIOS UNDER THE AIRB APPROACH

THE IRB METHOD IN SHORT

There are four elements which drive the Basel II "risk-based approach" to the determination of the capital base. For each of these elements, ING has developed a series of statistical, expert and hybrid models based on ING's historical experience and other market observations.

- **Probability of Default (PD):** The first is the borrower's, counterparty's, or issuer's (collectively referred to as the "obligor") probability of default, which measures an obligor'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.

- **Exposure at Default (EAD):** The second element is the obligor'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 an obligor will go into default is not known, and the level of outstandings that may occur on that date is also not known, ING uses a combination of statistical, expert and hybrid models to estimate the Exposure at Default. With the exception of guarantees and letters of credit, the EAD is always equal to or higher than the associated credit risk outstandings, under the assumption that obligors tend to absorb liquidity from available credit resources before financial problems become apparent to the obligor's creditors.

- **Loss Given Default (LGD):** The third element is the loss given default. These models are intended to estimate the amount ING will lose when liquidating collateral pledged in association with a given loan or financial obligation, or alternatively, liquidating the company as a whole, as part of a workout process. LGD models are based on cover types, estimated recovery rates given orderly liquidation, and (in)direct cost of liquidation.

- **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 may reasonably expect to incur on its portfolio. ING 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:

$$EL = PD * EAD * LGD$$

Unexpected Loss (UL): Additionally, ING 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.

Basel II uses these same components (expected loss and unexpected loss) conceptually in the determination of the Risk Weighted Assets (RWA). Like EL, RWA takes PD, EAD, and LGD into account, but also includes variables associated with the type of obligor and its size.

The PD, EAD and LGD models that are used in the calculation of Basel II regulatory capital are the same models that ING uses in the determination of its internally based economic capital models. Additionally, these models are used for loan pricing and customer profitability calculations, as well as forming the foundation for loan loss provisioning calculations.

CREDIT RISK MODELS

ING considers a well-balanced and controlled set of rules around model development, maintenance and validation to be an essential component for professional risk measurement and risk management. ING uses a Credit Risk Model Governance framework, which consists of a set of extensive guidelines and requirements to which all stakeholders must adhere when developing, implementing and maintaining PD, LGD and EAD models.

Additional Pillar 3 information (continued)

Types of Credit Risk Modelling
Within ING Bank, there are three types of modelling which form the foundation of the 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 which 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 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 uses a framework that integrates elements of the regulatory definition of "Default" and the loan loss provisioning indicators under IAS 39. The rationale is that several indicators are very close to the indications of an obligor's "unlikeliness to pay" under Basel II and similar regulations. Integration of both frameworks makes it possible to use the regulatory risk components PD, LGD and EAD in the collective provisioning process under IAS 39, further enhancing ING's compliance with the Basel II "use test".

Independent Model Validation is one of the cornerstones of this framework. It consists of the process of determining that a model is appropriate for its intended use. It is an ongoing 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.

RISK RATING PROCESS
In principle all Risk Ratings are based on a Risk Rating (PD) Model that complies with the minimum requirements detailed the CRD, the DNB Supervisory Rules and CEBS guidelines. This concerns all Obligor Types and Segments, including Countries.

ING'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 rating of 1 would correspond to an S&P/Fitch rating of AAA; an ING rating of 2 would correspond to an S&P/Fitch rating of AA+, and so on.

Risk Ratings (PD) for performing loans (1-19) are calculated in ING 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 the relevant 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 has invested are leading.
Risk ratings assigned to customers are regularly reviewed, and the performance of the underlying models regularly monitored.

Exposures (EAD) by PD grade under the advanced IRB approach

		Central governments and central banks	Institutions	Corporate	Residential mortgages	Other retail	Total 2010	Total 2009
AAA		15,903	2,625	983	3,761	4	23,276	19,715
AA		52,462	24,801	13,406	3,603	747	95,019	117,086
A		10,474	52,556	36,839	34,293	2,665	136,827	120,748
BBB		1,144	24,343	90,589	148,583	12,453	277,112	233,653
BB		2,161	3,736	80,201	97,327	11,699	195,124	191,368
B		419	558	30,647	23,313	3,238	58,175	55,082
CCC & Problem Grade		19	1,229	15,131	10,268	3,228	29,875	31,147
Total		82,582	109,848	267,796	321,148	34,034	815,408	**768,798**

* includes only AIRB portfolios; Excludes securitisations, equities and ONCOA
* excludes revaluations made directly through the equity account

The figures presented above are based on EAD and as such differ from those presented in the annual accounts due to different measurement methodology.

Additional Pillar 3 information (continued)

Over 95% of ING'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. Bankwide, ING has implemented more than 100 rating models, including various submodels that may be applicable. Some of these models are universal in nature, such as models for Large Corporate, 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 obligors 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.

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 assets 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.

Average LGD by PD Grade under the advanced IRB approach

		Central governments and central banks	Institutions	Corporate	Residential mortgages	Other retail	Total 2010	Total 2009
AAA		21%	20%	35%	21%	31%	22%	21%
AA		20%	22%	28%	20%	87%	22%	22%
A		20%	20%	33%	16%	57%	23%	24%
BBB		36%	18%	27%	15%	45%	21%	22%
BB		31%	38%	21%	15%	39%	19%	20%
B		25%	40%	18%	22%	46%	22%	22%
CCC & Less		14%	9%	24%	22%	43%	25%	24%
Total		21%	21%	25%	16%	45%	21%	22%

* includes both AIRB portfolios; Excludes securitisations, equities and ONCOA
* excludes revaluations made directly through the equity account

The table above represents the weighted average LGD for each of the represented combination of PD Grade and Exposure Class. For example, the weighted average LGD for an AAA rated Corporate is 35%, while the weighted average LGD for a BBB rated Corporate is 27%. LGD percentages are influenced by the transactional structure of the financial obligation, the related collateral or covers provided, and the country in which the collateral (if any) would have to be recovered.

In certain cases, the portfolio size is relatively small, which can also have an effect on the weighted average LGD in a given PD Grade and Exposure Class. Therefore, this table should be read in conjunction with the previous table (Exposures (EAD) by PD grade)

Undrawn Commitments

		Central Governments and Central Banks	Institutions	Corporates	Residential Mortgages	Retail Other	Total 2010	Total 2009
Standardized Approach		1	194	1,816	656	5,747	8,414	**8,826**
Advanced IRB Approach		195	1,442	53,825	11,207	11,488	78,157	**74,809**
Total		196	1,636	55,641	11,863	17,235	86,571	**83,635**

* includes both AIRB and SA portfolios; Excludes securitisations, equities and ONCOA
* excludes revaluations made directly through the equity account

These figures represent the potential exposure that may be drawn by ING'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 on the unused portion of these facilities. Pre-Settlement, Money Market and Investment limits are generally not committed.

Additional Pillar 3 information (continued)

If all of the unused commitments were called upon at the same time, ING's credit risks (in terms of outstandings) would increase by 11%. As part of its Exposure at Default (EAD) models, ING 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.

Exposures secured by third party guarantees received

	Central governments and central banks	Institutions	Corporate	Residential mortgages	Other retail	Total 2010	Total 2009
Standardised Approach			1,475	4	9	1,488	**865**
Advanced IRB Approach	2,681	7,367	25,272	563	5,036	40,919	**70,762**
Total	2,681	7,367	26,747	567	5,045	42,407	**71,627**

* includes both AIRB and SA portfolios; Excludes securitisations, equities and ONCOA
* excludes revaluations made directly through the equity account

From time to time, ING extends loans for which it receives a specific financial guarantee from a non-related counterparty or obligor. The figures in this table represent the EAD 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 above. 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. Additionally, amounts that have been guaranteed as part of a government-sponsored mortgage program are also excluded. The figures above do include amounts that are guaranteed through an unfunded risk participation construction.

Counterparty credit risk outstandings from derivatives (SA and AIRB)

	Central governments and central banks	Institutions	Corporate	Residential mortgages	Other retail	Total 2010	Total 2009
Credit Derivatives	8	901	381	-	-	1,290	2,427
Derivatives	-	5	63	-	-	68	119
Equity Derivatives	-	753	1,699	-	11	2,463	1,323
Foreign Exchange Derivatives	401	2,048	1,687	-	4	4,140	5,183
Interest Rate Derivatives	1,036	12,112	8,218	-	63	21,429	22,306
Commodity derivative	-	43	49	-	-	92	3
Exchange Traded Products	-	-	9,338	-	-	9,338	-
Total	1,445	15,862	21,435	-	78	38,820	31,362

* includes both AIRB and SA portfolios; Excludes securitisations, equities and ONCOA
* excludes revaluations made directly through the equity account

The figures in above table are calculated using the mark-to-market plus (regulatory) add-on methodology used for calculating Basel II RWA and are shown after adjustments for compensation and legal netting. This methodology allows ING to classify virtually all of its derivatives exposures under the AIRB approach.

Counterparty credit risk outstandings from derivatives (SA and AIRB)

	Central governments and central banks	Institutions	Corporate	Residential mortgages	Other retail	Total 2010	Total 2009
Gross positive MTM before netting and collateral	3,688	55,191	42,197	-	80	101,156	**86,358**
Mark to market (MTM) after netting	1,445	15,861	21,435	-	78	38,819	**34,956**
MTM after netting and collateral	1,445	12,249	20,774	-	78	34,546	**31,362**

* includes both AIRB and SA portfolios; Excludes securitisations, equities and ONCOA
* excludes revaluations made directly through the equity account

Additional Pillar 3 information (continued)

As part of its normal securities financing and derivatives trading activities, ING enters into master agreements such as ISDAs, GMRAs, etc. Under the terms contained in sections related to Minimum Threshold Amounts and Minimum Transfer Amounts of Collateral Support Annexes (CSAa) or other similar clauses, both ING and it counterparties may agree to pledge additional collateral to each other in the event that either party is downgraded by one of the established rating agencies. ING Bank has determined that under prevailing market conditions, a one notch downgrade would only have a limited effect on the amount of additional collateral that ING would be required to pledge under these agreements. However, the actual amount that ING may be required to pledge in the future may vary based on ING'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.

Counterparty credit risk outstandings from securities financing (SA and AIRB)

	Central governments and central banks	Institutions	Corporate	Residential mortgages	Other retail	Total 2010	Total 2009
Bond Financing Given	204	772	3,032	-	-	4,008	**6,389**
Equity Financing Given	-	1,398	3,355	-	-	4,753	**2,784**
Bond Financing Taken	31	642	1,398	-	-	2,070	**3,432**
Equity Financing Taken	-	1,091	1,221	-	-	2,312	**1,181**
Total	235	3,902	9,006	-	-	13,143	**13,786**

* includes both AIRB and SA portfolios; Excludes securitisations, equities and ONCOA
* excludes revaluations made directly through the equity account

Counterparty credit risk outstandings from securities financing (SA and AIRB)

	Central governments and central banks	Institutions	Corporate	Residential mortgages	Other retail	Total 2010	Total 2009
Gross positive MTM before netting and collateral	325	8,297	24,153	-	-	32,775	**21,256**
Mark to market (MTM) after netting	235	3,902	9,006	-	-	13,143	**19,387**
MTM after netting and collateral	235	2,817	5,917	-	-	8,970	**13,786**

* includes both AIRB and SA portfolios; Excludes securitisations, equities and ONCOA
* excludes revaluations made directly through the equity account

The previous four tables are calculated using the mark-to-market plus (Regulatory) add-on methodology used for calculating Basel II RWA for determining the gross exposures. In order to determine the amount of credit risk applicable, ING first matches the trades with similar characteristics to determine their eligibility for offsetting. This offsetting effect is called "compensation". Subsequently, ING 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 under CSAs or other similar agreements.

CREDIT RISK MITIGATION

Credit risks from credit derivatives (notional amounts)

	2010	2009
Credit derivatives used for hedging purposes		
– credit protection bought	**849**	982
– credit protection sold		
Credit derivatives used for trading activities		
– credit protection bought	**29,389**	35,235
– credit protection sold	**27,944**	30,276

* includes both AIRB and SA portfolios; Excludes securitisations, equities and ONCOA
* excludes revaluations made directly through the equity account

Additional Pillar 3 information (continued)

ING actively participates in the credit risk derivative (CDS) trading market, as a net purchaser of credit risk protection from other counterparties. ING 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's relationship banking activities. ING 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 has purchased CDS protection, ING does not currently make use of this provision in determining its Basel II capital base.

The figures above represent the notional amount of credit risk default swaps that ING has entered into for the represented purpose. 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. For credit default protection sold, ING incurs synthetic issuer risk, on which capital is calculated, depending on its purpose, either hedging or trading.

SECURITISATIONS

Scope
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 18 December 2008. 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.

Depending on ING's role as investor, originator, or sponsor the objectives, the involvement and the rules applied may be different. ING is primarily engaged in securitisation transactions in the role of investor (in securitisations arranged by others). To a lesser extent, ING is also an originator or sponsor of securitisations that are usually traded in the public markets.

Valuation and accounting policies
ING's activities regarding securitisations are described in Note 25 "Special Purpose Entities and Securitisation" in the annual accounts. The applicable accounting policies are included in the section "Accounting policies for the consolidated annual accounts of ING Bank" in the annual accounts. The most relevant accounting policies for ING's own originated securitisation programmes are "derecognition of financial assets" and "consolidation". Where ING acts as investor in securitisation positions, the most relevant accounting policy is "classification of financial instruments."

Regulatory capital method used and Rating Agencies

ING has implemented the AIRB approach for credit risk. As a consequence, ING 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 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.

ING 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.

ING as Investor
ING Direct is the primary investor in securitisation transactions within ING Bank. ING Direct's core strategy is gathering customer deposits and reinvesting them in its investment portfolio and retail assets, mainly mortgages. The difference between retail liabilities (the savings product is typically the first product to be launched in a country) and retail assets (the mortgage product is typically the second product launched) is invested in high quality debt. 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.

Additional Pillar 3 information (continued)

Securitisation markets provide investment opportunities in highly rated (generally AAA), liquid and discountable bonds and are therefore an important asset class in ING Direct's investment portfolio. At ING Direct, the investment policies define eligible product types, minimum ratings, maximum tenors and exposure amounts both at issue and issuer levels as well as for the portfolio. The dominant product classes in the investment portfolio are RMBS, Agency RMBS, Covered Bonds, and Senior Unsecured Debt issued by Banks, Other Financial Institutions as well as Sovereigns or Quasi-sovereign entities. Prior to purchase, each investment proposal from a Treasury Centre is analysed by Credit Risk Management and decided upon at the appropriate level by a treasury officer and a credit risk manager under delegated approval authorities. In 2009 ING Direct did not purchase any new ABS or MBS, other than Agency MBS.

Purchased Securitisation Exposures
The following table gives the break down of purchased exposures by weight bands. The amount of securitisation positions purchased from third parties are 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.

Purchased exposures per risk weight band (ING as Investor)			
		31 December 2010	**31 December 2009**
Risk weight band 1 <= 10%		**19,608**	35,385
Risk weight band 2 >10% and <= 18%		**13,761**	10,397
Risk weight band 3 >18% and <= 35%		**1,029**	605
Risk weight band 4 >35% and <= 75%		**343**	162
Risk weight band 5 >75% and <1250%		**2,371**	2,652
Risk weight 1250%		**353**	212
Total		**37,464**	49,412

ING as Originator
ING 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 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's own securitisations have been called and are now retained by ING. Except for Memphis 2005, ING has also hedged the first loss tranches in 2009. The mezzanine tranches are still transferred to third parties.

  The first transactions (Moon and Memphis 2003) were repaid in 2008 with no loss for the investors. Mars 2004 repaid in 2009 with no loss to investors either. As of 31 December 2010, four transactions totalling approximately EUR 12 billion (Mars 2006 and BEL SME 2006 on SME exposures, Memphis 2005 and Memphis 2006 on residential mortgages) remain outstanding, as further detailed below. Memphis 2006 transfers risk on high Loan to Value (LTV) Dutch mortgages.

- **Liquidity/Funding** Although the most senior tranches in securitisations are no longer efficient to release regulatory capital under Basel II, they may still be 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 as collateral in the money market for secured borrowings.

  ING Bank has created a number of these securitisations with a 31 December 2010 position of approximately EUR 88 billion of AAA rated notes and unrated subordinated notes. The underlying exposures are residential mortgages in the Netherlands, Canada, Germany, Belgium, Italy and Australia. ING Direct also created "own originated RMBS" backed by Spanish mortgages.
  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.

Exposures securitised as originator 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. Figures as of 31 December are used whenever available.

Additional Pillar 3 information (continued)

Exposures securitised							
2010	**Cut off Date**		**Initial Pool**	**Outstandings**	**Credit Events**	**Past due Assets**	**Losses**
Residential Mortgages							
Memphis 2005	31-Oct-10		**3,000**	**2,584**	**1**	**43**	**<1**
Memphis 2006	31-Oct-10		**4,000**	**3,892**	**7**	**162**	**1**
			7,000	**6,476**			
SME							
Mars 2006	30-Sep-10		**4,500**	**3,818**	**47**	**9**	**8**
BEL SME 2006	30-Nov-10		**2,500**	**1,455**	**29**	**37**	**4**
Total			**7,000**	**5,273**			
2009	**Cut off Date**		**Initial Pool**	**Outstandings**	**Credit Events**	**Past due Assets**	**Losses**
Residential Mortgages							
Memphis 2005	31-Oct-09		**3,000**	**2,954**	**2**	**40**	**< 1**
Memphis 2006	31-Oct-09		**4,000**	**3,911**	**12**	**143**	**2**
			7,000	**6,865**			
SME							
Mars 2006	30-Sep-09		**4,500**	**4,351**	**29**	**34**	**3**
BEL SME 2006	30-Nov-09		**2,500**	**2,232**	**22**	**18**	**3**
Total			**7,000**	**6,583**			

Notes:

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.

Retained Securitisation Exposures

Retained exposures on securitisation of ING’s own assets include the most senior tranches and the equity piece (first loss) of Memphis 2005. Economically, on a total of about EUR 12 billion underlying exposures in the four transactions mentioned above, ING has retained approximately EUR 6 million of first loss exposure and has transferred approximately EUR 1.1 billion 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 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 in the table above would be higher than the total RWA of the underlying pool before securitisation, and therefore that transaction is are treated for RWA purposes as if it was not securitised.

Additional Pillar 3 information (continued)

ING 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 funded by the ING 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 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.

Exposures Securitised as Sponsor

The total liquidity facilities, including programme wide enhancements, provided to the Mont Blanc conduit are EUR 3,535 million. The total drawn liquidity amount as of 31 December 2010 is EUR 597 million.

Securitisation in the trading book

The exposures involved are mainly synthetic Collateralised Debt Obligations (CDO's) in which the underlying credit exposures are taken on using a credit default swap rather than a vehicle buy physical assets.

The CDO's are a form of securitisation where payments from a portfolio of fixed-income assets are pooled together and passed on to different classes of owners in various tranches. The assets/loans are divided in different tranches according to their seniority: senior tranches (rated AAA), mezzanine tranches (AA to BB) and equity tranches (unrated). Losses are applied in reverse order of seniority. The CDO's in trading books are valued mark-to-market. The underlying assets are a pool of mostly Corporate Investment Grade names.

The net CDO position per end of year 2010 amounts to EUR. The total net Collaterised Debt Obligations position in the Trading portfolio as of 31 December 2010 is EUR -/- 0.8 millions (2009: EUR -28 million).

OTHER NON CREDIT OBLIGATION ASSETS

Other Non Credit Obligation Assets (ONCOA) represent assets of non credit obligation character that are not included in the SA or AIRB calculations. Capital requirement for ONCOA as of 31 December 2010 is EUR 1,813 million (2009: EUR 2,275 million).

Risk management

amounts in millions of euros, unless stated otherwise

EXECUTIVE SUMMARY / RISK MANAGEMENT IN 2010

Taking measured risks is part of ING Group's business. As a financial services company active in banking, investments, life insurance and retirement services, ING Group is naturally exposed to a variety of risks. To ensure measured risk-taking, ING Group has integrated risk management in its daily business activities and strategic planning. Risk Management assists with the formulation of 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, implied volatility, and foreign exchange risks), insurance risk, liquidity 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, in preparation of the two IPOs for ING Insurance, 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 ratios to deviate from their target levels under adverse scenarios. These frameworks are discussed in more detail in the specific sections of this risk management section.

The economic capital model for credit risk was updated to bring it more in line with the regulatory capital framework, and now relies less on diversification benefits.

A second commonality between ING Bank and ING Insurance is that both need to prepare for significant changes in the regulatory requirements. ING Bank needs to prepare for the implementation of Basel III (which is the Basel II reform packages on risk and liquidity), 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; which is effective as of 1 January 2013). 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.

During 2010 strengthening of ING balance sheet continued. In 2010 ING continued to reduce the exposure on the ABS portfolio by means of sales (primarily sales of CMBS) and limiting the reinvestments in ABS to agency paper only. Because of the strengthening of the US Dollar and the improvements in the revaluation reserve this policy does not result in a lower balance sheet amount for this asset class.

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 value of sovereign debt decreased. The impact on ING's revaluation reserve in relation to sovereign debt is limited per 31 December 2010: the negative impact on troubled countries 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 2010, ING reduced its sovereign debt exposure to these troubled countries.

IMPACT ON PRESSURISED ASSET CLASSES

Exposures, revaluations and losses on pressurised asset classes

	31 December 2010		Change in 2010			31 December 2009	
	Balance Sheet Value [1]	**Revaluations through equity (pre-tax)**	**Revaluations through equity (pre-tax)**	**Write-downs through P&L (pre-tax)**	**Other changes**	Balance Sheet Value [1]	Revaluations through equity (pre-tax)
US Subprime RMBS	**1,647**	**-227**	**584**	**-380**	**15**	1,428	-811
US Alt-A RMBS	**2,847**	**237**	**476**	**-76**	**-517**	2,964	-239
CDO/CLOs	**1,530**	**-9**	**118**	**-1**	**-379**	1,792	-127
CMBS	**7,330**	**-512**	**1,322**	**-84**	**-1,619**	7,711	-1,834
Total pressurised ABS	**13,354**	**-511**	**2,500**	**-541**	**-2,500**	13,895	-3,011
Pressurised Government and Financial Institution bonds for both Greece and Ireland [2]	**1,633**	**-564**	**-439**		**-1,700**	3,772	-125

(1) For assets classified as loans and receivables: amortised cost; otherwise: fair value.
(2) Country is based on the country of residence of the obligor; Covered bonds are excluded; government only includes central government.

In 2009, certain ABS (US Subprime RMBS, Alt-A RMBS, CMBS and CDO/CLOs) were considered pressurised asset classes. As of 2010, Greek and Irish Government and Financial Institution bonds are also considered pressurised asset classes. Ireland and Greece are the only countries that used the European Financial Stability Fund (EFSF) during 2010, only the government and financial institution unsecured bonds for these countries are considered as pressurised assets by ING.

Risk management (continued)

Changes in the ABS portfolio
The total ABS portfolio remained relatively stable, changing slightly from EUR 58.4 billion at year-end 2009 to EUR 58.5 billion per end of year 2010. The value of the ING Bank ABS portfolio decreased approximately 1.1 billion during 2010, while the value of the ING Insurance portfolio increased by EUR 1.2 billion, leading to the stable value for ING Group. In the 2009 presentation of the CDO/CLOs exposure, synthetic CDOs at notional value were included. As of 2010 this exposure is not included anymore, and the Balance sheet value at 31 December 2009 is adjusted correspondingly.

ING maintained its policy to restrict reinvestment of maturing debt securities as much as possible and any reinvestments were mainly in government guaranteed paper. During the year ING Insurance reduced the exposure to CMBS through sales of part of the portfolio (approximately EUR 1.6 billion). The remaining CMBS portfolio increased in value as a result of revaluations and currency effects. Similar effects in revaluation reserve improvements are visible for the other pressurised ABS classes, and the total revaluation reserve for US Alt-A RMBS changed from negative to positive. Despite the improved market values, ING still took impairments on the ABS portfolio. These impairments mainly relate to the ING Insurance part of the ABS portfolio, as EUR 481 million of the total EUR 541 million in impairments are for the ING Insurance portfolio. The credit quality of the ING ABS portfolio did not materially change, with 88% of the portfolio rated A or better at year-end 2010 (88% in 2009).

Of the exposure on pressurised ABS EUR 10.1 billion is measured at fair value (with the revaluation recognised in equity, except impairments on these trades going through P&L). The table shows how the total fair values are determined through the following Level 1,2,3 hierarchy:
Level 1 – Quoted prices in active markets
Level 2 – Valuation technique supported by observable inputs
Level 3 – Valuation technique supported by unobservable inputs
An analysis of the method applied in determining the fair values of financial assets and liabilities is provided in Note 34 'Fair value of financial assets and liabilities'.

Fair value hierarchy of pressurised ABS bonds

2010		Level 1	Level 2	Level 3	Total
US Subprime RMBS			**17**	**1,629**	**1,646**
US Alt-A RMBS			**2,210**	**638**	**2,848**
CDO/CLOs		**9**	**64**	**558**	**631**
CMBS		**1**	**4,941**	**9**	**4,951**
Total pressurised ABS		**10**	**7,232**	**2,834**	**10,076**

Fair value of hierarchy of pressurised ABS bonds

2009		Level 1	Level 2	Level 3	Total
US Subprime RMBS			16	1,412	1,428
US Alt-A RMBS			2,308	656	2,964
CDO/CLOs		7	392	323	722
CMBS		123	5,074	18	5,215
Total pressurised ABS		130	7,790	2,409	10,329

Changes in the bond portfolio (excluding ABS)
The ING bond portfolio increased EUR 18.7 billion from EUR 217.7 billion at year-end 2009 to EUR 236.4 billion at end of year 2010. For the government bonds the revaluation changes are triggered by a loss of confidence with regards to several southern European countries and Ireland. During 2010, ING closely monitored the developments with regards to these countries and its sovereign debt exposure to these countries. Ireland and Greece are the only countries that used the European Financial Stability Fund (EFSF) during 2010, only the government and financial institution unsecured bonds for these countries are considered as pressurised assets by ING.

For ING Bank, the bonds portfolio includes Government and Financial Institutions unsecured bonds exposures in Greece and Ireland classified as available-for-sale of EUR 570 million (fair value), with a related negative revaluation reserve in equity of EUR -285 million. Furthermore it includes, for ING Bank, similar exposures classified as loans and advances of EUR 358 million (amortised cost).

For ING Insurance, the bonds portfolio includes Government and Financial Institutions unsecured bond exposures in Greece and Ireland classified as available-for-sale of EUR 705 million (fair value), with a related negative revaluation reserve in equity of EUR -279 million.

Risk management (continued)

The Greek and Irish Government and Financial Institution bonds measured at fair value are in the fair value hierarchy levels 1 and 2.

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 make sure that a crisis in the financial system can be avoided in the future. To accomplish this, regulations focus primarily at the following issues:

- More stringently aligning risk taking with the capital position of the financial institutions (revised Basel II for Banks). The revised Basel II proposal narrows the definition of core Tier 1 and Tier 1 capital, and introduces a new definition for a leverage ratio that should become part of Pillar 1 of the Basel framework. The Basel Committee has also issued a proposal for new liquidity requirements.
  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 bad times when it is most scarce. Lastly, there is the proposal to introduce additional capital requirements for counterparty credit risk.
  Collectively these proposals are referred to as Basel III. These were issued by the Basel Committee in December 2010, and the deadlines for implementation of specific item are set for the timeframe 2013 to 2018.
- 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 run on their parents. In the absence of a supranational harmonization this leads to so-called trapped pools of liquidity, i.e. excess liquidity in a country that can not merely be transferred (unsecured) to a central treasury in another country.
- Solvency II: Following the approval of the Solvency II Framework Directive in 2009, the European Commission has continued development and consultation on the detailed implementing measures in 2010. ING has always been a firm supporter of the Solvency II initiative, being an economic, risk-based solvency system. However some of the proposed measures currently under discussion are considered unduly conservative. ING is committed to working actively together with all stakeholders to develop pragmatic solutions that would result in Solvency II meeting its original intent, and a smooth transition to the new system. The legislation is now expected to become in force by 1 January 2013. ING has launched a full implementation programme to be fully compliant before that date, and is also developing its business strategies to operate optimally under the new environment.

ING GROUP RISK GOVERNANCE

To ensure measured risk-taking throughout the organisation, ING Group operates through a comprehensive risk management framework. This ensures the identification, measurement and control of risks at all levels of the organisation so that ING Group's financial strength is safeguarded.

The mission of ING Group's risk management function is to build 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 objective:

– Products and portfolios are structured, underwritten, priced, approved and managed appropriately and compliance with internal and external rules and guidelines is 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 and value creation.

Risk Management benefits ING and its shareholders 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, allowing them to focus on their core expertise with the goal of making ING's businesses more competitive in their markets.

RISK GOVERNANCE

ING's risk management 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 Boards for ING Bank and ING Insurance (and ratified by the Supervisory Board) and is cascaded throughout ING. This concept provides a clear allocation of responsibilities for the ownership and management of risk, to avoid overlaps and/or gaps in risk governance. Business line management and the regional and local managers have primary responsibility for the day-to-day management of risk and form the first line of defence. The risk management function, both at corporate and regional/local level, belongs to the second line of defence and has the primary responsibility to align risk taking with strategic planning e.g. in limit setting. Risk managers in the business lines have a functional reporting line to the Corporate Risk General Managers described below. The internal audit function provides an ongoing independent (i.e. outside of the risk organisation) and objective assessment of the effectiveness of internal controls, including financial and operational risk management and forms the third line of defence.

Risk management (continued)

Group Risk Management Function
The risk management function is embedded in all levels of the ING Group organisation.

Chief Risk Officer
The Chief Risk Officer (CRO), who is an Executive Board 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's group 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.

Group Risk Organisation
The organisation chart below illustrates the functional reporting lines within the ING Group risk organisation.

The risk organisation is structured independently from the business lines and is organised through five risk departments:
– Corporate Credit Risk Management (CCRM) is responsible for credit risk management for ING Bank and ING Insurance.
– Corporate Market Risk Management (CMRM) is responsible for market and liquidity risk management of the ING Bank.
– Corporate Insurance Risk Management (CIRM) is responsible for insurance, market and liquidity risk management of ING Insurance.
– Corporate Operational Risk Management (CORM) is responsible for the operational risk management of ING Bank and ING Insurance.
– Group Compliance Risk Management (GCRM) is responsible for (i) identifying, assessing, monitoring and reporting on the compliance risks faced by ING, (ii) supporting and advising management on fulfilling its compliance responsibilities, and (iii) advising employees on their (personal) compliance obligations.

The heads of these departments (Corporate Risk General Managers) report to the CRO and bear direct responsibility for risk (mitigating) decisions at the Group level. The Corporate 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, which is responsible for inter-risk aggregation processes and for providing group-wide risk information to the CRO and Executive Board.
– Model Validation, which carries out periodic validations of all material risk models used by ING. To ensure independence from the business and other risk departments, the department head reports directly to the CRO.

Group Risk Committees
The Group risk committees described below are also part of the second line of defence. They act within the overall risk policy and delegated authorities granted by the Executive Board and have an advisory role to the CRO. To ensure a close link between the business lines and the risk management function, the business line heads and the respective Corporate Risk General Managers are represented on each committee (except for the Operational and Residual Risk Committee where the business is not represented). An important element of the Group Risk Committee Governance is that the Chairman of each committee is responsible for making decisions after advice from other committee members. Each committee is chaired by a senior risk representative.

– ING Group Credit Committee – Policy (GCCP): Discusses and approves policies, methodologies and procedures related to credit, country and reputation risks within ING Group. The GCCP meets on a monthly basis.
– ING Group Credit Committee – Transaction Approval (GCCTA): Discusses and approves transactions which entail taking credit risk (including issuer investment risk). The GCCTA meets twice a week.
– ING Group Investment Committee (GIC): Discusses and approves investment proposals for ING Real Estate. The GIC meets on a monthly basis.
– 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 & Direct Banking activities. ALCO Bank defines the policy regarding funding, liquidity, interest rate mismatch and solvency for ING Bank.
– Asset and Liability Committee ING Insurance (ALCO Insurance): Discusses and approves all risks associated with ING's Insurance activities. This includes volatility (affecting earnings and value), exposure (required capital and market risk) and insurance risks. ALCO Insurance meets ten times a year.

Risk management (continued)

– Operational and Residual Risk Committee (ORRC): Discusses and approves issues related to Methods, Models and Parameters for Operational risk, Business risk in Banking, inter-risk diversification and consistency across risk types and businesses. The committee meets at least twice a year.

Due to the implementation of the operational separation for ING Bank and ING Insurance the process was started to change Group level risk committees into a separate Bank committee and a separate Insurance committee. As a result of these governance changes the ORRC was disbanded towards the end of 2010, and the topics for this committee were transferred to other committees, like the newly created Operational Risk Committee Bank (ORC Bank).

In addition, the Finance and Risk Committee (F&RC) is a platform for the CRO and the CFO, along with their respective direct reports, to discuss and decide on issues that relate to both the finance and risk domains. Given the decision to manage ING Bank and ING Insurance separately, there is a separate F&RC Bank and a separate F&RC Insurance. To cover specific Group issues there is also a F&RC Group meeting, which meets at least on a quarterly basis.

ING Group uses risk assessment and risk measurement to guide decision making. As a result, the quality of risk models is important. The governance process for approval of risk models, methods and parameters ensures business and regulatory requirements, via a clear assignment of responsibility and accountability.

Given the operational split of ING Bank and ING insurance, which became effective as of 1 January 2011, the risk organisation made preparations to reflect this new structure as of 1 January 2011. This change was most significant for departments providing risk management for both ING Bank and ING Insurance. In the new structure all risk departments have a small team for ING Group, and separate teams for ING Bank and ING Insurance.

Board level risk oversight
ING Group has a two-tier board structure consisting of the Executive Board and the Supervisory Board; both tiers play an important role in managing and monitoring the risk management framework. At the highest level of the ING organisation, there are board committees which oversee risk taking, and have ultimate approval authority.

– The Executive Board is responsible for managing risks associated with the ING Group activities. Its responsibilities include ensuring that internal risk management and control systems are effective and that ING Group complies with relevant legislation and regulations. The Executive Board reports on these issues and discusses the internal risk management and control systems with the Supervisory Board. On a quarterly basis, the Executive Board reports on the Group's risk profile versus its risk appetite to the Audit Committee, explaining changes in the risk profile.
– The Supervisory Board is responsible for supervising the policy of the Executive Board, the general course of affairs of th Company and its business (including its financial policies and corporate structure). The Supervisory Board has several sub-committees related to specific topics. Of these, two sub-committees are relevant for the risk management organisation and risk reporting, which are:
    - The Audit Committee, which assists the Supervisory Board in reviewing and assessing ING Group'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.
    - The Risk Committee, which assists the Supervisory Board on matters related to risk governance, risk policies and risk appetite setting. It reports in the Supervisory Board on the main risk issues in the group.

Committee membership is organised such that specific business know-how, expertise relating to the activities of ING and the subject matter of the committees is available. The CRO attends the Audit Committee and the Risk Committee meetings.

The CRO makes sure that the boards are well informed and understand ING Group's risk position at all times. Every quarter, the CRO reports to the board committees on ING's risk appetite levels and on ING Group's risk profile. In addition the CRO briefs the board committees on developments in internal and external risk related issues and makes sure the board committees understand specific risk concepts.

ING has integrated its risk management into the annual strategic planning process. This process aligns strategic goals, business strategies and resources throughout ING Group. The Executive Board issues a Planning Letter which provides the organisation with 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 Group's strategic direction. The process includes a qualitative and quantitative assessment of the risks involved. It is part of the process to explicitly discuss strategic limits and group risk appetite levels. At each level, strategies and metrics are identified to measure success in achieving objectives and to assure adherence to the strategic plan. Based on the business plans, the Executive Board formulates the Group Strategic Plan which is submitted to the Supervisory Board for approval.

Group risk policies
ING 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 on all business units. The governance framework of the business units aligns with the Group 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 management (continued)

ING GROUP RISK PROFILE

ING Group uses an integrated risk management approach for both its banking activities and for its Insurance activities, and no longer uses an integrated risk management approach for ING Group. This change from a group-wide integrated risk management approach to a separate ING Bank and a separate ING Insurance approach was driven by the operational separation of ING Bank and ING Insurance. As a result the ING Group risk dashboard showing the metrics Earnings at Risk and Capital at Risk will no longer be provided. At the ING Bank and ING Insurance level new risk frameworks were introduced and implemented in 2010.

The Executive Board uses the risk appetite frameworks to monitor and manage the actual risk profile in relation to the Bank and Insurance risk appetite, which are derived from the Group risk appetite in line with the Group target AA rating. It enables the Executive Board to identify possible risk concentrations and to support strategic decision making. The risk appetite levels are reported to the Executive Board on a quarterly basis and are subsequently presented to the Risk Committee.

ING Group's risk appetite is defined by the Executive Board as part of the strategic planning process. As a next step, strict boundaries are established with regard to acceptable risk types and levels for ING Bank and ING Insurance. In 2010 the revised risk appetite frameworks were implemented, after approval by the Executive Board. As a result the Group risk appetite level is replaced by separate Bank and Insurance risk appetite frameworks, which closely align the risk appetite setting with capital management targets.

The overall ING Group risk appetite is translated (through the bank and insurance risk appetite frameworks) into specific limits which are cascaded down into the organisation, e.g.
- Credit risk limits for bank and insurance business.
- ALM/Value at Risk limits for bank operations.
- Mortality and concentration limits for insurance operations.

ING's 'three lines of defence' governance framework ensures that risk is managed in line with the risk appetite as defined by the Executive Board. Risk appetite is cascaded throughout the Group, thereby safeguarding controlled risk taking. The role of the business lines is to maximise the value within established risk boundaries. Each quarter, the Executive Board monitors that the financial and non-financial risks are within the boundaries of the risk appetite as set in the strategic planning process.

Risk types

ING measures the following main types of risks that are associated with its business activities:
- Credit risk: the risk of potential loss due to default by ING'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 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.
- Insurance risk: risks such as mortality, morbidity and property and casualty 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.
- Operational risk is the risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems or from external events. It includes reputational risk, as well as legal risk.
- Business risk: the exposure to value loss due to fluctuations in volumes, margins and costs, as well as client 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.

Risk measures related to accounting are based on IFRS-EU where relevant, as IFRS-EU is the primary accounting basis, which is also the basis for statutory and regulatory reporting and risk management.

Stress Testing

ING complements its regular standardised risk reporting process with (ad hoc) stress tests. A stress test is an instrument to check whether a financial institution can withstand specific negative events or economic changes. More specific, stress testing examines the effect of exceptional but plausible events on the capital and liquidity position of the financial institution and provides insight in which business lines and portfolios are vulnerable to which type of scenarios.

Several stress tests are produced both scheduled and ad hoc, both in the form of sensitivity or scenario analysis, either for a specific risk type or for ING Bank or ING Insurance as a whole. The stress test can represent various economic situations from mild recession to extreme shock. In addition to regulatory required stress tests like those required by the Dutch Central Bank (De Nederlandsche Bank (DNB)) and the Committee for European Banking Supervision (CEBS; which per 1 January 2011 became the European Banking Authority (EBA)), several ad hoc tests have been conducted.

ING participated in the stress test conducted by the CEBS, which included a baseline scenario, adverse scenario and an additional sovereign shock for 2010 and 2011. This stress test demonstrated ING Bank's resilience in adverse scenarios. The strong underlying commercial performance resulting from ING Bank's franchises helps to offset the impact of higher loan loss provisions, additional impairments across the securities portfolios and increased risk-weighted assets.

Risk management (continued)

Risk models
A description of the models, underlying assumptions and key principles used by ING for calculating the risk metrics are provided in the Model Disclosure section at the end of the risk management section.

ING BANK FINANCIAL RISKS

ING Bank is engaged in selling a broad range of products. The Bank Management Board is responsible for managing risks associated with the activities of ING Bank. The financial risks that arise from selling these products are managed by the Corporate Credit and Market Risk departments. Operational risks are managed by the Corporate Operational Risk department.

ING BANK RISK PROFILE

Risk appetite
For financial risks, ING expresses its risk appetite as the tolerance to allow key capital ratios to deviate from their target levels. Therefore the risk appetite is closely aligned to Capital Management activities and policies. ING has expressed tolerances for its risk weighted solvency metrics (core tier 1 ratio), for non-risk weighted solvency metrics (leverage ratio) and for more value based metrics (economic capital). The metrics that are presented in the following sections relate to each of these metrics and present earnings sensitivity, economic and regulatory capital.

Due to the way the risk departments are organised, these metrics are presented at a higher aggregation level (business line combinations) than the identified segments in Note 51 'Operational Segments':

- Retail Banking Benelux contains Retail Netherlands, Retail Belgium (including Retail Luxemburg)
- Retail Banking Direct & International contains Retail Central Europe, Retail Asia and ING Direct
- Commercial Banking corresponds to Commercial Banking and ING Real Estate
- Bank Corporate Line coincides with Corporate Line

ING Bank Economic Capital and Regulatory Capital
Main risk management tools for ING Bank are Economic Capital and Regulatory Capital. 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. The main difference in these metrics is the point of view, where Regulatory Capital is driven by methodologies prescribed by regulators and Economic Capital is driven by internally developed models (all of which are approved by the Dutch Central Bank).

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 combination.

Economic and Regulatory Capital (Bank diversified only) by risk type

	Economic Capital		Regulatory Capital	
	2010	2009	**2010**	2009
Credit risk (including Transfer risk)	**15,245**	9,991	**22,452**	22,790
Market risk	**7,233**	8,435	**364**	491
Business Risk	**2,435**	2,581		
Operational Risk	**1,619**	2,074	**2,872**	3,309
Total banking operations	**26,532**	23,081	**25,688**	26,590

Economic Capital (Bank diversified only) by business line combination

	Economic Capital		Regulatory Capital	
	2010	2009	**2010**	2009
Commercial Banking	**10,695**	8,662	**11,395**	12,824
Retail Banking Benelux	**4,613**	4,215	**5,498**	5,470
Retail Banking Direct & International	**8,881**	7,417	**8,587**	7,977
Corporate Line Bank *	**2,343**	2,787	**208**	319
Total banking operations	**26,532**	23,081	**25,688**	26,590

* Corporate Line includes funding activities at ING Bank level, internal transactions between business units and the Corporate Line, and is managed by Capital Management.

The EC figures shown reflect all diversification effects within ING Bank, including risk reduction between the risk categories; while for Regulatory capital no diversification is taken into account. The ING Bank Economic Capital model is described in more detail in the Model Disclosure section.

Risk management (continued)

In 2010 ING has been recalibrating the underlying assumptions for credit, transfer and operational risk. As the economic capital model for credit risk was updated to bring closer alignment with the regulatory capital framework there was a material increase in the economic capital.

Closer aligning the credit risk economic capital with the regulatory capital means that the difference between economic capital and regulatory capital for credit risk decreases significantly. Given the different point of view of RC and EC, the market risk economic capital is higher than the regulatory capital primarily due to the inclusion of the banking books in EC. The EC figures include Business risk, while RC does not have any requirements for business risk. Another difference in scope is the confidence level used; a 99.95% confidence level for EC, and a 99.9% confidence level for RC. Given the increase in Credit Risk EC and the differences in scope and methodology between EC and RC the 2010 figures for EC are higher than the RC figure, while for 2009 this was exactly opposite. Correcting for the difference in confidence level will lead to an EC figure that is lower than the RC figure.

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.

ING BANK – CREDIT RISKS

Credit risk is the risk of loss from default by debtors (including bond issuers) or trading counterparties. Credit risks are split into five principal risk categories: a) lending (including guarantees and letters of credit); b) investments; c) pre-settlement (derivatives, securities financing and foreign exchange trades); d) money markets and e) settlement. Corporate Credit Risk Management (CCRM) is responsible for the measurement and management of credit risk incurred by all ING Group entities, including country-related risks. CCRM is organised along the business lines of ING Bank and ING Insurance. The CCRM 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 report directly to him.

Credit risk management is supported by dedicated credit risk information systems and internal credit risk measurement methodologies for debtors, issuers and counterparties. CCRM creates consistency throughout the credit risk organisation by providing common credit risk policies, methodologies, manuals and tools across the Group.

ING Group'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 top-down concentration limits for countries, individual borrowers and borrower groups. The aim within the banking sector is to expand relationship-banking activities, while maintaining stringent internal risk/return guidelines and controls.

Credit analysis is 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. For credit risk management purposes, financial obligations are classified into lending, investments, pre-settlement, money market and settlement. ING Bank applies a Risk Adjusted Return on Capital framework (RAROC) which measures the performance of different activities and links to shareholder value creation. 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. More sophisticated RAROC-based tools are used internally to ensure a proper balance of risk and reward within the portfolio and concentration parameters. ING's credit analysts make use of publicly available information in combination with in-house analysis based on information provided by the customer, peer group comparisons, industry comparisons and other quantitative techniques.

Risk categories for credit risk

Lending risk

Lending risk arises when ING 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, discount/premium amortisations or impairments.

Investment risk

Investment risk is the credit default and risk rating migration risk that is associated with ING'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). Bonds that are purchased with the intent to re-sell in a short period of time are considered to be trading risks, which are measured and monitored by the Corporate Market Risk Management department. For credit risk purposes, Investment risk is measured at original cost (purchase price) less any prepayments or amortisations and excluding any accrued and unpaid interest or the effects of any impairment.

Risk management (continued)

Money market risk
Money market risk arises when ING 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 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.

Pre-settlement risk
Pre-settlement risk arises when a counterparty defaults on a transaction before settlement and ING 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 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% (1.96 standard deviations) confidence level.

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 has paid or delivered its side of the trade. The risk is that ING delivers, but does not receive delivery from the counterparty. Settlement risk can most commonly be contained and reduced by entering into transactions with delivery-versus-payment (DVP) settlement methods, as is common with most clearing houses, or settlement netting agreements.

For those transactions where DVP settlement is not possible, ING establishes settlement limits through the credit approval process. Settlement risk is then monitored and managed by the credit risk management units. Risk is further mitigated by operational procedures requiring trade confirmations to counterparties with all transaction details, and by entering into internationally accepted documentation, such as International Swaps and Derivatives Association (ISDA) Master Agreements for derivative transactions. Additionally, ING regularly participates in projects with other financial institutions to improve and develop new clearing systems and clearing mechanisms to further reduce the level of settlement risk. Due to the very short term nature of settlement exposure (daily or intra-day), settlement risks do not attract economic or regulatory capital and are excluded from risk reporting disclosures.

Country risk
Country risk is the risk specifically attributable to events in a specific country (or group of countries). It can occur within each of the five above described risk categories. All transactions and trading positions generated by ING include country risk which is further divided into economic and transfer risk. Economic risk is the concentration risk relating to any event in the risk country which may affect transactions and any other exposure in that country, regardless of the currency. Transfer risk is the risk incurred through the inability of ING or its counterparties to meet their respective foreign currency obligations due to a specific country event.

In countries where ING is active, the relevant country's risk profile is regularly evaluated, resulting in a country rating. Country limits are based on this rating and ING's risk appetite. Exposures derived from lending, investment pre-settlement and money market activities are then measured and reported against these country limits on a daily basis. Country risk limits are assigned for transfer risk mainly for emerging markets.

Credit Risk Mitigation
As with all financial institutions and banks in particular, ING is in the business of taking credit risks in an informed 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. ING uses different credit risk mitigation techniques, of which entering into Master Agreements, Collateral Agreements and CDS contracts are the main techniques used.

Credit Risk Measurement and Reporting
Figures associated with Money Market and Lending activities are generally the nominal amounts, while amounts associated with Investment activities are based on the original amount invested less repayments. 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 statistically 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 and Covered Bonds) are shown separately. These amounts also relate to the amount invested prior to any impairment activity or mark-to-market adjustments. This amount is also considered to be "outstandings".

Risk management (continued)

Compensation and Master agreements
ING uses various market pricing and measurement techniques to determine the amount of credit risk on pre-settlement activities. These techniques estimate ING'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 matches trades with similar characteristics to determine their eligibility for offsetting. This offsetting effect is called 'compensation'. Subsequently, ING 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 under CSAs or other similar agreements.

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 determines the amount and type of collateral, if any, that a customer may be required to pledge to ING. 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 actively enters into various legal arrangements whereby ING 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 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's portfolio is diversified, the profile of collateral it receives is also diversified in nature and does not reflect any particular collateral type more than others.

As part of its securities financing business, ING 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 held as collateral under these types of agreements was EUR 92.0 billion at 31 December 2010 and EUR 72.7 billion at 31 December 2009. The increase is commensurate with the overall increase in open securities financing trades at year end 2010 compared to year end 2009. 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). 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 is obliged to return equivalent securities in such cases.

Repossession policy
It is ING's general policy not to take possession of assets of defaulted debtors. Rather, ING attempts to sell the assets from within the legal entity that has pledged these assets to ING, in accordance with the respective collateral or pledge agreements signed with the obligors. In those cases where ING does take possession of the collateral, ING 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, 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 often has to take possession of the underlying collateral but also tries to reduce the amount of time until resale.

ING Bank Credit Risk Profile
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.

For the banking operations, ING uses various market pricing and measurement techniques to determine the amount of credit risk on pre-settlement activities. These techniques estimate ING's potential future exposure on individual and portfolios of trades. Master agreements and collateral agreements are frequently entered into to reduce these credit risks.

Credit quality: ING Bank portfolio, outstandings			
		2010	2009
Neither past due nor impaired		**822,445**	790,377
Past due but not impaired (1-90 days) [1]		**5,638**	7,404
Impaired		**13,779**	11,983
Total		**841,862**	809,764

[1] Based on lending (consumer loans and residential mortgages only).

Risk management (continued)

Risk classes

Risk classes are defined based upon the quality of the exposures in terms of creditworthiness, varying from investment grade to problem grade expressed in S&P equivalents.

Risk classes ING Bank portfolio, as % of total outstandings [1]

	Commercial Banking		Retail Banking Benelux		Retail Banking Direct & International [2]		Total ING Bank	
	2010	2009	**2010**	2009	**2010**	2009	**2010**	2009
1 (AAA)	**3.0%**	3.7%		0.2%	**14.4%**	18.3%	**6.3%**	7.8%
2-4 (AA)	**14.3%**	18.7%	**4.0%**	3.7%	**12.1%**	16.0%	**10.6%**	13.4%
5-7 (A)	**24.0%**	21.4%	**5.3%**	5.2%	**18.8%**	17.1%	**16.8%**	15.2%
8-10 (BBB)	**22.9%**	20.7%	**42.0%**	38.4%	**28.9%**	25.1%	**30.4%**	27.4%
11-13 (BB)	**22.8%**	22.0%	**37.7%**	41.0%	**15.5%**	13.5%	**24.4%**	24.5%
14-16 (B)	**8.8%**	8.5%	**6.2%**	6.4%	**7.2%**	6.9%	**7.5%**	7.3%
17-22 (CCC & Problem Grade)	**4.2%**	5.0%	**4.8%**	5.1%	**3.1%**	3.1%	**4.0%**	4.4%
	100.0%	100.0%	**100.0%**	100.0%	**100.0%**	100.0%	**100.0%**	100.0%

[1] Based on credit risk measurement contained in lending, pre-settlement, money market and investment activities. The ratings reflect probabilities of default and do not take collateral into consideration.

[2] Covered bonds are presented on the basis of the external credit rating of the issuer in question. Covered bond issues generally possess a better external credit rating than the issuer standalone, given structural features of such covered bonds.

Risk classes ING Bank portfolio per credit risk type, as % of total outstandings [1]

	Lending		Investment		Money Market		Pre-settlement		Total ING Bank	
	2010	2009	**2010**	2009	**2010**	2009	**2010**	2009	**2010**	2009
1 (AAA)	**0.8%**	0.8%	**30.8%**	36.9%	**1.2%**	1.2%	**3.5%**	5.9%	**6.3%**	7.8%
2-4 (AA)	**6.0%**	7.0%	**25.0%**	29.4%	**22.0%**	45.6%	**18.2%**	26.1%	**10.6%**	13.4%
5-7 (A)	**9.5%**	9.1%	**27.1%**	23.1%	**62.3%**	40.9%	**50.8%**	46.7%	**16.8%**	15.2%
8-10 (BBB)	**36.9%**	35.0%	**12.5%**	6.5%	**6.8%**	7.2%	**17.2%**	11.0%	**30.4%**	27.4%
11-13 (BB)	**32.0%**	32.7%	**2.0%**	1.8%	**7.4%**	4.7%	**7.3%**	7.3%	**24.4%**	24.5%
14-16 (B)	**9.9%**	9.9%	**0.6%**	0.6%	**0.1%**	0.2%	**1.8%**	1.8%	**7.5%**	7.3%
17-22 (CCC & Problem Grade)	**4.9%**	5.5%	**2.0%**	1.7%	**0.2%**	0.2%	**1.2%**	1.2%	**4.0%**	4.4%
	100.0%	100.0%	**100.0%**	100.0%	**100.0%**	100.0%	**100.0%**	100.0%	**100.0%**	100.0%

[1] Based on credit risk measurement contained in lending, pre-settlement, money market and investment activities. The ratings reflect probabilities of default and do not take collateral into consideration.

Within the Investment and Pre-Settlement portfolios, there was a slight downward shift from the high end investment grade, to the midlevel investment grade in 2010. The Lending portfolios remained fairly stable. A large portion of the reduction in investment grade counterparty risks (pre-settlement) is related to the increasing application of collateral and netting agreements with these counterparties. Where such agreements are in place, ING generally has higher absolute volumes, while the credit risks are actually lowered due to the benefit of collateral and netting agreements.

Risk concentration: ING Bank portfolio, by economic sector [1] [2]

	Commercial Banking		Retail Banking Benelux		Retail Banking Direct & International		Total ING Bank	
	2010	2009	**2010**	2009	**2010**	2009	**2010**	2009
Private Individuals	**0.1%**	0.2%	**74.8%**	74.4%	**51.6%**	48.1%	**40.0%**	38.2%
Commercial Banks	**17.9%**	19.5%	**0.3%**	0.5%	**13.2%**	13.7%	**11.2%**	12.0%
Non-Bank Financial Institutions	**13.3%**	13.0%	**1.2%**	1.8%	**16.8%**	18.8%	**11.1%**	11.8%
Central Governments	**11.7%**	12.3%	**1.0%**	0.9%	**8.0%**	8.8%	**7.3%**	7.8%
Real Estate	**13.6%**	13.8%	**4.5%**	4.3%	**0.9%**	0.8%	**6.4%**	6.6%
Natural Resources	**10.3%**	8.7%	**0.4%**	0.4%	**0.4%**	0.3%	**3.9%**	3.4%
Transportation & Logistics	**5.7%**	5.6%	**1.4%**	1.5%	**0.2%**	0.1%	**2.5%**	2.5%
Services	**3.3%**	3.2%	**3.3%**	3.2%	**0.3%**	0.3%	**2.2%**	2.2%
Lower Public Administration	**0.5%**	0.5%	**1.3%**	1.2%	**4.3%**	3.4%	**2.1%**	1.7%
Other	**23.6%**	23.2%	**11.8%**	11.8%	**4.3%**	5.7%	**13.3%**	13.8%
	100.0%	100.0%	**100.0%**	100.0%	**100.0%**	100.0%	**100.0%**	100.0%

[1] Based on the total amount of credit risk in the respective column using ING's internal credit risk measurement methodologies.

[2] Economic sectors below 2% are not shown separately but grouped in Other.

Risk management (continued)

As part of the Back to Basics focus on core clients, ING Bank reduced its exposure to governments and the financial sector while growing the private individual and corporate portfolios. The industry Central Banks fell below the 2.0% threshold during 2010 (2009: 2.3%).

ING Bank Lending portfolio

Largest economic exposures: ING Bank lending portfolio, by geographic area [1]								
	Commercial Banking		Retail Banking Benelux		Retail Banking Direct & International		Total ING Bank	
	2010	2009	**2010**	2009	**2010**	2009	**2010**	2009
Netherlands	**20.7%**	20.2%	**74.8%**	75.4%	**4.8%**	6.1%	**31.2%**	32.1%
Belgium	**7.7%**	9.8%	**23.2%**	21.4%	**0.2%**	0.3%	**9.6%**	9.9%
Rest of Europe	**45.2%**	44.6%	**1.3%**	1.7%	**53.3%**	56.3%	**35.0%**	35.6%
Americas	**14.8%**	15.5%	**0.2%**	0.6%	**26.4%**	24.3%	**14.6%**	14.1%
Asia/Pacific	**11.2%**	9.5%	**0.1%**	0.5%	**15.3%**	13.0%	**9.4%**	8.0%
Rest of World	**0.4%**	0.4%	**0.4%**	0.4%			**0.2%**	0.3%
Total	**100.0%**	100.0%	**100.0%**	100.0%	**100.0%**	100.0%	**100.0%**	100.0%

(1) Geographic areas are based on the country of residence of the obligor.

The largest relative geographic area of growth was Asia/Pacific which corresponds with the region's economic recovery in 2010. Exchange rate effects had further impact on the regional division.

In line with ING's de-risking strategy, the portfolio developments in most countries mirrored the developments in the portfolio as a whole. The depreciated Euro versus the Australian and the US dollar had an upward effect of the exposure to the Americas and Asia/Pacific and therewith also to the Retail Banking Direct and International and Commercial Banking portfolios.

Problem loans

Renegotiated Loans

ING's credit restructuring activities focus on managing the client relationships, improving the borrower's risk profile, maximising collection opportunities and, if possible, avoiding foreclosure or repossession. These activities are pro-actively pursued and primarily relate to Wholesale and Small and Medium Enterprise (SME) borrowers ('Business'), which are not yet in default. Common actions taken include, but are not limited to, revising or extending repayment arrangements, assisting in financial reorganisation and/or turnaround management plans, deferring foreclosure, modifying loan conditions and deferring certain payments pending a change in circumstances. For consumer and residential mortgage loans ('Consumer') the approach is more portfolio oriented.

Restructuring activities for Business borrowers normally start with a watch list indication. Borrowers on the watch list maintain their rating (1-19). A watch list indication may develop into a restructuring status (18-19) or even a recovery status (20-22). Most borrowers with a watch list indication return to a regular status. For Consumer clients the watch list of 'potential problem loan' status is usually caused by payment arrears (more than 1 month) which are subsequently reflected in the risk rating of 18-19 (or comparable status based on an increased probability of default). Following restructuring relationship management is either transferred to the regular banking departments or terminated.

ING's renegotiated loans that would otherwise be past due or impaired are reflected below:

ING Bank renegotiated loans that would otherwise be past due or impaired (outstandings)						
		2010			2009	
		Business loans	**Consumer and mortgage loans**	**Total**	Business loans	Consumer and mortgage loans	Total
From restructuring (18-19) to regular (1-17) status		**4,365**		**4,365**	2,737		2,737
From recovery (20-22) to regular or restructuring status (1-19)		**2,744**	**3,209**	**5,953**	2,895	3,210	6,105
Total of renegotiated loans		**7,109**	**3,209**	**10,318**	5,632	3,210	8,842

ING continues to take a proactive approach in working with its Business and Consumer customers which are experiencing financial difficulties to restructure their loans and help return the companies to economic viability. The category 'restructuring status' is not used for consumer borrowers, but only for Business customers.

Risk management (continued)

Past-due obligations
ING 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 the retail loans and small businesses. 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.

Aging analysis (past due but not impaired): ING Bank portfolio, outstandings [1] [2]			
		2010	2009
Past due for 1-30 days		**4,565**	5,967
Past due for 31-60 days		**973**	1,281
Past due for 61-90 days		**100**	156
Total		**5,638**	7,404

[1] Based on lending (consumer loans and residential mortgages only).
[2] The amount of past due but not impaired financial assets in respect of non-lending activities was not material.

There is no significant concentration of a particular type of loan structure in the past due or the impaired loan portfolio.

ING tracks past due but not impaired loans most closely for the consumer loan and residential mortgage portfolios. 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'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.

Impaired loans and provisions
The credit portfolio is under constant review. 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), which advises the Executive Board on specific provisioning levels. 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			
		2010	2009
Private Individuals		**4,838**	4,589
Real Estate		**2,777**	1,528
General Industries		**858**	933
Food, Beverages & Personal Care		**837**	681
Transportation & Logistics		**818**	415
Builders & Contractors		**792**	628
Services		**582**	611
Non-Bank Financial Institutions		**527**	304
Other		**1,750**	2,294
Total		**13,779**	11,983

ING holds specific and collective provisions of EUR 2,697 million and EUR 1,404 million, respectively (2009 EUR 2,115 million and EUR 1,246 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 1,051 million in provisions against the performing portfolio and EUR 43 million of Net Present Value forgone for re-modified loans.

Risk management (continued)

Provisions: ING Bank portfolio								
	Commercial Banking		Retail Banking Benelux		Retail International & Direct		Total ING Bank	
	2010	2009	**2010**	2009	**2010**	2009	**2010**	2009
Opening balance	**1,628**	1,024	**1,290**	802	**1,481**	785	**4,399**	2,611
Changes in the composition of the group				-3				-3
Write-offs	**-337**	-520	**-454**	-468	**-375**	-229	**-1,166**	-1,217
Recoveries	**36**	21	**58**	118	**11**	9	**105**	148
Increase/(decrease) in loan loss provision	**497**	1,211	**721**	728	**533**	1,034	**1,751**	2,973
Exchange differences	**65**	-28	**8**	-3	**82**	-17	**155**	-48
Other changes	**-34**	-80	**18**	116	**-33**	-101	**-49**	-65
Closing balance	**1,855**	1,628	**1,641**	1,290	**1,699**	1,481	**5,195**	4,399

During 2010 we saw a slow reduction to more normalised risk costs. The lower risk costs level was largely the result of an improving portfolio within Commercial Banking, which was partly offset due to the continuing elevated levels of the risk costs in Retail Benelux.

ING BANK – MARKET RISKS

Market risk is the risk that movements in market variables, such as interest rates, equity prices, foreign exchange rates 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 book positions. The trading positions are held for the purpose of benefiting from short-term price movements, 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.

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 with the exception of ING Direct, which has a separate ALCO. The business lines Retail Banking 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 Corporate Market Risk Management department (CMRM) 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 CMRM 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.

CMRM 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 CMRM 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.

Market risk in trading books

Organisation

Within the trading portfolios, positions are maintained in the professional financial markets for the purpose of benefiting 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 and foreign exchange rates.

The Financial Markets Risk Committee (FMRC) is the market risk committee that, within the guidelines set by ALCO Bank, sets market risk limits both on an aggregated level and on a desk level, and approves new products. CMRM advises both the FMRC and ALCO Bank on the market risk appetite of trading activities.

With respect to the trading portfolios, CMRM focuses on the management of market risks of Commercial Banking (mainly Financial Markets) as this is the only business line where significant trading activities take place. Trading activities include facilitation of client business, market making and proprietary position taking in cash and derivatives markets. CMRM 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. CMRM 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 CMRM overall down to specific business areas and trading offices.

Risk management (continued)

Measurement
CMRM uses the 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, foreign exchange rates, equity prices, credit spreads, implied volatilities) if positions remain unchanged for a time period of one day. The impact of historical market movements on today's portfolio is estimated, based on equally weighted observed market movements of the previous year. ING uses VaR with a 1-day horizon for internal risk measurement, control and backtesting, and VaR with a 10-day horizon for determining regulatory capital. ING's VaR model has been approved by De Nederlandsche Bank (DNB: the Dutch Central Bank) to be used for the regulatory capital calculation of its most important trading activities.

Market risk management for the fixed income and equity markets is split into two components: general market risk and specific market risk. The general market risk component estimates the VaR resulting from general market-value movements (e.g. interest rate movements). The specific market risk component estimates the VaR resulting from market-value movements that relate to e.g. the underlying issuer of securities in the portfolios. This specific risk relates to all value movements not related to general market movements.

CMRM has implemented a historical simulation Value at Risk (HVaR) model for consolidated risk reporting for the trading books that has replaced the Variance Covariance method used previously. ING has chosen to use a phased rollout approach. As of 1 January 2009, ING implemented the first phase after approval from DNB. During 2010, further steps were made with the migration of a large part of the non-linear risks from Monte Carlo simulation to historical simulation. The remaining non-linear risks and specific risk will migrate to historical simulation in 2011.

Limitations
VaR as a risk measure 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 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 true. Also, the use of 99% confidence level means that VaR does not take into account any losses that occur beyond this confidence level.

The Basel Committee has proposed to supplement the current VaR regulatory capital framework for trading exposures with an Incremental Risk Charge (IRC) and Stressed VaR to cover for the shortcomings of the current risk framework. The IRC ensures that Basel II capital charges will capture default and credit migration risks which are not reflected in the current 99%, 10-day VaR model for the trading books. The Basel II requirements on the incremental risk charge will come into force in 2011. ING performs experience runs on IRC as part of the approval process with the Dutch regulator, the DNB.

Backtesting
Backtesting is a technique for the ongoing 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 backtest, the actual daily result is compared with the 1-day VaR. In addition to using actual results for backtesting, ING 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's one-sided confidence level of 99% an outlier is expected once in every 100 business days**.** In 2010, like in 2009, there was no occurrence where a daily trading loss exceeded the daily consolidated VaR of ING Commercial Banking. ING reports the results of this backtesting to DNB on a quarterly basis**.**

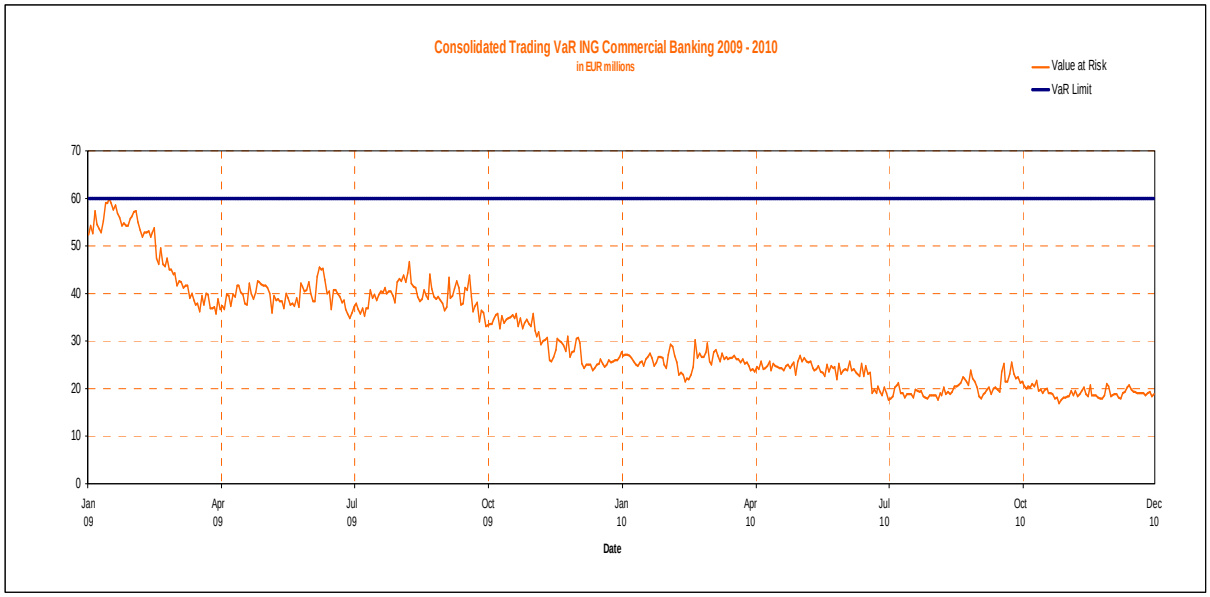
Stress testing
Stress tests are used for the monitoring of market risks under extreme market conditions. Since VaR in general does not produce an estimate of the potential losses that can occur as a result of extreme market movements, ING uses structured stress tests for monitoring the market risk under these extreme conditions. Stress scenarios are based on historical as well as hypothetical extreme events. The result of the stress testing is an event risk number, which is an estimate of the profit and loss account effect 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's event risk policy basically consists of defined stress parameters per country and per market (fixed income, equity, foreign exchange, credit and related derivative markets). The scenarios and stress parameters are evaluated against extreme actual market movements. If and when necessary, ING evaluates specific stress scenarios, as an addition to its structural stress tests. These specific scenarios relate to current concerns, like political instability in certain regions, terrorist attacks or extreme movements, e.g. in credit spreads.

Other trading controls
VaR and event risk limits are the most important limits to control the trading portfolios. Furthermore, ING uses a variety of other limits to supplement VaR and event risk. 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 exotic derivatives trading. The market risk of these products is controlled by product specific limits and constraints.

Risk management (continued)

Development of market risks

The following chart shows the development of the overnight VaR under a 99% confidence interval and a 1-day horizon. The overnight VaR is presented for the ING Commercial Banking trading portfolio for 2009 and 2010**.** Several banking books are governed by the trading risk process and are therefore excluded from the non-trading risk table and included in the below trading risk graph and table.



During 2010 the overnight VaR for the ING Commercial Banking trading portfolio ranged from EUR 17 million to EUR 30 million. No limit excess was observed in 2010.

More details on the VaR of the ING Commercial Banking trading portfolio for 2010 and 2009 are provided in the table below.

Consolidated VaR trading books: ING Commercial Bank								
	Minimum		Maximum		Average		Year end	
	2010	2009	**2010**	2009	**2010**	2009	**2010**	2009
Interest rate / Credit spread	**18**	20	**29**	54	**22**	33	**20**	24
Equitiy	**1**	4	**9**	11	**4**	7	**3**	5
Foreign Exchange	**1**	1	**9**	11	**2**	5	**4**	3
Diversification [(1)]					**-6**	-6	**-8**	-5
Total VaR	**17**	24	**30**	60	**22**	39	**19**	27

[(1)] The total VaR for the columns Minimum and Maximum can not 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.
Note: the above categories are consistent with those used for internal risk management purposes and do not relate to financial statement captions.

The VaR figures in the table above relate to all books under trading governance. In general, the level of the trading VaR was lower in 2010, continuing the decreasing trend of 2009. The interest rate market, which includes both the general interest rate and credit spread exposures, provided the largest contribution to the trading VaR. The average VaR over 2010 was substantially lower than over 2009 (average VaR 2010: EUR 22 million and average VaR 2009: EUR 39 million). In line with the trend of 2009, the VaR decreased to EUR 19 million towards the end of 2010. This decrease is to a large extent related to the increased diversification of non-linear and linear risk as a result of the HVaR implementation as explained under ‘Measurement’. Another reason is the discontinuing of the strategic trading business in the United States, as part of ING’s continued balance sheet strengthening.

REGULATORY CAPITAL

According to the Dutch regulation, regulatory capital for trading portfolios can be calculated using the standardised approach (CAD1) or an internal model approach (CAD2). In 1998, ING 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 internal VaR model, where diversification is taken into account. On the other hand, market risk capital of CAD1 books is calculated using standardised fixed risk weights.

Risk management (continued)

Regulatory capital requirements						
	Standardised Approach		Internal Model Approach		Total	
	2010	2009	**2010**	2009	**2010**	2009
Interest rate / Credit spread	**105**	127	**172**	233	**277**	360
Equity			**40**	75	**40**	75
Foreign exchange [1]	**32**	23	**15**	33	**47**	56
Total	**137**	150	**227**	341	**364**	491

[1] The FX exposure under the Standardised Approach contains FX exposures on both trading and banking books.

In 2010, ING applied the CAD2 model for most of its trading activities. The standard CAD1 model is used for some trading books in smaller locations and/or products for which the internal model is not yet CAD2 compliant. The aim of ING is to receive CAD2 status for all its trading books. In 2010, several trading books were moved from the standardised model to the internal model, further reducing the number of books under the standardised model. It should be noted that due to the conservative nature of the CAD1 model the capital charge for the standardised approach is much larger than for the internal model approach.

VaR Values for Internal Model Approach Portfolios						
	2010			Year end	
	Minimum	**Maximum**	**Average**	**2010**	2009
Interest rate / Credit spread	**16**	**28**	**20**	**18**	21
Equity	**1**	**9**	**4**	**3**	5
Foreign exchange	**1**	**9**	**2**	**4**	3
Diversification effect [1]			**-6**	**-8**	-4
Total	**15**	**28**	**20**	**17**	25

[1] The total VaR for the columns Minimum and Maximum can not 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.
Note: the above categories are consistent with those used for internal risk management purposes and do not relate to financial statement captions.

The VaR figures in the table above only relate to the CAD2 trading books for which the internal model approach is applied. The VaR figures reported under Consolidated VaR trading books relate to all books under trading governance.

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 2010)				
	2010			2009
Foreign exchange			**Foreign exchange**	
US dollar	**-457**		US dollar	-266
Taiwan dollar	**155**		Chinese yuan	208
Chinese Yuan	**83**		Bulgarian lev	37
South Korean won	**68**		Polish zloty	31
Bulgarian Lev	**-57**		South Korean won	20

Most important interest rate and credit spread sensitivities (year-end 2010)				
amounts in thousands of euros	**2010**			2009
Interest Rate (BPV [1])			**Interest Rate (BPV [1])**	
Eurozone	**-377**		Eurozone	-1,175
United States	**167**		United States	-359
Mexico	**-147**		Mexico	-153
Japan	**141**		UK	-109
Russia	**-73**		Japan	107
Credit Spread (BPV [1])			**Credit Spread (BPV [1])**	
Eurozone	**-596**		United States	-115
Sweden	**-67**		Eurozone	-86
Hong Kong	**-47**		Mexico	-57
UK	**-47**		Japan	-17
United States	**-42**		Russia	-13

[1] Basis Point Value (BPV) measures the impact on value of a 1 basis point increase in interest rates or credit spreads.

Risk management (continued)

Credit spread sensitivities per risk class and sector (year-end 2010)					
amounts in thousands of euros		2010		2009	
Credit Spread (BPV [1])		**Corporate**	**Financial Institutions**	Corporate	Financial Institutions
Risk classes					
1 (AAA)		-8	-211	-18	-145
2-4 (AA)		-25	-212	-18	-34
5-7 (A)		-32	-257	83	-100
8-10 (BBB)		-77	-102	16	14
11-13 (BB)		-11	-47	-12	-20
14-16 (B)		-30	-8	-21	20
17-22 (CCC and Problem Grade)		-24	-33	-47	-11
No rating				15	-16
Total		-207	-871	-2	-292

[1] Basis Point Value (BPV) measures the impact on value of a 1 basis point increase in interest rates or credit spreads.

Market risk in banking books

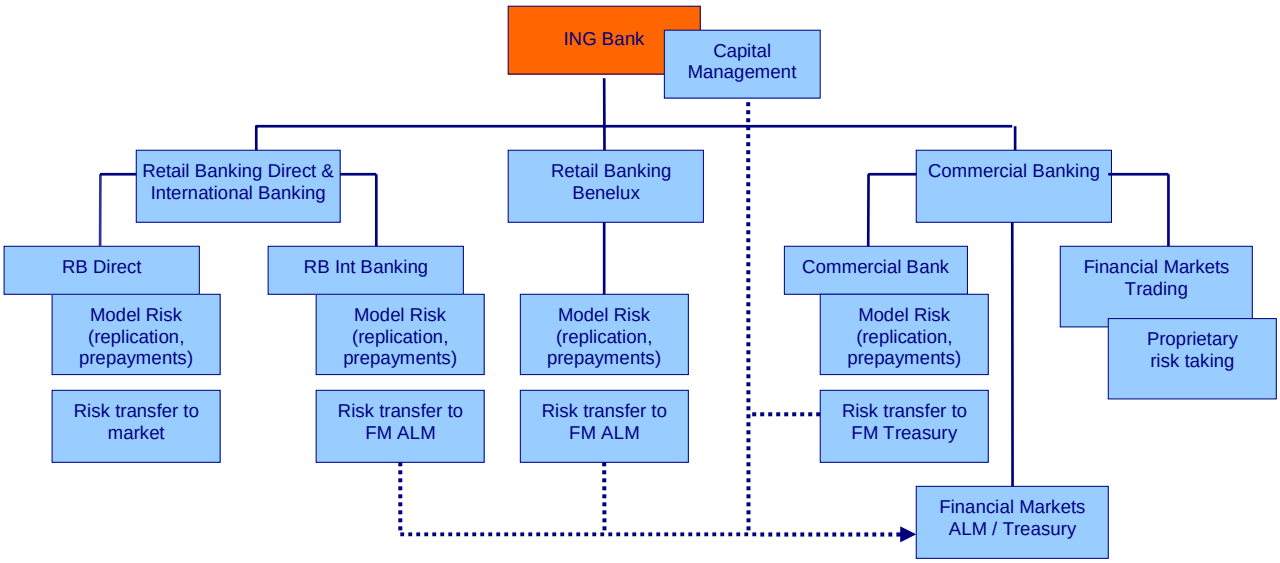
Organisation

ING makes a distinction between trading and banking (non-trading) books. Positions in trading books can change swiftly, whereas positions in banking books are intended to be held until maturity, or at least for the long term. Books that contain positions to hedge exposures resulting from commercial activities are also classified as banking books.

Interest rate risk in banking books

Interest rate risk in the banking books is defined as the potential negative impact that moving interest rates have on earnings or market value. The management of interest rate risk follows the Asset & Liability Management (ALM) framework as approved by ALCO Bank. Main goal of this framework is to transfer interest rate risks out of commercial books in order to manage it centrally. This allows for a clear demarcation between commercial business results and results on unhedged interest rate positions.

ING distinguishes three types of activities: investment of own capital (by Capital Management), commercial business (ING Direct, Retail Banking and Commercial Bank) and the strategic interest rate position (Financial Markets ALM). The scheme below presents the ALM framework:



Below, the three activities are described in more detail.

Capital Management is responsible for managing the investment of own funds (core capital). Capital is invested longer term, targeting to maximize return, while keeping it stable at the same time.

Commercial activities lead to interest rate risk, as repricing tenors of assets differ from those of liabilities. Linear interest rate risk is transferred out of the commercial business into the risk center (FM ALM), leaving convexity risk and model risk with the commercial business. The convexity risk is a result of hedging products that contain embedded options, like mortgages, by using linear hedge instruments. Model risk reflects the potential imperfect modelling of client behaviour. The risk transfer process takes place on a monthly basis, but more often if deemed necessary, for instance in volatile markets.

Risk management (continued)

In the risk transfer process, client behavioural characteristics play an important role. The behaviour in relation to mortgages, loans, savings and demand deposits is modelled by CMRM, following 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.

In line with other commercial businesses, ING Direct transfers interest rate risk out of their commercial books to a large extent. The difference being that the risks are transferred directly to the external market, instead of to the risk center (FM ALM).

Within ING Commercial Banking, FM ALM contains the strategic interest rate position. The main objective is to maximise the economic value of the book and to generate adequate and stable yearly earnings within the risk appetite boundaries set by ALCO Bank.

In the following sections, the interest rate risks in the banking books are presented. ING 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. Several small banking books are governed by the trading risk process and are therefore excluded from the following banking book risk tables. These are included in the trading risk graph and table in the section 'Market Risk in Trading Books'.

Earnings Sensitivity (ES)

ES measures the impact of changing interest rates on (pre tax) IFRS 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; balance sheet dynamics (e.g. new business) where significant.

The ES is dominated by convexity risk and by the strategic interest rate position in FM ALM. The investment of own funds only impact the ES marginally, given the long term duration.

Earnings Sensitivity banking books (1% instantaneous upward shock to interest rates)		
	2010	2009
By Currency		
Euro	**-237**	-262
US dollar	**-114**	-193
Pound sterling	**-15**	-26
Other	**50**	46
Total	**-316**	-435

In an environment where short term rates remain at relative low levels, both in the Eurozone and the US, the ES showed a limited decrease in 2010. Interest paid on liabilities is expected to be less sensitive to market rate changes.

Net Present Value (NPV) at Risk

NPV-at-Risk measures the impact of changing interest rates on value. As a full valuation approach is applied, the risk figures include convexity risk that results from embedded optionalities like mortgage prepayment options. Like for ES calculations, an instantaneous shock up of 1% is applied.

The full value impact cannot be directly linked to the balance sheet or profit and loss account, as fair value movements in banking books are generally not reported through the profit and loss account or through equity. The largest part, namely the value mutations of the amortised cost balances, is neither recognised in the balance sheet nor directly in the profit and loss account. The value mutations are expected to materialise over time in the profit and loss account, if interest rates develop according to forward rates throughout the remaining maturity of the portfolio.

The NPV at Risk is dominated by the interest rate sensitive long term investments of own funds. The value of these investments is impacted significantly if interest rates move up by 1%. Convexity risk in retail portfolios as well as the strategic interest position in FM ALM also contribute significantly to the overall NPV at Risk.

NPV-at-Risk banking books (1% instantaneous upward shock to interest rates)		
	2010	2009
By Currency		
Euro	**-2,446**	-1,811
US dollar	**-205**	-39
Pound sterling	**-19**	-53
Other	**48**	68
Total	**-2,622**	-1,835

Risk management (continued)

Total NPV-at-Risk increased in the course of 2010. The change was strongly influenced by the increase in long term interest rates in the 2nd half of 2010, which increased the duration of mortgages and thereby the value sensitivity to a further rate increase. Besides, the slow housing market in the Netherlands also led to an increase in the mortgage duration.

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. Convexity risk plays a less important role, given that BPV only reflects a small movements in interest rates.

BPV per currency banking books

By currency (amounts in EUR thousands)	2010	2009
Euro	**-21,760**	-15,340
US dollar	**-548**	757
Pound sterling	**-284**	-684
Other	**175**	475
Total	**-22,417**	-14,792

The total BPV position increased in 2010 for the same reasons as the increase in NPV-at-Risk. The duration of mortgages increased on the back of higher interest rates (both in the United States and the Eurozone) and a slow Dutch housing market.

Foreign exchange (FX) risk in banking books

FX exposures in banking books result from commercial banking business (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.

Commercial banking business

Every business unit hedges the FX risk resulting from commercial results into its base currency. Consequently, assets and liabilities are matched in terms of currency.

FX Translation result

ING'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. Compared to 2009 the strategy has changed in 2010 from protection of the target Tier 1 ratio to protection of the target core Tier 1 ratio instead. The strategy 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. The following table presents the currency exposures in the banking books for the most important currencies:

Net currency exposures banking books

	Foreign Investments		Hedges		Net Exposure	
In EUR million	**2010**	2009	**2010**	2009	**2010**	2009
US dollar	**7,275**	6,913	**-606**	-3,980	**6,669**	2,933
Pound sterling	**-993**	-1,155	**1,144**	1,220	**151**	65
Polish zloty	**1,371**	1,153	**-643**	-486	**728**	667
Australian dollar	**2,908**	2,186	**-2,056**	-1,423	**852**	763
Turkish lira	**1,891**	1,752	**-444**	-233	**1,447**	1,519
Other currency	**7,160**	7,321	**-4,028**	-3,549	**3,132**	3,772
Total	**19,612**	18,170	**-6,633**	-8,451	**12,979**	9,719

The US dollar Net Exposure increased significantly in 2010 due to the changed hedging strategy. The significantly decreased Net exposure in the category 'Other currency' is mainly caused by changed share prices of strategic equity stakes. For example, the share price of the bank's equity stake in Bank of Beijing decreased over 30%, decreasing the Chinese renmimbi exposure.

Risk management (continued)

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 are presented that negatively impact the target core Tier-1 ratio: depending on whether the actual foreign currency position is above or below the target position, the worst case scenario is either negative or positive. A positive stress scenario means that the foreign currency appreciates against the Euro. For the Pound sterling this means that at the end of 2010 the target core Tier 1 ratio would only decrease by 0.02% in absolute terms (e.g. from 9.02% to 9.00%) if the Pound Sterling appreciates by 15%. Backtesting shows that the strategy was effective in 2010; the core Tier 1 ratio was hardly affected by changing FX rates.

Core Tier 1 ratio sensitivity ING Bank

	cTaR		Stress Scenario	
Currency	**2010**	2009	**2010**	2009
US dollar		0.11%	**15%**	15%
Pound sterling	**0.02%**	0.02%	**15%**	15%
Polish zloty	**0.01%**	0.01%	**-15%**	-15%
Australian dollar	**0.01%**	0.02%	**-20%**	-20%
Turkish lira		0.01%	**25%**	-25%

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 1,494 million (2009: EUR 1,396 million) and equity securities held in the Available-for-Sale (AFS) portfolio of EUR 2,741 million (2009: EUR 3,682 million). The value of equity securities held in the AFS 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 2010 the revaluation reserve relating to equity securities held in the Available-for-Sale portfolio fluctuated between a month-end low amount of EUR 1,723 million (2009: EUR 1,198 million) and a high amount of EUR 2,370 million (2009: EUR 2,536 million). Investments in associates are measured in accordance with the equity method of accounting and the balance sheet value is therefore not directly linked to equity security prices.

Equities Unrealised Gains and Losses in the AFS portfolio

	2010	2009
Gross unrealised gains	**1,728**	2,570
Gross unrealised losses	**-1**	-12
Total	**1,727**	2,558

Total capital requirement for equity price risk under the Simple Risk Weight Approach at 31 December 2010 results in EUR 310 million (2009: 364 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. The crisis in the financial markets could lead to a further slowdown of the world economy in general. These global economic factors could have future negative consequences for the value of and earnings related to real estate assets.

ING Bank has three different categories of real estate exposure on its banking books. First, ING Bank owns buildings it occupies. Second, ING Bank has a Real Estate Development company for which results are dependent on the overall real estate market. The general policy is to mitigate this risk by pre-sale agreements where possible. Third, ING Bank has co-invested seed capital and bridge capital to support the launch of various real estate funds. A decrease in real estate prices will cause the value of this seed and bridge capital to decrease and will lower the level of third party assets under management, which in turn will reduce the fee income from this activity.

For the third category mentioned above, real estate price shocks will have a direct impact on reported net profit and loss. ING Bank's real estate exposure (i.e. including leverage and committed purchases) is EUR 5.2 billion of which EUR 2.0 billion is recorded as fair value through P&L. The remaining EUR 3.1 billion is booked at cost or is revalued through equity (with impairments going through P&L).

In total, Real Estate exposure decreased by EUR 1.8 billion mainly as a result of divestments (-EUR 1.5 billion). Other important changes are: negative fair value changes (-EUR 0.1 billion), impairments (-EUR 0.4 billion) and FX appreciation (+EUR 0.2 billion).

Risk management (continued)

Real Estate Exposure banking books recorded as fair value through P&L (by geographic area and sector type)						
Continent	**2010**	2009		**Sector**	**2010**	2009
Europe	**662**	871		Residential	**207**	198
Americas	**812**	1,590		Office	**385**	498
Australia	**189**	493		Retail	**620**	852
Asia	**349**	325		Industrial	**516**	1,255
Other	**14**			Other	**298**	476
Total	**2,026**	3,279		Total	**2,026**	3,279

ING Bank's real estate exposure revaluing through P&L decreased significantly mainly caused by sales of Canadian and Australian funds. The fair value changes (-EUR 0.1 billion) related to investments in funds were limited in 2010 compared with 2009.

Real Estate Exposure banking books not revalued through P&L (by geographic area and sector type)						
Continent	**2010**	2009		**Sector**	**2010**	2009
Europe	**2,772**	3,290		Residential	**614**	618
Americas	**70**	235		Office	**1,456**	1547
Australia	**204**	159		Retail	**874**	883
Asia				Industrial	**43**	74
Other	**99**			Other	**158**	562
Total	**3,145**	3,684		Total	**3,145**	3,684

ING Bank's real estate exposure not revaluing through P&L has decreased, which is mainly driven by impairments in Real Estate Development.

ING Bank - Liquidity Risk
Definition
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 framework after which this is cascaded down in the organisation under the responsibility of the regional and local ALCOs.

The main objective of ING'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.

For this purpose liquidity risk is measured, managed and controlled from three different angles, namely a structural, a tactical and a contingency point of view.

Liquidity Risk Management
CMRM is responsible for liquidity risk management and bears the responsibility for the identification, measurement and monitoring of the liquidity risk position. Next to this it is responsible for performing liquidity risk stress testing. For stress testing purposes, on a monthly basis and as per Dutch Central Bank guidelines, ING Bank's liquidity positions are stress tested under a scenario that is a mix between a market event and an ING specific event. Also on periodic and ad-hoc basis additional stress testing exercises are undertaken on consolidated and local level.

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 has been established.

Risk management (continued)

This committee which consists of key representatives from Corporate Market Risk Management, Capital Management and Financial Markets 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;
- 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 (E)CB; in this respect the total eligible collateral position amounts to EUR 156.6 billion (nominal);
- Management of liquidity gaps, taking into account the asset mix and both the secured and unsecured funding opportunities of ING Bank;
- Maintaining a funds transfer pricing policy in which ING Bank's cost of liquidity is adequately reflected both under a going concern and a contingency perspective.

With respect to funding sources, ING Bank aims to fund its own originated assets (loans) by an equal amount of own originated liabilities (deposits), meaning a loan-to-deposit ratio of approximately 1. Ultimo 2010 the LtD ratio (excluding securities at amortised costs and IABF receivable) equals 1.05. In the table below the actual funding mix is displayed.

ING Bank Funding Mix		
Funding type	**2010**	2009
Retail deposits	**46%**	46%
Corporate & other deposits	**19%**	17%
Interbank (incl central bank)	**8%**	10%
Lending / repurchase agreement	**7%**	8%
Public debt	**17%**	16%
Subordinated debt	**3%**	3%
Total	**100%**	100%

The funding mix remained well diversified and according to targets set. Deposits accounted for 65% of the total funding mix.

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 Financial Markets Amsterdam, while regional and local Financial Markets departments manage liquidity in their respective regions and locations. Within Financial Markets, 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, for contingency purposes, a specific crisis team -consisting of key Board Members, representatives from Corporate Departments (e.g. Risk and Capital Management) and Treasuries - 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.
Contingency funding plans address both temporary and long-term liquidity disruptions, triggered by either a general market event or an ING specific event.

New developments

In the aftermath of the crisis, all financial institutions have been confronted with a large number of new regulatory requirements which are being implemented or are in the course of implementation. With regard to liquidity ING Bank is well on track in the implementation of CRDII. As in respect of Basel III, and the to be implemented Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR), further alignment will take place in the upcoming observation periods, ING will keep track of what is expected and will be at required levels well in time.

Risk management (continued)

ING INSURANCE FINANCIAL RISKS

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 are classified as insurance risk (actuarial and underwriting), market risk, liquidity risk, credit risk, and business risk. Compliance risk, legal risk and operational risk are classified as Non-Financial Risks.

The Management Board Insurance is responsible for managing risks associated with the activities of ING Insurance. The responsibility for measurement and management of credit risk and operational risk resides with Corporate Credit Risk Management (CCRM) and Corporate Operational Risk Management (CORM) respectively. Corporate Insurance Risk Management (CIRM) is responsible for insurance risk, market risk and liquidity risk measurement and management, business risk measurement, as well as ensuring that investment mandates adequately address credit portfolio risk.

Risk management governance

ING's Insurance Risk Management (IRM) is organised along a functional line comprising three levels within the organisation: the corporate, business line and business unit levels. The General Manager of CIRM, the Chief Insurance Risk Officer, heads the functional line and reports to the ING Group CRO. Each of the business lines and business units has a similar function headed by a Chief Insurance Risk Officer (business line and business unit CRO/CIRO). This layered, functional approach ensures consistent application of guidelines and procedures, regular reporting and appropriate communication vertically through the risk management function, as well as providing ongoing support for the business. The scope, roles, responsibilities and authorities of the risk management function at different levels are clearly described in an Insurance Risk Management Governance Framework to which all consolidated business units and business lines must adhere.

The objective of the insurance risk management function is to provide the business a sustainable competitive advantage by fully integrating risk management into the tactical daily business activities as well as ING's broader business strategy. Insurance Risk Management accomplishes this through four core activities. First, the IRM function ensures that products and portfolios are structured, underwritten, priced, approved and managed appropriately in compliance with internal and external rules and guidelines. Second, IRM ensures that the ING Insurance risk profile is transparent and well understood by management and stays within delegated authorities, with a 'no surprises' approach to reporting and monitoring risks. Third, IRM ensures that both risk and reward are adequately considered in the development of business strategy, for example by supporting the planning and allocation of capital and limits during the strategic planning process. Finally, IRM ensures that these steps are understood by ING's stakeholders, including shareholders, rating agencies, regulators and policy holders.

Risk management policies and tools

To ensure appropriate risk management, CIRM in close co-operation with the business line CROs/CIROs, has developed Standards of Practice guidelines and tools to manage risks. While these standards are principle based, they include mandatory requirements to which the business unit CROs/CIROs must adhere.

A critical aspect of risk management is that all new products are designed, underwritten and priced appropriately. This is explicitly covered by the Standard of Practice for the Product Approval and Review Process (PARP). This standard includes requirements related to risk profile, traditional and value-oriented pricing metrics and targets and documentation. Customer Suitability is integral part of the PARP requirements since December 2009. In addition to insurance and market risks, the requirements refer to credit risks, operational risks, compliance and legal risks. For these risks, the IRM network works closely together with the other relevant risk departments. The PARP also includes requirements to assess sensitivities to changes in financial markets, insurance risk (e.g. mortality and claims development), compliance risks, legal risks and operational risks, as well as assessment of the administration and accounting aspects of the product.

Other standards prescribe quarterly insurance risk reporting, ALM procedures and reporting, actuarial and economic assumption setting and reserve adequacy testing amongst others.

ING Insurance has developed an Economic Capital approach similar to that used within ING Bank. This is used as one of its core risk measurement tools. An exception is the US Insurance business which is managed based on Regulatory Capital. More details on the Economic Capital model are described in the Model Disclosure section. The ECAPS system provides a well controlled and automated basis for Economic Capital and risk measurement. Beyond measurement and reporting, the ECAPS system also provides greatly enhanced portfolio and capital analysis tools for management purposes.

CIRM expects this system to be the foundation of its internal fair value and solvency model, including the calculation of capital requirements following the introduction of Solvency II. Through 2010 the system has been enhanced and its functionalities expanded.

Risk management (continued)

To further manage risk, ING Insurance has implemented several limit structures. Examples include but are not limited to the following:
- Market Risk limits on sensitivities of Available Financial Resources, IFRS Earnings and Regulatory Capital. These limites provide the fundamental framework to manage the market and credit risks resulting from the Insurance operations' asset / liability mismatch;
- Credit risk concentration limits;
- Mortality concentration limits;
- Catastrophe and mortality exposure retention limits for its insurance risk; and
- Investment and derivative guidelines and limits.

Reserve adequacy
CIRM instructs and supervises all ING Insurance entities to ensure that the total insurance liabilities of ING Insurance (both reserves and capital) 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 on current best estimate actuarial assumptions plus a risk margin, ensuring that the reserves remain adequate based on current 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 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. For most products stochastic testing is required, taking the 90% point as the testing outcome. In the case where deterministic testing is used the 90% confidence level is achieved by subtracting risk margins off 20% of the best-estimate interest rates or one percent point, whichever is higher.

As of the fourth quarter of 2010, the Closed Block Variable Annuity business 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 US Closed Block VA business as a separate business line 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 business line to be adequate at the 50% confidence level. The separation of the Closed Block VA business into a separate segment triggered a charge in the fourth quarter of 2010 to bring reserve adequacy on the new US Closed Block VA business line to the 50% level. This charge is reflected as a DAC write-down of EUR 975 million before tax.

While the reserves for the segment US Closed Block VA are adequate at the 50% confidence level, a net reserve inadequacy exists using a prudent (90%) confidence level. In line with Group Policy, US Closed Block VA is taking measures to improve adequacy in that region. 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.

ING INSURANCE RISK PROFILE
The risk appetite of ING Insurance is derived from the ING Group risk appetite and is aligned with how its business is being managed and anticipating regulatory developments going forward. The risk appetite of ING Insurance is bound by local regulatory restrictions and by the target ratings for both the Insurance holding companies and certain rated operating subsidiaries.
- For the EurAsia and LatAm insurance business we align the Economic Capital (EC) definition with the Solvency II Capital Requirement which is based on a 99.5% confidence level. The target ratio of Available Financial Resources (AFR) over Economic Capital is set based on the business strategy and resulting risk appetite defined by the Management Board Insurance.
- For the US insurance business the risk appetite is aligned with local US Regulatory Capital requirements.

The EurAsia and LatAm business includes the Benelux, Central & Rest of Europe, Asia Pacific and Latin America business lines. For the risk profile it is currently not yet feasible to show the Latin America business separately from the EurAsia business. The US business includes the Insurance US and US Closed Block VA business lines. The risk of ING Investment Management (IIM) business line for EurAsia and LatAm has no material impact and is therefore incorporated in the numbers of EurAsia and Latam. The same applies to the risk of IIM for the US, which is therefore incorporated in numbers of the US.

ING Insurance risk metrics in 2010
For the EurAsia and Latam insurance business the insurance risk appetite is managed based on the metrics disclosed below:
- Economic Capital: the amount of capital that is required for the current net asset value (based on fair value) to absorb unexpected losses in a severe stress scenario based on a 99.5% confidence level. This metric is aligned with Solvency II.
- AFR Sensitivities: the potential reduction of the current net asset value (based on fair values) during a moderate stress scenario. This metric drives the ratio of Available Financial Resources over Economic Capital.
- Earnings Sensitivities: the potential reduction in IFRS earnings during a moderate stress scenario. Maintaining a high quality of earnings helps ING to safeguard against being downgraded by the rating agencies.

Risk management (continued)

The US insurance business is managed to a risk appetite based on two key risk metrics:
– US Regulatory Capital Sensitivities: the potential reduction, under a moderately market and credit stress scenario, of the excess of available statutory capital above the minimum required under the US regulatory Risk Based Capital (RBC) methodology. The RBC methodology is prescribed by the National Association of Insurance Commissioners (NAIC) and applies to US domiciled regulated insurance entities.
– Earnings Sensitivities: the potential reduction in IFRS earnings during a moderate stress scenario. Maintaining a high quality of earnings helps ING to safeguard against being downgraded by the rating agencies.

During 2010 the regulatory capital sensitivities effectively replaced Economic Capital as a key risk based metric on which the US insurance business is measured. Therefore, we have excluded the US insurance business from our Economic Capital risk metrics and related AFR sensitivities in order to better align reported risk metrics with those to which the US businesses are primarily managed and which are the most common benchmarks in the regulatory and competitive environments in which the US businesses operate. To allow for reconciliation with the Economic Capital numbers shown in the Risk Management Section of the Annual Report 2009, we show US Economic Capital for 2009 split by risk type.

ING Insurance's risk metrics cover the most important aspects in terms of performance measures where risk can materialise and are representative of the regulatory constraints that our business is subject to. The sensitivities for AFR, Earnings and US Regulatory Capital are important metrics since they provide insight into the level of risk ING takes under 'moderate stress' scenarios. They also are the basis for internal risk management.

When interpreting the Economic Capital and sensitivities for AFR, Earnings and US Regulatory Capital it is important to note that these metrics do not take into account discretionary risk mitigation in a specific crisis situation, and are based on instantaneous shock scenarios.

Economic Capital ING Insurance – EurAsia and LatAm Insurance Business
The objective of the ING Insurance Economic Capital framework is to achieve an advanced risk and capital measurement and management structure that:
– Covers all identified risks in the business units and is applied consistently across all risks and business units within its scope, i.e. EurAsia and LatAm;
– Facilitates and encourages adequate risk- and capital management, including the proper pricing of products and sound capital allocation decisions.

The ING Insurance Economic Capital model is based on a 99.5% one-year Value at Risk framework. During 2010 we changed the Value at Risk confidence interval from 99.95% to 99.5% to align with the Solvency II standard for internal models which will become the group regulatory constraint for the EurAsia and LatAm insurance business. For the total Economic Capital figures, we also provide ratios based on both confidence intervals to provide comparability between the figures reported in the risk management section of the annual report 2009 and the figures provided below. It is important to note that since industry practice relating to Economic Capital is still evolving and moreover, Solvency II standards are still under discussion, ING Insurance models are expected to evolve as a result.

ING has carried out a rigorous review of the internal model in the context of a Solvency II gap analysis. In the review we benchmarked our models against the Solvency II Standard Formula, the CEIOPS consultation papers and commentary of expert groups like CRO Forum and Group Consultative. We consequently plan further refinements of our Economic Capital model that address improvements of our market risk calibration, in particular for spread risk; business risk, to improve our capturing of policyholder behaviour risk and to address country risk; and operational risk. These changes will result in a material increase of our EC on top of the amount shown in the tables below which we estimate to be between one and two billion euro as at year end 2010. This estimate is not included in the tables below.

The ING Insurance Economic Capital model is described in more detail in the Model Disclosure section.

Economic Capital disclosures include diversification benefits that arise within ING Insurance (EurAsia and LatAm). Although the diversification benefits in 2010 are very similar to those in2009 it is important to point out that this is the result of two offsetting impacts. Firstly, the 2010 Economic Capital no longer includes the US business which results in a higher diversification benefit between risk types and business units. Secondly, the 2010 Economic Capital has a lower recognition of market risk diversification due to an updated method to define market risk correlations which results in a lower diversification benefit between risk types and business units.

The following table provides an Economic Capital break down by risk category with diversification benefits allocated to the risk types:

Risk management (continued)

Economic Capital break-down ING Insurance EurAsia and LatAm (99.5%) by risk category [1] [2]	2010	2009
Credit risk (including Transfer risk)	**394**	325
Market risk (including credit spread risk)	**7,079**	4,228
Insurance risk	**1,283**	982
Other risks [2]	**1,606**	1,419
Total insurance operations EurAsia and LatAm	**10,362**	6,954

[1] The Economic Capital outcomes do not reflect any potential tax benefit resulting from the loss that occurs under the specified circumstances.
[2] Other risk includes operational risk as well as business risk (covering expense risk and lapse risk).

Diversification across the risk categories is 30% for 2010 (32% for 2009 for combined ING insurance business).

The Economic Capital for ING Insurance EurAsia and LatAm is mostly related to market risks, both hedgeable and non-hedgeable. Overall, Economic Capital and risk profile of the EurAsia and LatAm insurance business increased during 2010. The primary change came from increased market risk, relating mainly to an increased equity and foreign exchange exposure and due to a partial unwinding of economic hedges in combination with a lower recognition of market risk diversification within the Economic Capital model. Lower diversification is also the main driver of the increases in the other risk categories.

The change in confidence interval from 99.95% to 99.5% reduced our 2010 Economic Capital for the EurAsia and LatAm business by 24% across risk types (25% for 2009). For market risk, insurance risk and other risks the reduction due to this change is in the same order of magnitude. For credit risk the reduction is more significant due to its fat tailed distribution.

As we no longer include the US business in our Economic Capital we provide for 2009 the numbers for both the EurAsia and LatAm and US insurance business. The 2009 US figures are provided in the table below.

Economic Capital break-down ING Insurance US (99.5%) by risk category [1] [2]	2009
Credit risk (including Transfer risk)	510
Market risk (including credit spread risk)	4,528
Insurance risk	214
Other risks [2]	1,215
Total insurance operations	6,467

[1] The Economic Capital outcomes do not reflect any potential tax benefit resulting from the loss that occurs under the specified circumstances.
[2] Other risk includes operational risk as well as business risk (covering expense risk and lapse risk).

The change in confidence interval reduced our US 2009 Economic Capital number by 27% across risk types. Allowing for the change in confidence interval for both US 2009 figures and EurAsia and LatAm 2009 figures, and then adding these figures will allow for reconciliation with the Economic Capital numbers shown in the Risk Management Section of the Annual Report 2009.

The following table provides the Economic Capital breakdown by business line with diversification benefits allocated to the business lines.

Economic Capital break-down by ING Insurance business line for EurAsia and LatAm Business	2010	2009
Insurance Latin America	**611**	670
Insurance Asia/Pacific	**1,750**	1,688
Insurance Benelux	**3,604**	2,205
Insurance Central & Rest of Europe	**783**	765
Corporate Line Insurance [1]	**3,614**	1,626
Total insurance EurAsia and LatAm	**10,362**	6,954

[1] Corporate Line includes funding activities at ING Insurance (EurAsia and LatAm) level, explicit internal transactions between business unit and Corporate Line, managed by Capital Management, and corporate reinsurance. The responsibility (and risk) of free assets located within the business line for which there is no explicit transfer via a Corporate Line transaction remain at the business unit level.

While the figures above are shown by business line, the diversification of risks across ING businesses is calculated across business units. Total diversification between ING Insurance's business units and the Corporate Line Insurance is 31% for 2010 (32% for 2009 for combined ING insurance business).

Risk management (continued)

Insurance Benelux and Corporate Line are the largest users of Economic Capital. Increased interest rate, equity, credit spread exposure and a lower recognition of diversification has increased Economic Capital for Benelux. The Corporate Line risk includes foreign exchange translation risk related to the potential loss of market value surplus in non-Euro denominated business units. The corporate line increase in Economic Capital has four main causes: the reinsured Japan variable annuity business, which is now included in the corporate line (in 2009 included in Asia/Pacific), the increased Economic Capital related to the minority stake in our Brazil business which is included in the corporate line, and a higher translation risk exposure mainly from increased market value surplus in non-Euro business and a decreased recognition of diversification. The Asia/Pacific risk is unchanged as a lower recognition of diversification offsets the move of the reinsurance Japan variable annuity business to the corporate line.

Regulatory Capital Sensitivities – US Insurance Business

For the capital adequacy assessment of ING'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 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 the US Insurance business manages its available capital primarily with respect to capital metrics that are aligned with the models of the various ratings agencies.

The US Insurance business calculates regulatory capital sensitivities on the Risk-Based Capital model of the National Association of Insurance Commissioners (NAIC) in order to provide insight into how the amount of available capital in excess of regulatory required capital is sensitive to an increase or decrease in different market and credit risk factors under a moderate stress scenario which corresponds approximately with a 1-in-10 event. Our regulatory capital sensitivities are calculated in aggregate for the US domiciled regulated insurance entities.

Statutory capital in the US domiciled regulated insurance entities ended 2010 with an estimated EUR 4,009 million in excess of Company Action Level RBC. The Capital Management section describes the ratio of available statutory capital over required capital at the Company Action Level.

The table below presents market risk sensitivity figures before diversification between risks and legal entities. The stress events are described in the Model Disclosure section. Interest rates are shocked 30% relative compared to the ten-year swap rate. The credit risk sensitivities are based on the new methodology introduced in 2010 which can be found in the Model Disclosure section. Equities are shocked 25% down. As the US regulatory capital sensitivities as described have only been set up during 2010 there are no 2009 comparable figures available. In 2009 the US Insurance Business was included in the Economic Capital framework which was used to manage the risk.

Regulatory Capital Sensitivities – US Insurance Business (1) (2)		2010
Interest Rate Up		-138
Interest Rate Down		76
Equity		-298
Credit		-466

(1) Real Estate, Credit Spread,, FX and Implied Volatility Sensitivities do not have a material impact.
(2) Sensitivities are calculated at legal entity level and cover US domiciled insurance entities.

Taking into account diversification between risk factors as described in the Model Disclosure section, we are exposed to a EUR 818 million decrease in our excess capital.

ING INSURANCE – MARKET RISKS

ING Insurance is exposed to market risk to the extent to which the market value of surplus can be adversely impacted due to movements in financial markets; these include interest rates, credit spreads, equity prices, Real Estate prices, implied volatilities of options, and foreign exchange rates. Changes in financial market prices impact the market value of ING's current asset portfolio and hedging derivatives directly as well as the calculated market value of ING's insurance liabilities.

In 2010 ING moved away from managing the market risk purely on an AFR basis (Market Value at Risk limits based on a 99.95% confidence interval) and moved to a new risk limit framework based on limits set on market risk sensitivities for AFR, IFRS Earnings and Regulatory Capital. On at least an annual basis, the Asset Liability Committee (ALCO) Insurance sets market risk limits at business line level, which are ultimately allocated to the business units. The market risk limits are managed by ALCO Insurance at the relevant organisational level. The Group Insurance ALCO determines the aggregate limit and ensures that the Group stays within its risk tolerance limits and allocates the sub-limits to business lines, with similar roles for the business line and business unit ALCOs. Limit breaches by business lines are reported to ALCO Insurance and resolved in accordance with the policy within the next quarter.

Risk management (continued)

The market risk limit framework is based on moderate stress scenarios for market risk drivers. The section below shows the impact of these stress scenarios on AFR and IFRS Earnings. These stress scenarios are described in more detail in the Model Disclosure section.

AFR Sensitivities

AFR Sensitivities are defined as the potential reduction of the current net asset value (based on fair values) during a moderate stress scenario. Interest rates are shocked 30% upwards and downwards relative to the ten year swaps rates. The credit sensitivity in table below is based on a new method introduced in 2010 such that there is no comparable 2009 number available. Equity and Real estate are based on a 25% and 15% downward shock respectively. The FX shock is based on a 10% up or down movement for each currency. Implied volatilities for swaptions are shocked by 30%. The shock for implied volatilities for equities is related to the underlying tenor. More details on the stress scenarios can be found in the Model Disclosure section.

The AFR sensitivities are only applicable for the EurAsia and LatAm insurance business as these sensitivities drive the ratio of Available Financial Resources over Economic Capital. The capital management section discusses the AFR over Economic Capital ratio.

AFR sensitivities for insurance market risks – EurAsia and LatAm Insurance Business		
	2010	2009
Interest Rate Up	**329**	-626
Interest Rate Down	**-1,538**	-291
Equity	**-1,822**	-988
Real Estate	**-813**	-842
FX	**-1,547**	-1,332
Credit Spread	**-1,746**	
Implied Volatility	**-468**	-427

Interest rate sensitivities are mainly related to the Benelux and Asia/Pacific business. In 2010 the AFR has become significantly more sensitive to downward interest rate movements. Lower interest rate levels have contributed to this increase. Furthermore economic hedges have been unwound in the Benelux.

Equity sensitivity has increased due to unwinding of hedging activities, relating to both direct and indirect exposure and a higher equity value due to positive equity markets in 2010. Direct exposure relates to the holding of shares and is most significant for ING in the Netherlands. Indirect exposure relates to the potential loss of fee income from unit linked, variable annuity, and pension fund business across all regions. Direct exposure represents approximately half of the equity sensitivity, after taking the hedge positions into account.

Credit Spread sensitivity relates to increases in credit spreads from investments in fixed income securities and also includes offsetting movements in the liquidity premium on the liabilities. Sensitivity is largely driven by the general account business in Benelux and to a smaller degree our Asia/Pacific business.

Real Estate sensitivity exists mostly in the Netherlands and relates in a large part to direct Real Estate investments.

Implied volatility sensitivity relates to the risk that market values of assets or liabilities change due to movements in the volatility implied from market option prices. In general, ING is exposed to increases in implied volatility as the guarantees provided to customers become more expensive.

Foreign exchange sensitivity is small in the business units. The main exposure is at the corporate level and relates to the FX translation risk which increase due to a change in the market value surplus of non-Euro businesses and a lower recognition of diversification.

Earnings sensitivities

Complementing Economic Capital, which is based on a market value analysis, ING Insurance also measures risk based on IFRS earnings. More specifically, using scenario analysis, ING Insurance measures the potential sensitivity of realised pre tax earnings of the insurance operations to a change in different risk factors over a full year.

Earnings sensitivities are defined on moderate stress scenarios for pre-tax IFRS earnings. The tables below present figures before diversification between risks and business units. Interest rates are shocked 30% upwards and downwards relative to the ten year swaps rate. The credit sensitivity in the table below is based on new method introduced in 2010 such that there is no comparable 2009 number available. Equity and Real estate are based on a 25% and 15% downward shock respectively. The FX shock is based on a 10% up or down movement for each currency. Implied volatilities for swaptions are shocked by 30%. More details on the stress scenarios can be found in the Model Disclosure section.

Risk management (continued)

Earnings sensitivities for insurance market risks – EurAsia and LatAm Insurance Business		
	2010	2009
Interest Rate Up	**-205**	-291
Interest Rate Down	**285**	317
Equity	**-137**	-172
Real Estate	**-806**	-812
FX	**-152**	-181
Credit Default	**-258**	

The table above shows that Real Estate fluctuations can have a relatively large impact on earnings since most price volatility is reflected in earnings for Real Estate investments. The impact on earnings of interest rates and equity price changes are normally lower than the economic and shareholder's equity impact given the fact that current accounting rules are not fully market value based. The sensitivity results reflect the impacts of asymmetric accounting, whereby the hedges must be marked to market through earnings while the liability value is not marked-to-market through earnings.

The interest rate sensitivity is dominated by the Dutch separate account business where interest rate derivatives are used to hedge a liability on Group life contracts that is not marked to market.

Earnings sensitivities for insurance market risks – US Insurance Business		
	2010	2009
Interest Rate Up	**17**	76
Interest Rate Down	**-68**	-44
Equity	**-934**	-1,084
Real Estate	**-2**	-2
Credit Default	**-795**	-737

The US earnings sensitivities are dominated by credit and equity exposure. The credit default exposure relates to general account debt securities. Exposure to Asset Backed Securities (ABS) and Residential Mortgage Backed Securities (RMBS) contributes significantly to the earnings sensitivity. Equity exposure relates mostly to the US Closed block VA where an equity stress scenario results in DAC unlocking. As earnings sensitivities are forward looking, the US Closed Block VA business line sensitivities are based on the situation on 1 January 2011, which reflects the DAC write-down as well as change to apply current market interest rates and current estimates for other assumptions in valuation of insurance liabilities and hedging of the interest rate exposure for the Guaranteed Minimum Withdrawal Benefit (GMWB).

In the US there is no significant earnings sensitivity to Foreign Exchange Rates as the US is managed on a local currency basis and therefore there is no translation risk to the group reporting currency included. There is no significant earnings exposure to non US currencies.

Real Estate

Real Estate price risk arises from the possibility that the value of Real Estate assets fluctuate because of a change in earnings related to Real Estate activities and/or a change in required investor yield.

ING Insurance has two different categories of Real Estate exposure on its insurance books. First, ING Insurance owns buildings it occupies. Second, ING Insurance 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 minority stakes in Real Estate assets that are revalued through equity and on the other hand stakes in funds managed by ING 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.

The crisis in the financial markets has led to a further slowdown of the world economy in general. These global economic factors also had negative consequences for the value of Real Estate assets.

Per year end 2010 ING Insurance has EUR 3.8 billion of Real Estate related investments (excluding leverage). ING Insurance' Real Estate exposure (i.e. including leverage) is EUR 5.9 billion of which EUR 4.3 billion is recognised as fair value through P&L and EUR 1.6 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 179 million mainly as a result of negative fair value changes (EUR 71 million), impairments (EUR 22 million) and divestments (EUR 140 million) compensated by net investments (EUR 16 million) and FX appreciation (EUR 32 million).

Risk management (continued)

Real Estate Exposure (Insurance) recorded as fair value through P&L (by geographic area and sector type)							
Continent		**2010**	2009		**Sector**	**2010**	2009
Europe		**4,105**	4,236		Residential	**349**	379
Americas		**108**	94		Office	**1,321**	1,366
Australia		**10**	25		Retail	**1,933**	1,958
Asia		**84**	68		Industrial	**422**	450
Other					Other	**282**	270
Total		**4,307**	4,423		Total	**4,307**	4,423

Real Estate Exposure (Insurance) not revalued through P&L (by geographic area and sector type)							
Continent		**2010**	2009		**Sector**	**2010**	2009
Europe		**1,444**	1,524		Residential	**785**	747
Americas		**139**	125		Office	**329**	373
Australia					Retail		3
Asia		**23**	20		Industrial		5
Other					Other	**492**	541
Total		**1,606**	1,669		Total	**1,606**	1,669

ING Insurance - Liquidity risk

As with other ING Insurance market risks, liquidity risk falls under the supervision of the ALCO function. Liquidity risk is the risk that ING Insurance or one of its subsidiaries cannot meet its financial liabilities when they come due, at reasonable cost and in a timely manner. ING Insurance defines three 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 of various expected and adverse business conditions, which will result in the inability of realizing the current market values of the assets. The assets may 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.

ING INSURANCE – INSURANCE RISKS

General

Actuarial and underwriting risks are risks such as mortality, longevity, morbidity, adverse motor or claims development, etc., which result from the pricing and acceptance of insurance contracts. In general, these risks cannot be (easily) hedged directly in the financial markets and tend to be mitigated by diversification across large portfolios. They are therefore primarily managed at the contract level through standard underwriting policies, product design requirements as set by ING's IRM function, independent product approval processes and risk limitations related to insurance policy terms and conditions agreed with the client.

Measurement

For portfolio risks which are not mitigated by diversification, the risks are managed primarily through concentration and exposure limits and through reinsurance and/or securitisation. Aggregate portfolio level limits and risk tolerance levels are set in reference to potential losses stemming from adverse claims in ING's insurance portfolios which are reviewed annually. ING Group has established actuarial and underwriting risk tolerance levels in specific areas of its insurance operations as described below. For non-life insurance, risk tolerance levels are set by line of business for catastrophic events (e.g. natural perils such as storms, earthquakes and floods) and for individual risks.

For the main non-life units (in the Benelux) the risk tolerance for property and casualty (P&C) business is derived from the total Non-Life earnings of 2009. For 2010, this translated into an aggregated (pre-tax) risk tolerance level of EUR 180 million for the Benelux (2009: EUR 190 million).

In order to determine how much reinsurance protection is required these risk tolerance levels are compared to the estimated maximum probable loss resulting from catastrophic events with a 1 in 250 probability of occurrence which is in line with industry practice. The maximum probable loss estimates for Fire business are based on risk assessment models that are widely accepted in the industry.

For the smaller non-life units, the (pre-tax) risk tolerance level for catastrophe related events for 2010 was set at EUR 5 million (2009: EUR 5 million) per event per business unit.

Risk management (continued)

With respect to life business, ING Group's (pre-tax) risk tolerance level for 2010 was set at EUR 22 million (2009: EUR 22 million) per insured life for mortality risk. While life insurance risks are considered to be naturally diversifiable by virtue of each life being a separate risk, group contracts may result in significant exposures. For potential losses, resulting from significant mortality events (e.g. pandemics or events affecting life insurance contracts involving multiple lives), ING applies a separate risk tolerance level which equalled EUR 1,100 million in 2010 (2009: EUR 1,100 million). The potential impact of pandemics continues to be modelled by ING based on studies published by respected international organisations.

Overall exposures and concentrations are actively managed within limits and risk tolerance levels through the purchase of external reinsurance from approved reinsurers in accordance with ING's reinsurance credit risk policy. Particularly for the property and casualty portfolio, ING purchases protection which substantially mitigates ING's exposure due to natural catastrophes. ING believes that the credit risks to which it is exposed under reinsurance contracts are relatively minor, with exposures being monitored regularly and limited by a reinsurance credit risk policy.

For catastrophic losses arising from events such as terrorism, ING believes that it is not possible to develop models that support inclusion of such events in underwriting in a reliable manner. The very high uncertainty in both the frequency and severity of these events makes them, in ING's opinion, uninsurable. For the non-life business, losses that result from these events are generally not covered unless required by law. In various countries industry pools have been established to mitigate the terrorism risk to which the individual insurers are nevertheless still exposed. ING participates in such pools.

The following table provides an overview of the Economic Capital for insurance risks, split into mortality risk, morbidity risk and risk related to P&C products:

Economic Capital Insurance risks EurAsia and LatAm		
	2010	2009
Mortality	**797**	578
Morbidity	**361**	298
P&C	**125**	106
Total EurAsia and LatAm	**1,283**	982

For insurance risk the EC is shown by risk type above. The tables below show Earnings sensitivities for both EurAsia/Latam and US Insurance business. The EC are based on a 99.5% confidence level. The change in confidence level from 99.95% to 99.5% reduced the 2010 Economic Capital for insurance risks by 25% (29% for 2009).

The mortality risk relates to the potential for increasing deaths (life risk) or decreasing deaths (longevity risk). This risk relates to a potential mortality catastrophe or to changes in long term mortality rates. As noted, ING manages these risks via limits and external reinsurance. Morbidity risk relates to disability products in the Netherlands and some health riders sold in Asia. Finally, property and casualty risk exists primarily in the Benelux.

Through scenario analyses, ING Insurance measures the sensitivity of pre-tax earnings of the insurance operations to a change of the insurance risk factors over a one year period. These changes to earnings can relate to realised claims or any other profit item that would be affected by these factors. ING assumes that not all the shifts presented below will happen at the same time.

Earnings sensitivities are defined on a shock scenario at the 90% confidence level on IFRS pre-tax earnings. The table below shows the impact on earnings over a one year horizon.

Earnings sensitivities for Insurance risks – EurAsia and LatAm Insurance Business		
	2010	2009
Mortality	-31	-34
Morbidity	-100	-97
P&C	-49	-42

The table above presents figures after diversification between insurance risks and diversification across business units of ING Insurance. The largest earnings sensitivity to P&C claims relates to health and P&C claims in the Netherlands. Earnings sensitivity from Mortality and Morbidity is more evenly spread over the regions.

Earnings sensitivities for Insurance risks – US Insurance Business		
	2010	2009
Mortality	-16	-12
Morbidity	-48	-37
P&C		

Risk management (continued)

The largest contribution to the Mortality sensitivity comes from the Retail Life business while the Morbidity exposure relates for a large part to the Employee Benefit business.

ING INSURANCE – CREDIT RISKS

The credit risks in the general accounts portfolio within ING Insurance are subject to the same principles, policies, definitions and measurement as those of the banking operations. The credit risks are measured and monitored by Corporate Credit Risk Management (CCRM) as well as local credit risk managers within the various locations where credit risk is taken within ING Insurance and ING Investment Management. Within ING Insurance, the goal is to maintain a low risk, well diversified credit risk portfolio that meets or exceeds market based benchmark returns.

ING Insurance's credit exposure arises from the investment of insurance premiums in assets subject to credit risk, largely in the form of unsecured bond investments, and smaller amounts of residential mortgages and structured finance products. In addition, credit exposure also arises from derivatives, sell/repurchase transactions, securities lending/borrowing and reinsurance contracts used to hedge the portfolio. ING Insurance has a policy of maintaining a high quality investment grade portfolio.

Overall portfolio credit risk limits are established and integrated into investment mandates by ALCO Insurance based on asset or investment category and risk classes. Individual issuer limits are determined based on the obligor's rating. These limits are managed by the region where the parent company is domiciled but may be sub-allocated to regional or local portfolios. In addition, each Insurance company has one or more investment mandates (which may differ by insurance portfolio) specifying credit risk appetite by issuer type and quality.

The credit risk classification of issuers, debtors and counterparties within the Insurance companies' credit risk portfolios continues its transition to the methodology used by the banking operations. Similar to ING Bank, ING Insurance uses risk classes which are calibrated to the probability of default of the underlying issuer, debtor or counterparty. These ratings are defined based upon the quality of the issuer in terms of creditworthiness, varying from investment grade to problem grade expressed in S&P equivalents.

Risk classes: ING Insurance portfolio, as % of total outstandings [1]

		Insurance US		Insurance EurAsia and LatAm		Total ING Insurance	
		2010	2009	**2010**	2009	**2010**	2009
1	(AAA)	**23.4%**	25.1%	**29.7%**	30.5%	**27.0%**	28.1%
2-4	(AA)	**14.5%**	13.3%	**14.4%**	17.2%	**14.5%**	15.4%
5-7	(A)	**24.6%**	23.2%	**32.1%**	30.1%	**28.7%**	26.9%
8-10	(BBB)	**22.3%**	20.0%	**11.8%**	11.0%	**16.3%**	15.1%
11-13	(BB)	**4.2%**	7.1%	**6.1%**	6.5%	**5.3%**	6.8%
14-16	(B)	**4.7%**	5.0%	**3.0%**	2.7%	**3.8%**	3.7%
17-22	(CCC & Problem Grade)	**6.3%**	6.3%	**2.9%**	2.0%	**4.4%**	4.0%
		100.0%	100.0%	**100.0%**	100.0%	**100.0%**	100.0%

[1] Based on credit risk measurement contained in lending, pre-settlement, money market and investment activities. The ratings reflect probabilities of default and do not take collateral into consideration.

ING Insurance risk class distribution remained fairly stable during 2010, as downgrades experienced in the securitization market were compensated by active divestment programs and other de-risking measures. The CCC and Problem Grade class mainly contains downgraded securitizations but also some unrated private equity and real estate investments.

Risk concentration: ING Insurance portfolio, by economic sector [1] [2]

	Insurance US		Insurance EurAsia and LatAm		Total ING Insurance	
	2010	2009	**2010**	2009	**2010**	2009
Non-Bank Financial Institutions	**43.6%**	48.5%	**21.9%**	21.6%	**31.2%**	34.0%
Central Governments	**8.8%**	12.2%	**40.6%**	40.7%	**26.9%**	27.7%
Commercial Banks	**3.6%**	3.6%	**10.8%**	11.6%	**7.7%**	7.9%
Private Individuals	**2.4%**	2.5%	**8.6%**	10.1%	**5.9%**	6.6%
Real Estate	**8.3%**	9.4%	**2.4%**	0.9%	**5.0%**	4.8%
Utilities	**5.4%**	4.0%	**2.2%**	2.4%	**3.6%**	3.1%
Natural Resources	**5.7%**	3.7%	**1.2%**	1.2%	**3.2%**	2.3%
Food, Beverages & Personal Care	**3.3%**	2.6%	**1.1%**	0.9%	**2.1%**	1.7%
Other	**18.9%**	13.5%	**11.2%**	10.6%	**14.4%**	11.9%
	100.0%	100.0%	**100.0%**	100.0%	**100.0%**	100.0%

[1] Based on credit risk measurement contained in lending, pre-settlement, money market and investment activities.
[2] Economic sectors below 2% are not shown separately but grouped in "Other".

Risk management (continued)

Where overall risk concentrations within ING Insurance shifted towards Central Governments in 2009, this was partially reversed in 2010 again. The upward shift in Real Estate for Insurance EurAsia and LatAm is related to real estate investments in The Netherlands.

Largest economic exposures: ING Insurance portfolio, by country [1]

	Insurance US		Insurance EurAsia and LatAm		Total ING Insurance	
	2010	2009	**2010**	2009	**2010**	2009
Netherlands	**3.7%**	4.0%	**22.6%**	19.6%	**14.3%**	12.4%
Belgium	**0.1%**	0.1%	**3.8%**	3.3%	**2.2%**	1.8%
Rest of Europe	**7.1%**	5.8%	**43.2%**	47.9%	**27.3%**	28.5%
Americas	**85.8%**	87.6%	**7.6%**	7.8%	**41.9%**	44.7%
Asia/Pacific	**3.2%**	2.4%	**22.7%**	21.2%	**14.2%**	12.5%
Rest of World	**0.1%**	0.1%	**0.1%**	0.2%	**0.1%**	0.1%
Total	**100.0%**	100.0%	**100.0%**	100.0%	**100.0%**	100.0%

(1) Country is based on the country of residence of the obligor.

The US portfolio stayed constant in terms of local currency, but increased in Euro terms due to the appreciation of the US Dollar against the Euro. The relative concentration in the US has diminished, however, due to faster growth in other regions. The portfolio in the Netherlands mainly increased due to investments in state bonds. There were no other significant shifts in the portfolio concentration.

ING GROUP - NON-FINANCIAL RISKS

In addition to the above financial risks (credit, market, insurance and liquidity risk) the next paragraphs describe the non-financial risks, being operational and compliance risks.

GENERAL

Policy implementation

To ensure robust non-financial risk management, ING monitors the full implementation of ING's Risk Policies and Minimum Standards. Business units have to demonstrate that the appropriate steps have been taken to control their operational and compliance risk. ING applies scorecards to measure the quality of the internal control 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 report that is standard on the agenda for the meetings of the Management Boards Banking and Insurance 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**.**

OPERATIONAL RISKS

Operational Risk

Operational risk is the risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems or from external events. It includes the related risk of reputation loss, as well as legal risk whereas strategic risks are not included. Effective operational risk management leads to more stable business processes (including IT systems) and lower costs. Generic mandatory controls are described in the Operational Risk Management (ORM) policy house.

Clear and accessible policies and minimum standards are embedded in ING business processes in all business lines. An infrastructure is in place to enable management to track incidents and operational risk issues. A comprehensive system of internal controls creates an environment of continuous improvement in managing operational risk. ING uses this knowledge (including lessons learned from incidents) to improve the control of key risks.

Organisation of Operational Risk Management

The General Manager Corporate Operational Risk Management (CORM) reports directly to the CRO and is responsible for monitoring operational risks and developing and establishing the Operational Risk Framework within ING Group, ING Bank and ING Insurance. The General Manager Corporate ORM also establishes and approves the policies and minimum standards, and assists and supports the Executive Board in managing ING's operational risks.

Risk management (continued)

The CORM function consists of functional departments for Operational risks (including policies, systems, SOX testing, capital allocation and reporting), for Information (Technology) risks and for Security & Investigations. The CORM function is responsible for developing and communicating ING's operational risk framework, policies, minimum standards and guidelines. The corporate function advises the Management Boards Banking and Insurance and senior management, supports the business line ORM staff, monitors the quality of operational risk management and leads the group-wide reporting of operational risks to the Management Boards Banking and Insurance and the Risk Committee.

ORM uses a layered functional approach within business lines to ensure systematic and consistent implementation of the group-wide ORM framework, policies and minimum standards. To avoid potential conflicts of interests, it is imperative that the ORM officer is impartial and objective when advising business management on operational risk matters in their business unit or business line. To facilitate this, a strong functional reporting line to the next higher level ORM officer is in place. The functional reporting line has clear accountabilities with regard to objective setting, remuneration, performance management and appointment of new ORM staff.

Operational risk framework
ING has developed a comprehensive framework supporting and governing the process of identifying, mitigating, measuring and monitoring operational risks thus reflecting the stages described in the Enterprise Risk Management model of COSO (Committee of Sponsoring Organisations of the Treadway Commission).

At all levels in the organisation Operational Risk Committees (ORC's) are established that identify, measure and monitor the operational 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. ORC's, chaired by the business management, steer the risk management activities of the first and second line of defence in their entities. On a group level the Operational & Residual Risk Committee approves the operational risk capital model.

IT Risk Governance: IT risk management has become more and more important because of increasing dependency on IT and the increase of IT risk due to amongst others cybercrime. Two Executive IT Risk Steering Committees, one for Banking and one for Insurance, steer and monitor ING's IT Risk Management process and results. In 2011 these Committees will be integrated into the respective ORC's.

The operational risk appetite within ING is defined as the acceptable and authorised maximum level of risk, in each of the operational risk areas that must be adhered to in order for ING to achieve its business plan within approved budgets. This risk appetite is quarterly monitored 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, e.g. the structured team approach, scenario analysis, external events inventories, internal incident analysis (e.g. based on information from incident reporting), key risk indicator events and threat scans.

At least once a year business units and departments perform an integrated risk assessment with involvement of other departments such as Operational Risk, Compliance, Legal and Finance.

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 a global Action Tracking system.

Certain operational risks can best be transferred to the insurance market if risks are high but difficult to mitigate internally. In order to protect ING against financial consequences of uncertain operational events ING has acquired insurance policies issued by third-party insurers for Crime, Professional Liability, Directors and Officers Liability through its Risk Management & Transfer Programmes.

Management at all levels in the organisation periodically needs information on their key operational risks (including compliance and legal risks) and mitigating actions. In order to make it easier for management to access this kind of information, business units periodically report through the Non-Financial Risk Dashboard (NFRD).

The yearly objective setting process for both business management and ORM professionals aims to keep improving the management of operational risk throughout ING to ensure that ING stays in control of its current and future operational risks. ING's ORM Framework is further maturing towards an integrated controls framework according to pre-agreed requirements and development stages in the individual business units. This development is measured through the scorecard process.

Risk management (continued)

Capital calculation
The Operational Risk Capital model of ING is based on a Loss Distribution Approach (LDA). The Loss Distribution is based on both external and internal loss data exceeding EUR 1 million. The model is adjusted for the scorecard results, taking into account the specific quality of control in a business line and the occurrence of large incidents ('bonus/malus'). This provides an incentive to local (operational risk) management to better manage operational risk. The Operational Risk Regulatory Capital based on the Advanced Measurement Approach (AMA) decreased from EUR 3,309 million in 2009 to EUR 2,872 million in 2010 due to the extension of business environment factors and the update of the external operational loss data in the capital model as approved by the Operational & Residual Risk Committee of ING. ING started in 2010 a program to further enhance its AMA framework.

Main developments in 2010
- **Cybercrime** – Based on a High-Tech Crime Prevention assessment a number of potential risks has been identified. Secure Code Review was found as an area of concern and during 2010 a dedicated taskforce has taken action across ING Group. After remediation of the identified gaps, dynamic code scan and review (in order to detect vulnerabilities in websites) has been implemented.
- **Operational Risk Committees** – Following the changes in the organisation of ING and regulatory requirements, ING has installed a quarterly Bank Operational Risk Committee (ORC) in December 2010. The mandate of the Bank ORC has been approved in the Bank Management Board. The responsibility of the Bank ORC is to monitor and manage the operational risks of the bank.
- **Anti-Fraud** – ING has a 'zero tolerance' approach towards fraud and therefore implemented the ING's Global Anti-Fraud Programme in 2010. This programme aims for a high level of fraud resilience and further mitigation of losses deriving from fraud. Design and implementation of additional fraud controls, training and building the anti-fraud community and risk awareness communication are key elements to the programme.
- **IT security monitoring** – To ensure that the approved enterprise's information security baseline is maintained, ING installed monitoring agents on almost all platforms. This improved monitoring capabilities contributed to the reduction of the IT- risk profile.
- **Disentanglement** - The ORM function monitored during 2010 the operational risks around the disentanglement process of ING Bank and ING Insurance (project Readiness). The Readiness project completed the Day-1 sign off in which CEO's confirmed to be operating at arm's length.

COMPLIANCE RISKS
Compliance Risk is defined as the risk of damage to ING'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 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.

ING believes that fully embedded Compliance Risk Management preserves and enhances the trust of its customers, staff and shareholders. Being trusted is essential to building sustainable businesses. ING's Business Principles set the foundation for the high ethical standards ING expects of all our business activities. ING's Business Principles require all staff at every level to conduct themselves, not only in compliance with laws and regulations, but also by acting with integrity, being open and clear, respectful, and responsible.

Clear and practical policies and procedures are embedded in ING 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 understands that good Compliance Risk Management involves understanding and delivering on the expectations of customers and other stakeholders, thereby strengthening the quality of key relationships.

The Scope of the Compliance Risk Management function
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 including anti-money laundering, preventing terrorist financing, conflicts of interest, proper sales and trading conduct and protection of customer interest.

ING 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 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.

The Compliance Risk Management function
The Chief Compliance Officer (CCO) reports directly to the Chief Risk Officer who is a member of the Executive Board. The CCO is responsible for developing and establishing the company-wide Compliance Risk Management Charter & Framework, establishes the Minimum Standards for managing Compliance Risks and assists and supports the Executive Board in managing ING's Compliance Risks.

Risk management (continued)

ING uses a functional approach within Business Lines to ensure systematic and consistent implementation of the company-wide Charter & Framework, policies, Minimum Standards and related procedures. The Local Compliance Officer has the responsibility to assist local management in managing Compliance Risk within that business unit. The regional or division Compliance Officer has a management and supervisory role over all functional activities of the Compliance Officers in the respective region or division. Reporting functionally into the CCO, the Business Line Compliance Officers perform this task for their Business Line and also provide leadership and overall direction to the regional or divisional 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, division or Business Line. To facilitate this, a strong 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.

Compliance Risk Management Framework
The Framework consists of three key components: the Compliance Risk Management process, an Advisory component and the Scorecard.

1. The Compliance Risk Management process
The process has five key activities carried out in accordance with the requirements of the Framework:
A. Identification of Compliance Risk Obligations;
B. Risk Assessment;
C. Compliance Risk Mitigation (includes Training and Education);
D. Compliance Risk Monitoring (includes Action Tracking);
E. Compliance Risk Reporting (includes Incident Management).

2. Advisory
Compliance Officers proactively advise their CEO, Management, local boards and committees, the next higher level Compliance Officer, and employees on Compliance Risk, responsibilities, obligations and concerns.

3. Scorecard
The Compliance Risk Management function works with the Operational Risk Management Scorecard process to evaluate how well the Compliance Risk Management Framework is embedded in each business. Scoring is based on the ability of the business unit to demonstrate that the required policies and procedures are implemented. The scoring indicates the level of control within the business units and the result is integrated with the Operational Risk Management results into ING's Dutch Central Bank approved regulatory capital model.

Extra-territorial regulations
Financial institutions continue to be closely scrutinized by regulatory authorities, governmental bodies, shareholders, rating agencies, customers and others to ensure they comply with the relevant laws, regulations, standards and expectations. Bank and insurance 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 seeks to meet the standards and expectations of regulatory authorities and other interested parties through a number of initiatives and activities, including scrutinizing 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. The failure or alleged failure by ING to meet applicable standards in these areas could result in, among other things, suspension or revocation of ING's licenses, cease and desist orders, fines, civil or criminal penalties and other disciplinary action which could materially damage ING's reputation and financial condition, and accordingly ING's primary focus is to support good business practice through its Business Principles and group policies.

Over the past years ING has significantly increased its Compliance efforts, including a major staff increase, amendment of key policies and guidelines and the international rollout of several programmes for education, awareness and monitoring of compliance issues.

As a result of our frequent evaluation of all businesses from economic, strategic and risk perspectives ING continues to believe that for business reasons doing business involving certain specified countries should be discontinued, which includes that ING has a policy not to enter into new relationships with clients from these countries and processes remain in place to discontinue existing relationships involving these countries. At present these countries include Myanmar, North Korea, Sudan, Syria, Iran and Cuba. Each of these countries are 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.

Risk management (continued)

Main developments in 2010

- **Regulator relationships** - Group Compliance Risk Management continued to invest in pro-active relationships with regulators in the jurisdictions where ING operates, striving for an open approach and cooperation in identifying and mitigating compliance risks for ING.
- **Promoting Integrity Programme** - Group Compliance Risk Management, together with Group Human Resources and Corporate Communications & Affairs, created and launched the Promoting Integrity Programme (PIP), a global employee education programme focusing on ING's values (including the ING Business Principles) and the role they play in the business and workplace. A short e-learning course was developed and was followed by manager-led dialogue sessions, where employees discussed what integrity means for them and how the Business Principles can be applied in their daily work.
- **Building Customer Trust –** As part of ING's commitment to building customer trust, Group Compliance Risk Management and the business worked closely together to consider how both products and services could be enhanced to improve the customer experience.
- **Further embedding of Financial Economic Crime & Extra-Territorial Laws** – ING continued its strong commitment to preventing any involvement in criminal activity. Existing activities were further strengthened by increased monitoring and internal audits as well as awareness and training programmes and an internal annual sign-off process for senior management concerning implementation of policies and procedures relating to Financial Economic Crime and business with ultra high risk countries.
- **Learning –** Continuous education and awareness training was provided through face-to-face training sessions and online learning tools on topics such as Ultra High Risk Countries & Export Trade, Financial Economic Crime, Competition Law and Customer Suitability. Compliance Risk Management also continued its mandatory global Compliance Officer Training programme for all compliance officers new to ING.

MODEL DISCLOSURES

Users of the information in the risk management section should bear in mind that the analyses provided are forward looking measures 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 Group continues to develop, recalibrate and refine the various models that support risk metrics, which may result in changes to the risk metrics as disclosed.

This model disclosure section explains the models applied in deriving the disclosed metrics. The methodologies used to determine Economic Capital for ING Bank and ING Insurance are described, as are the methodologies for sensitivities for ING Insurance. The risk models for the Economic Capital calculations are reviewed on a periodic basis and validated by the internal Model Validation department. The ING Bank 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 (ING 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 originates. In general Economic Capital 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 Economic Capital modelling enables ING Bank to allocate Economic Capital to the business units and support risk-adjusted performance measurement (RAROC).

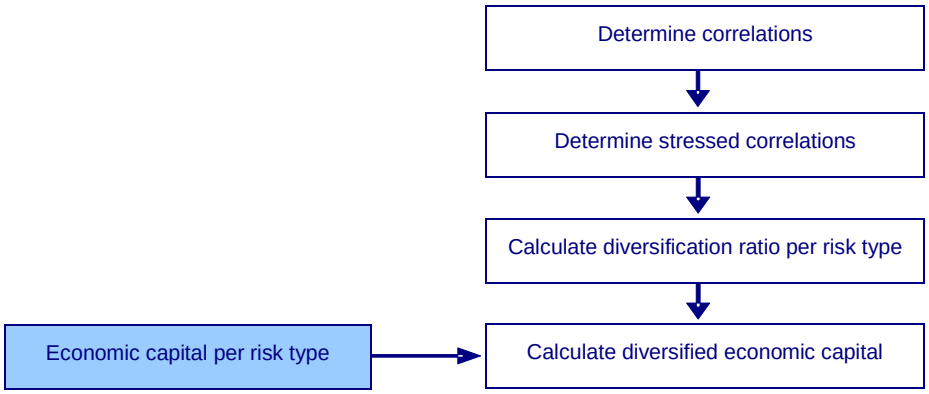
The following fundamental principles and definitions have been established for the model:

- 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 Economic Capital;
- 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 Economic Capital calculation is based on fair value principles. Where complete and efficient markets exist, fair value is equal to market value;
- The Economic Capital calculations reflect known embedded options and the influence of client behaviour in banking products;
- The Economic Capital calculations are on a pre-tax basis and do not consider the effect of regulatory accounting and solvency requirements on capital levels;
- 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.

Risk management (continued)

Aggregation model
The main processes executed in the 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 corporate risk departments.



Correlation factors between risk types used for diversification are based on best estimate assumptions supported by statistical analysis of historical data, ING risk expert judgement, external benchmark studies and common logic. As a foundation correlations are applied based on a 90% confidence level, i.e. they correspond to the correlations observed in the 10% largest downward movements (a '1 in 10' event). 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 Economic Capital of five risk types, namely credit, transfer, market, operational and business risks (latter two also referred to as other risks). 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 Economic Capital exposure for each risk type.

Reporting Framework
For each business unit and product line, the gross Economic Capital for each risk type is delivered to MISRAROC - the financial data warehouse for RAROC and Economic Capital reporting of ING Bank. The net Economic Capital figures are calculated by taking the product of the gross Economic Capital and one minus the diversification factor. Total Economic Capital is calculated as the sum of the net Economic Capital for each risk type at all reporting levels.

CREDIT AND TRANSFER RISK (ING BANK)
Economic Capital for credit risk and for transfer risk is the portion of Economic Capital held to withstand unexpected losses inherent in the credit portfolios related to (unexpected) changes in the underlying creditworthiness of debtors or the recovery value of underlying collateral (if any). Credit risk and transfer risk capital are calculated on all portfolios which contain credit or transfer risk, including investment portfolios. The same methodology is used for both the banking and the insurance operations.

Economic Capital for credit risk and for transfer risk are calculated using internally developed models with a 99.95% confidence level and a time horizon of one year, which represents ING's desired credit rating. ING uses a series of credit risk models that can be grouped into three principal categories: Probability of Default (PD) models, which measure the standalone creditworthiness of individual debtors; Exposure at Default models (EAD) which estimate the size of the financial obligation at the moment of default in the future; and Loss Given Default Models (LGD), which estimate the recovery value of the underlying collateral or guarantees received (if any) and the unsecured part. Collectively, ING uses over 100 models for credit risk. The various models can be grouped into three categories: statistical, expert and hybrid.

The Economic Capital formula for credit and transfer risks relies on seven different risk drivers. In addition to the PD, EAD, and LGD models mentioned above, the formula also considers the industry and the country of the debtor as well as the remaining term of the respective underlying transactions. Lastly, the formula considers correlation of different asset class types.

Risk management (continued)

The underlying formulas and models that are used for determining Economic Capital for credit and transfer risk are similar to those used for determining the level of regulatory capital that is required under Basel II (Pillar 1). Despite the fact that the same underlying formulas are used, (internal) Economic Capital and regulatory capital are not the same, due to various specific rules imposed by Basel II, such as regulatory caps and floors, and the use of the standardised approach for certain portions of ING's portfolio. These differences are permitted under the Basel II guidelines.

The table below summarises different capital measures used for different purposes and shows the difference in key elements and purposes.

Credit Risk Capital Measurements	Methodology	Location	Confidence level	Inputs	Purpose
Regulatory Capital	Basel II Formula	Vortex Basel Engine ('VBE') in the Central Risk Database	99.90%	Basel II model outputs	RWA
Economic Capital	Risk Adjusted Capital (RAC) Closed Algebraic Formula	Vortex Risk Engine ('VRE') in the Central Risk Database	99.95%	Basel II model outputs excluding Basel II caps and floors, maturity, repayment schedules, correlation factors, migration matrix.	Pricing, Economic Capital for credit at transactional level and above

Economic Capital levels for credit and transfer risk are calculated regularly for most of the Commercial Bank, ING Retail Benelux, and the Retail Direct & International banking operations. On a quarterly basis, the Economic Capital for credit risk and transfer risk figures are consolidated with the corresponding Economic Capital components from other disciplines.

Governance of Economic Capital for Credit and Transfer Risk
All PD, EAD and LGD models are approved by the Credit Risk Committee (CRC) after thorough review of documentation by the Model Development Committee (MDC) and Model Validation (MV). In addition, each model is validated on an annual basis by MV. Each model has both a credit risk and a front office co-sponsor. Both the MDC and the CRC have participation from both credit risk officers as well as the front office to ensure maximum acceptance by the organisation.

CREDIT AND TRANSFER RISK (ING INSURANCE)
For the determination of Economic Capital for credit and transfer risk within the ING Insurance entities the methodology used is the same methodology as used for ING Bank, with the exception that the Economic Capital is reported on the 99.5% confidence level in line with the requirements for Solvency II.

MARKET RISK (ING BANK)
General
Economic Capital for market risk is the Economic Capital necessary to withstand unexpected value movements due to changes in market variables, such as interest rates, equity prices, foreign exchange rates and real estate prices. Economic Capital for market risk is calculated for exposures both in trading portfolios and non-trading portfolios.

Measurement
Economic capital for market risk is calculated using internally developed methodologies with a 99.95% confidence interval and a horizon of one year, which represents extreme events and ING's target rating. The Economic Capital for market risk for non trading portfolios is calculated for each risk type, while for trading portfolios it is calculated on a portfolio level. The calculations for Economic Capital market risk include real estate risk, foreign exchange rate risk, equity price risk, interest rate risk and model risks.

Real estate price risk includes both the market risks in both the investment portfolio and the development portfolio of ING Real Estate. The real estate price risk for the investment portfolio is calculated by stressing the underlying market variables. The stress scenarios at a portfolio level take into account all diversification effects across regions and real estate sectors. Also, the leverage of participations in the real estate investment funds is taken into account.

For the Real Estate development process, in addition to market sale price risk, the risk drivers of market rent, investor yield and construction delays are taken into account. Furthermore the risk model differs for each development phase (i.e., research, development, and construction) to appropriately reflect the risk taken in each phase. Using correlations, all risk drivers, and stages are used to calculate a possible market value loss representing the Economic Capital for market risk for the development portfolio.

Risk management (continued)

For the direct market risks, the actual VaR (measured at a 99% confidence interval, a one day holding period and under the assumption of an expected value of zero) of the trading and non-trading portfolios is taken as a starting point for the Economic Capital calculations for market risk. To arrive at the Economic Capital for market risk, a simulation based model is used which includes scaling to the required confidence interval and holding period. In determining this scaling factor, several other factors are also taken into account like the occurrence of large market movements (events) and management interventions.

The economic capital for the equity investments is calculated based on the ECAPS system. Using Monte-Carlo simulation, the model generates 20,000 possible 'states-of-the-world', by randomly simulating all risk drivers simultaneously. For each state-of-the-world, the market value is recalculated and the 99.95% worst-case change in market value is the Economic Capital level.

Economic Capital for market risk for the mortgage portfolios within ING Retail Banking (Benelux, Direct 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. The Economic Capital model for market risk is based on the estimated 99% confidence adverse interest rate change.

While aggregating the different Economic Capital market risk figures for the different portfolios, diversification benefits are taken into account as it is not expected that all extreme market movements will appear at the same moment.

The nature of market risk Economic Capital, 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 Group are a best effort estimate based on available data and expert opinions.

OPERATIONAL RISK (ING BANK AND ING INSURANCE)

Operational risk is the risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems or from external events. It includes the risk of reputation loss, as well as legal risk, whereas strategic risks are not included. While operational risk can be limited through management controls and insurance, operational risk incidents may have a substantial impact on the profit and loss account of financial institutions.

The capital model, an actuarial model, consists of a combination of three techniques:
- Loss Distribution approach (LDA), which applies statistical analysis to historical loss data;
- Scorecard approach, which focuses on the quality of risk control measures within a specific business unit;
- 'Bonus/Malus' approach, which focuses on the actual operational incidents of a specific business unit.

Loss Distribution approach

The main objective of the LDA approach is to derive an objective capital amount based on the size and the risk appetite of an institution and its business units. This approach estimates the likely (fat-tailed) distribution of operational risk losses over some future horizon for each combination of business line and loss event type. The main characteristic of the LDA is the explicit derivation of a loss distribution, which is based on separate distributions for event frequency (Poisson) and severity (Inverse Gaussian). The model uses both external and internal loss data above one million EUR.

The calculation of operational risk capital for the units follows five basic principles:
- Principle 1: If the world gets riskier, the business units need more Economic Capital;
- Principle 2: If a business unit's size increases, so does its capital;
- Principle 3: If the business of a business unit is more complex, it needs more capital;
- Principle 4: If the level of control of a business unit is higher, it needs less capital;
- Principle 5: If the business units' losses from internal incidents exceed the level of expected loss accounted for in the first four framework principles, it needs more capital.

The capital calculated according to the first three is 'generic': if two business units operate in the same markets and have the same size, the resulting capital will be the same. The specific capital adjustments mentioned below adjust the generic capital of a specific institution to its specific operational risk capital.

Scorecard approach (principle 4)

The scorecard adjustment reflects the level of quality of control in a specific institution. Scorecards aim to measure the quality of key operational risk management processes. The scorecard procedure concerns questions that require quantitative data, qualitative judgements or simple yes/no questions (e.g. indicating compliance with certain group policies). The scorecards are completed by all business units using self-assessment and reviewed by an expert panel who determines the final score. The set of scorecards lead to an increase or decrease of the capital of the specific unit.

'Bonus/Malus' approach (principle 5)

Units are assigned additional capital in case losses from internal incidents exceed the level of expected losses that have been accounted for in the LDA. When the actual loss of a business unit is lower than expected based on a comparison with external losses of peers, the capital of the related business unit is reduced.

Risk management (continued)

BUSINESS RISK (ING BANK)

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 client 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) Client 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 client 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.

ECONOMIC CAPITAL (ING INSURANCE)

In 2007, ING Insurance introduced ECAPS as an intranet-based Economic Capital reporting system utilising replicating portfolio techniques. Since then, ECAPS has been constantly enhanced to improve its robustness, usability and accuracy. Since 2010 Economic Capital is only reported for EurAsia and LatAm businesses.

The ECAPS system provides a well controlled and automated basis for Economic Capital and risk sensitivity measurement. Each business unit enters the risk characteristics of its assets and liabilities into the ECAPS system on a regular basis. These risk characteristics are then translated to a uniform basis in the form of replicating portfolios of standardised financial instruments. Based on the constellation of replicating portfolios (including representations of non-market risks), the ECAPS system then is capable of calculating Economic Capital at every level of aggregation.

Economic Capital (EC) is defined by ING Insurance as the amount of assets that needs to be held in addition to the market value of liabilities to assure a non-negative surplus at a 99.5% level of confidence on a 1 year time horizon. ING Insurance measures Economic Capital by quantifying the impact of adverse events on the Market Value Surplus (MVS), a 'Surplus-at-Risk' concept. The change in MVS **or Available Financial Resources (AFR)** is the combined effect of changes in Market Value of Assets (MVA) minus Market Value of Liabilities (MVL) and an adjustment for illiquidity spreads due to current dislocated asset markets.

ING continues to adjust Available Financial Resources to reflect the illiquidity in its insurance portfolios as reporting AFR with MVLs discounted at the swap rates results in an asymmetry between the assets and liabilities.

Illiquidity is also reflected through Interest Rate Risk, (adding the liquidity spread to the discount curve effectively reduces the duration of our liabilities and therefore reduces the duration mismatch between our assets and liabilities resulting in a reduced interest rate risk); through Credit Spread Risk (the Economic Capital model stresses both the asset spreads and the illiquidity spread: the netting of asset spread risk with illiquidity liability spread risk results in a lower credit spread risk) and through Foreign Exchange Risk (the adjustment of the MVS for illiquidity results in a reduced net exposure to foreign currency movements and in particular the US dollar: this results in a lower foreign exchange risk).

The MVL consists of the Financial Component of Liabilities (FCL) and a Market Value Margin (MVM) for non-hedgeable risks (e.g. insurance risk). The MVM is calculated using a Cost-of-Capital approach based on an estimate of required shareholder return on Economic Capital.

ING quantifies the impact of the following types of risk in its Economic Capital model:

- Market risk
- Credit risk (including transfer risk)
- Business risk
- Operational risk
- Life risk (both catastrophe and non-catastrophe)
- Morbidity risk (both catastrophe and non-catastrophe)
- P&C risk (both catastrophe and non-catastrophe)

Strategic business risk has been excluded from the EC calculations of ING Insurance.

Non-market risk Economic Capital is calculated by business units, CCRM and CORM and inputted into ECAPS at the sub risk level. ECAPS then aggregates 21 sub-risk types (e.g. mortality and trend risk) to 9 non-market risk types using a bottom-up Economic Capital diversification approach based on a matrix of correlations. The inputs are used to calibrate marginal distributions for these risk types. These distributions, in combination with the Gaussian copula, are then used in the Economic Capital calculation to measure diversification between market and non-market risks.

Risk management (continued)

The following fundamental principles have been established for the model:
– All identified sources of risk should be considered;
– The best estimate actuarial assumptions should be as objective as possible and based on a proper analysis of economic, industry, and company-specific data. There is one set of best-estimate assumptions per product to be used for all purposes at ING;
– Valuation of assets and liabilities is based on fair value principles. Where complete and efficient markets exist, fair value is equal to market value;
– The Economic Capital and valuation calculations should reflect the embedded options in insurance contracts;
– The Economic Capital and valuation calculations are on a pre-tax basis and do not consider the effect of local regulatory accounting and solvency requirements on capital levels. Capital is assumed to be fully transferable between legal entities;
– The framework does not include any franchise value of the business. It does, however, include the expense risk associated with the possibility of reduced sales volume in the coming year.

The following is a brief description of the model.

1. Market Data Retrieval, Calibration and Scenario Generation
- Automated retrieval and extrapolation of all current and historical market data.
- Generation of a comprehensive (Market and Non-Market Risks) correlation matrix.
- Calibration of market risk drivers for scenario generation.
- Generation of 500 Risk Neutral and Risk Volatile scenarios that are sent to each business unit to locally develop stochastic asset and liability cash flows.
- Generation of 20,000 Real World Monte-Carlo scenarios for Economic Capital calculation.

2. Stochastic Cash flows Generation and Aggregation of Non-market Risk Capital
- Actuarial software used to produce the stochastic cash flows based on Risk Neutral and Risk Volatile scenarios produced in step 1.
- Business units upload stochastic asset and liability cash flows to determine the optimised replicating portfolio
- Asset derivatives are directly processed as replicating instruments.
- Non-market risk capital calculated in accordance with ING Standards of Practice.

3. Replicating Portfolio Definition
- Capture the risk profile of the financial component of insurance liabilities by mapping onto a finite set of standard financial instruments.
- Standard instruments contain zero coupon bonds, swaptions, callable bonds, CMS options, equity forwards/options and FX options. Business units can define the strikes and tenors of the instruments themselves to fit best to the risk profile of their liabilities.
- Compile a replicating portfolio of standard financial instruments that matches the present value of cash flows as closely as possible for the 500 Risk Neutral and Risk Volatile scenarios.

4. Economic Capital calculation
- For each Real World Scenario the market value of assets and liabilities is recalculated and the change in value of the Market Value Surplus (MVS) is stored. The changes in MVS are sorted and the 99.5% worst case is identified to provide the market risk Economic Capital level for the given level of aggregation.
- Non-market risks are aggregated and integrated with market risk.
- The total diversified Economic Capital then results.

Further details on the Insurance Economic Capital model
Market Data Retrieval, Calibration and Scenario Generation
ING Insurance uses ING Bank's Global Market Database (GMDB) as a provider of market price and risk data for financial risk drivers. All market data is obtained from reputable data providers such as Reuters and Bloomberg. The GMDB operational team then validates the market data and calculates relevant risk parameters. This validated data is then automatically delivered to the ECAPS system.

Since ING Insurance operates in many developing financial markets, extrapolation algorithms are in place for extending beyond observable market data when this is needed for the calculation of the Market Value Liabilities and the Economic Capital. These algorithms are based on comparable data in mature markets.

Based on the market data from GMDB, ING calibrates two economic scenario generators:
– Risk Neutral Economic Scenario Generator (RN ESG): capable of generating multiple equity indices and exchange rates, consistent with a multi-currency dynamic term structure model. Scenarios are used in the cash flow projection to determine replicating portfolios. RN ESG scenarios are consistent with observed market prices of equity, FX and interest options;

Risk management (continued)

– Real World Economic Scenario Generator (RW ESG): capable of jointly simulating all risk types, i.e. all market risks, credit risk, business risk, operational risk, life risk, morbidity risk and P&C risk. Diversification between risks is taken into account through a Gaussian copula, allowing for different marginal probability distributions at the risk driver level. RW ESG scenarios are calibrated based on historical time series of the market risk drivers using at least 5 years of Historical data. Volatilities and correlations are calibrated to represent the distribution on a quarterly frequency.

Stochastic Cash Flows Generation and Aggregation of Non-Market Risk Capital
The market risks in assets and liabilities are captured in and represented by stochastic cash flows in 500 scenarios. Business units are responsible for generating these cash flows, the modelling of embedded options and guarantees and a proper mapping of risk drivers in the scenario set to cash flow determinants such as policyholder behaviour and management actions restricted to dynamic hedge programs and setting of crediting rates/profit sharing. To better capture the behaviour in the tails of the distribution, the set of scenarios consist of 300 Risk Neutral scenarios and 200 'Risk Volatile' scenarios with double volatilities. The average of the 300 Risk Neutral scenarios provides a check on the market value of the replicating portfolio. It should be noted that this serves only as a check, and that the simulated market value of liabilities is derived directly from the replicating portfolio. The 200 Risk Volatile scenarios ensure that the replicating portfolio is calibrated against enough extreme scenarios such that it can be used safely in Economic Capital calculations.

Replicating Portfolios Definition
To handle the full complexity of calculating diversification by Monte Carlo simulation, ING maps its assets and liabilities to a set of standard financial instruments. The set of standard instruments consists of zero coupon bonds, market indices, equity forwards, swaptions, callable bonds, FX options and equity options. Assets and the financial components of the liabilities are represented by a portfolio of this standard set of instruments. A user interface allows the selection of different types of replicating instruments for different cash flow types. Then an optimal replicating portfolio is created that matches the risk profile on a net present value of the stochastically generated cash flows as closely as possible. The resulting replicating portfolio is used in the calculation of Economic Capital.

Through the inclusion of equity options, FX options and swaptions in the set of replicating instruments, ING is able to incorporate implied volatility risk in the considered risk types. The same holds for the credit spread risk through the inclusion of credit risk bearing zero coupon bonds in the set of replicating instruments.

The quality of the replicating portfolio is monitored by several statistical criteria including R-squared and benchmarked against market value sensitivities such as duration, convexity, and changes in value for larger interest rate and equity shocks. High quality replicating portfolios are important in several ways. First, they ensure a good reflection of the actual risk profile and an accurate calculation of Economic Capital. Second, they assist business units in hedging strategies and management of Economic Capital. Third, the process of replicating portfolio calculations increases the understanding of the complex nature of insurance liabilities in a market consistent environment.

Replicating portfolios are currently determined from a single factor RN ESG interest rate model. The RW ESG interest rate scenarios for the Value at Risk calculations are generated using a multi-factor model which allows for non-parallel interest rate moves.

Economic Capital calculation
ECAPS uses Monte-Carlo simulation to determine diversification benefits for the complete 'portfolio hierarchy', from business unit level up to an ING Insurance level. All diversification calculations are done within ECAPS and are driven by the Gaussian copula of all risk drivers using the underlying distributions applicable for each risk type. Diversification benefit allocation to business units, business lines and risk types is done outside ECAPS.

For the calculation of Economic Capital ING uses a one-year time horizon. In practice, the model calculates instantaneous quarterly shocks and then annualises the resulting VaR statistic to determine an annualised EC. The quarterly shock is used to stabilise the results and to ensure the shocks are within a range that can be more credibly valued for assets and liabilities. Also, it can better capture the impact of dynamic hedge strategies. It proves to have more consistency in how correlations between risk factors are defined and therefore align closer to actual risk practices and reporting cycles.

Using Monte-Carlo simulation, ING's Economic Capital model generates 20,000 possible 'states-of-the-world', by randomly simulating all risk drivers - simultaneously. For each state-of-the-world, the market value of assets and liabilities are recalculated and the change in value of the Market Value Surplus (MVS) is stored. All these changes in MVS are then sorted, and the 99.5% worst-case change in MVS is identified, to provide the Economic Capital level for the given level of aggregation.

Risk management (continued)

AFR SENSITIVITIES AND EARNINGS SENSITIVITIES (ING INSURANCE)

Scenarios for AFR sensitivities and Earnings sensitivities

The sensitivities shown for AFR and Earnings are based on simple to explain shocks to underlying risk factors. The following risk factors are taken into account:

– Interest rates;
– Credit (including spread changes, liquidity premium and default);
– Equity;
– Real Estate;
– Foreign exchange;
– Implied volatility (of both equity and interest rates).

Changes in implied volatility levels mostly impact the AFR through embedded options in our liabilities. The same has no material impact for IFRS Earnings and is currently not measured.

The table below provides an overview of the shock scenarios applied for the AFR and Earnings sensitivities. These shocks are also the basis for the US regulatory capital market risk scenarios.

Risk factor	Description shock
Interest Rates	Up and down parallel shock equal to 30% of the 10 year swap rate. Shock is floored at 50bps and capped at 150bps.
Credit	For AFR we apply a credit spread shock based on the rating of the debt security (e.g. single A shock 110bps). Home government bonds (e.g. KRW government bonds in Korea) are excluded. The liquidity premium is shocked by 50bps. For financial capital securities the underlying assumption is that they are called at their legal maturity and not at earlier call-dates. For structured credit we increase credit spread shocks by 50%. For Earnings we apply a credit default scenario in which we multiply the probability of Default, Loss Given Default and Historical Cost. For impaired assets we apply a credit spread shock with default probabilities based on a 1-in-10 event. The asset positions data used for the AFR credit spread shocks and Earnings credit default scenarios is for a large part based on third quarter 2010 positions.
Equity	All equity 25% down
Real Estate	All real estate 15% down
Foreign Exchange	The worst case of a 10% up or down movement for each currency
Implied volatility	Swaption volatilities up by 30% Equity implied volatility up by 80% for tenors less than 1 year, up 30% for tenors between 1and 3 years, up 20% for tenors between 3-7 years and up 10% for tenors of 7 years and above,

REGULATORY CAPITAL SENSITIVITIES – US INSURANCE BUSINESS

The sensitivities shown are calculated at legal entity level and cover US domiciled insurance entities. The sensitivities are based on simple to explain shocks to underlying risk factors. The following risk factors are taken into account:

– Interest rates;
– Credit
– Equity;
– Real Estate;
– Foreign exchange
– Implied volatility

The table below provides an overview of the shock scenarios applied for Statutory Surplus sensitivities.

Risk factor	Description shock
Interest Rates	Up and down parallel shock equal to 30% of the 10 year swap rate. Shock is floored at 50bps and capped at 150bps.
Credit	The credit risk sensitivity consistent out of two components: Firstly we apply a credit default scenario in which we multiply the probability of Default, Loss Given Default and Historical Cost. For impaired assets we apply a credit spread shock with default probabilities based on a 1-in-10 event. Secondly we apply rating migrations on the current portfolio using the rating transition matrix as observed by S&P in the year 2002 for US Corporate Bonds.
Equity	All equity 25% down
Real Estate	All real estate 15% down
Foreign Exchange	The worst case of a 10% up or down movement for each currency
Implied volatility	Swaption volatilities up by 30% Equity implied volatility up by 80% for tenors less than 1 year, up 30% for tenors between 1and 3 years, up 20% for tenors between 3-7 years and up 10% for tenors of 7 years and above,

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.

Capital management

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 and certain adjustments. See 'Capital Base' disclosures in this section. This capital definition is applied in comparing available capital to core debt/financial leverage for ING Group/ING Insurance respectively;
- Insurance Group Directive (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. This easurement of available capital is different from previous years. In previous years we treated fixed income revaluations similar to ING Bank to allow adding up Bank and Insurance on a consistent basis. However with the upcoming separation and hence the decreased importance of Bank and Insurance consistency we changed the IGD to align with European Insurance peers.
- Core Tier 1 capital, Tier 1 capital and total BIS capital (ING Bank) – Tier 1 capital is defined as shareholders' equity including core Tier 1 securities plus hybrid capital less certain prudential filters and deductible items. Tier 1 and BIS capital divided by risk-weighted assets equal the Tier 1 and BIS ratio respectively. Core Tier 1 capital is equal to Tier 1 capital excluding hybrid capital;
- AFR (ING Insurance other than the US) – This is a market value concept, defined as 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 valuation of ING Insurance includes an adjustment for portfolio illiquidity. AFR is used as the measure of available capital in comparison with Economic Capital employed.
- EC, or Economic Capital (ING Insurance other than the US), is the required capital, based on a 99.5% confidence interval. This interval is aligned with the Solvency II capital requirement. The excess of AFR over EC is set based on the business strategy and resulting risk appetite defined by the Management Board Insurance.
- Risk Based Capital (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. During 2010, ING decided that the US regulatory frameworks better reflect the evolving capital management approach for ING Insurance's US business. 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 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 and is used to measure the debt ratio of ING Insurance starting 2010.

DEVELOPMENTS

In 2010 Capital Management's main focus was to strengthen the capital position of ING Group, ING Bank and ING Insurance. ING's capital positions are well placed to deal with the uncertain financial environment, increasing regulatory requirements and the ambition to repurchase the remaining outstanding Core Tier 1 securities.

In March 2011, ING announced that it has informed the Dutch State of its intention to early repurchase EUR 2 billion of the non-voting equity securities (core Tier 1 securities) on 13 May 2011. The Dutch Central Bank has approved the intended repurchase. The total payment will amount to EUR 3 billion and includes a 50% repurchase premium. In order to fund the repayment, it is probable that ING Bank will pay, in 2011, a dividend out of retained earnings to ING Group for a similar amount. ING disclosed to the market that based on our capital position at that date the intended repurchase in May would reduce the core Tier 1 ratio by 90 basis points and the ratio is expected to remain above 8.5%.

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 Letter (comprising the approved targets and limits for capital), the Capital Planning Policy, the Dividend Policy and the Capital Request Policy. For the Corporate Treasury there are many policies and limits that guide the management of the balance sheets and the execution of capital market transactions.

Capital management (continued)

The above capital definitions and policies have been approved by the ING Group Executive Board or delegated authorities.

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 process is supplemented by stress testing and scenario analysis. The ongoing assessment and monitoring of capital adequacy is embedded in Capital Management's capital planning process and results in a quarterly capital update report which is presented to both the ING Group Finance and Risk Committee and the ING Group Executive and Supervisory Boards. The main objective of the assessment is to ensure that ING Group as a whole has sufficient capital relative to its risk profile both in the short and the medium term.

A key priority of Capital Management is to make sure that strong stand-alone companies are created for banking and insurance in preparation of the separation. All operating entities need to stay adequately capitalised based on local regulatory and rating agency requirements and interdependencies should be reduced to a minimum. The entities should also be able to access capital markets independently.

CAPITAL ADEQUACY ASSESSMENT

During 2010, ING Group, ING Bank and ING Insurance were adequately capitalised in relation to their risk profile and strategic objectives.

ING Group's Capital Base

	Group		Bank		Insurance	
	2010	2009	**2010**	2009	**2010**	2009
Shareholders' equity (parent)	**41,555**	33,863	**34,452**	30,222	**20,811**	15,887
Core Tier 1 securities	**5,000**	5,000				
Group hybrid capital [1]	**12,039**	11,478	**8,438**	8,057	**2,094**	3,410
Group leverage [2]	**8,462**	6,913				
Total capitalisation	**67,057**	57,254	**42,890**	38,279	**22,905**	19,297
Adjustments to equity:						
Revaluation reserve debt securities	**- 1,158**	2,481	**- 19**	123		
Revaluation reserve crediting to life policyholders	**1,488**	- 156				
Revaluation reserve cashflow hedge	**- 847**	- 372	**639**	472	**- 1,567**	- 926
Goodwill [3]	**- 2,908**	- 3,244	**- 1,645**	- 1,636	**- 1,425**	- 1,857
Revaluation reserves fixed income & other	**- 3,425**	- 1,291	**- 1,025**	- 1,040	**- 2,992**	- 2,783
Revaluation reserves excluded from Tier 1 [4]			**- 2,212**	- 3,111		
Insurance hybrid capital [5]					**2,094**	1,944
Minority interests			**748**	960	**111**	80
Deductions Tier-1			**- 1,069**	- 1,073		
Tier-1 capital for Bank			**39,332**	34,015		
Other qualifying capital [6]			**9,813**	10,716		
Insurance Group Directive adjustments [7]					**- 1,213**	651
Group leverage (core debt)	**- 8,462**	- 6,913				
Total capital (Adjusted Equity for Group, BIS capital for Bank and IGD capital for Insurance)	**55,169**	49,050	**49,145**	44,731	**20,906**	19,189

(1) 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.
(2) 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.
(3) According to the regulatory definition.
(4) Includes mainly EUR -1,727 million (2009: EUR -2,536 million) in participations (e.g. Kookmin, Bank of Beijing) and other equity investments, EUR -382 million (2009: EUR -546 million) for Real Estate for own use. The Dutch banking regulator requires this deduction to be made from Tier 1 capital. This deduction is added back to Tier 2 capital.
(5) Qualifying dated subordinated debt issued by ING Insurance at nominal value.
(6) Consists of EUR 10,882 million (2009: EUR 11,789 million) Tier-2 capital and no Tier 3 (2009: nil), offset by EUR 1069 million (2009: EUR 1,073 million) of regulatory deductions.
(7) 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.

Capital management (continued)

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.

Capital position of ING Bank	2010	2009
Shareholders' equity (parent)	**34,452**	30,222
Minority interests [1]	**748**	960
Subordinated loans qualifying as Tier 1 capital [2]	**8,438**	8,057
Goodwill and intangibles deductible from Tier 1 [1]	**-1,645**	–1,636
Deductions Tier 1	**-1,069**	–1,073
Revaluation reserve [3]	**-1,592**	–2,515
Available capital – Tier 1	**39,332**	34,015
Supplementary capital – Tier 2 [4]	**10,882**	11,789
Available Tier 3 funds		
Deductions	**-1,069**	–1,073
BIS capital	**49,145**	44,731
Risk-weighted assets	**321,103**	332,375
Core Tier 1 ratio	**9,62%**	7,81%
Tier 1 ratio	**12.25%**	10.23%
BIS ratio	**15.30%**	13.46%
Required capital based on Basel I floor [5]	**29,860**	28,709
BIS ratio based on Basel I floor [5]	**13.17%**	12.46%

[1] According to the regulatory definition.
[2] Subordinated loans qualifying as Tier 1 capital have been placed by ING Groep N.V. with ING Bank N.V.
[3] Includes revaluation debt securities, revaluation reserve cash flow hedge and revaluation reserves equity and real estate (see ING's Capital base table, footnote 3).
[4] Includes eligible lower Tier 2 loans and revaluation reserves equity and real estate revaluations removed from Tier 1 capital.
[5] Using 80% of Basel I Risk-Weighted Assets in 2010 and 2009 respectively.

ING INSURANCE

The table below shows the Insurance Group Directive which represent the consolidated regulatory Solvency I position of ING Insurance business. The Insurance companies comply with their respective local regulatory requirement.

Capital position of ING Insurance	2010	2009
Shareholders' equity (parent)	**20,811**	15,887
Hybrids issued by ING Group	**2,094**	3,410
Hybrids issued by ING Insurance	**2,094**	1,944
Required regulatory adjustments	**-4,094**	-2,052
IGD capital	**20,906**	19,189
EU required capital base	**8,374**	7,774
IGD Solvency I ratio	**250%**	247%

ING Insurance continues to ensure 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 net financial debt) of ING Insurance is appropriate.

Capital management (continued)

Capital base anf financial leverage of ING Insurance		
	2010	2009
Shareholders' equity (parent)	**20,811**	15,887
Revaluation reserve debt securities	**-1,164**	2,334
Revaluation reserve crediting to life policyholders	**1,488**	-156
Revaluation reserve cashflow hedge	**-1,567**	-926
Goodwill	**-1,425**	-1,857
Minority interests	**111**	80
Capital base	**18,254**	15,362
Group hybrid capital [1]	**2,094**	3,405
Insurance hybrid capital [2]	**2,313**	2,337
Total hybrids	**4,407**	5,742
External debt issued by ING Verzekeringen NV	**3,347**	3,508
External debt issued by US Holding companies	**1,384**	1,408
Other net financial debt [3]	**2,273**	-166
Total financial debt [4]	**7,004**	4,750

[1] Hybrids issued by ING Group at amortised cost value consistent with IFRS carrying value.
[2] Hybrids issued by ING Insurance at amortised cost value consistent with IFRS carrying value.
[3] Includes net internal borrowings from the operating subsidiaries, net of cash and current tax liability of the holding companies, mainly ING Verzekeringen NV and ING America Insurance Holdings Inc.
[4] The difference between the 2009 financial debt (of EUR 4,750 million) and the core debt EUR 2,586 million reported in the 2009 Annual Report is mainly due to pension assets and deferred tax assets of the holding companies in the calculation of financial debt.

For ING Insurance (excluding the US business), 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). ING has carried out a review of the internal model (own funds and capital requirements) in the context of a Solvency II gap analysis. In the review we benchmarked our models against the Solvency II Standard Formula as presented in QIS 5, the CEIOPS consultation papers and commentary of expert groups like CRO Forum and Group Consultative. We consequently plan further refinements of our Economic Capital (EC) model that address improvements of our market risk calibration, in particular for spread risk; business risk, to improve our capturing of policyholder behaviour risk and to address country risk; and operational risk. These changes will result in a material increase of our EC, estimated to be between one and two billion euro as at year end 2010.

At the end of 2009 the AFR for ING Insurance other than the US was EUR 19.0 billion. As described in the Risk Paragraph. EC, based on 99.5% confidence interval was EUR 7.0 billion, which leads to excess of AFR over EC for 2009 of EUR 12.0 billion. For 2010 the AFR is EUR 19.7 billion, EC is EUR 10.4 billion and the excess of AFR over EC is EUR 9.4 billion. The EC for 2010 does not include the potential adjustment between one and two billion, as described in the previous paragraph.

For the capital adequacy assessment of ING Insurance's US domiciled regulated insurance business, available capital and required capital are measured based on 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 426% for the period ended 31 December 2010. 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 362% at the end of 2009.

ING GROUP
The debt/equity ratio of ING Group as at year-end 2010 was 13.30% (2009: 12.35%).

ING Group reports to the Dutch Central Bank as required under the Dutch implementation of the financial conglomerates directive. 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% in 2010 and 2009);
• Group FICO capital using an approach similar to that used for Bank BIS capital and Insurance IGD capital whereby Group leverage is deducted.

Capital management (continued)

Regulatory required capital ING Group		
	2010	2009
BIS capital	**49,145**	44,731
IGD capital	**20,906**	19,188
Group leverage (core debt)	**-8,462**	-6,913
Regulatory capital	**61,589**	57,006
Required capital banking operations	**29,860**	28,709
Required capital insurance operations	**8,374**	7,774
Total required capital	**38,234**	36,483
FICO ratio	**161%**	157%

Capital adequacy and ratios

Quantitative disclosures on capital measures and ratios						
	Group		Bank		Insurance	
	2009	2008	**2009**	2008	**2009**	2008
Tier 1 ratio (Bank)						
Year-end actual Tier 1 ratio			**12.25%**	10.23%		
Regulatory minimum Tier 1 ratio			**4.00%**	4.00%		
Target minimum Tier 1 ratio			**10.00%**	9.00%		
BIS ratio (Bank)						
Year-end actual BIS ratio			**15.30%**	13.46%		
Regulatory minimum BIS ratio			**8.00%**	8.00%		
Target minimum BIS ratio			**10.00%**	10.50%		
Insurance Groups Directive						
Year-end actual Capital coverage ratio					**250%**	247%
Required capital					**100%**	100%
Target ratio					**150%**	150%
Debt/Equity ratio (Group)						
Debt/Equity ratio	**13.30%**	12.35%				
Target maximum Debt/Equity ratio	**15.00%**	15.00%				

In 2010, ING decided to raise the Tier 1 ratio target, as a move towards the more demanding solvency requirements of Basel III. The Tier 1 ratio is a regulatory requirement. Internally ING manages on the Core Tier 1 ratio, for which the target was raised from 7.5% to 8.0% in 2010. The actual ratios were 7.81% at the end of 2009 and 9.62% at the end of 2010. ING expects the BIS ratio to lose its meaning.

Main credit ratings of ING Bank at 31 December 2010					
	Standard & Poor's		Moody's		Fitch	
ING Group						
– long term	**A**	**stable**	**A1**	**stable**	**A**	**stable**
ING Bank						
– short term	**A-1**		**P-1**		**F1+**	
– long term	**A+**	**stable**	**Aa3**	**stable**	**A+**	**stable**
– financial strength			**C+**			
ING Insurance						
– short term	**A-2**		**P-2**		**F2**	
– long term	**A-**	**negative**	**Baa1**	**negative**	**A-**	**negative**

Capital management (continued)

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.